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Exhibit No.:
Issues: Revenue Requirement
Witness: Greg R. Meyer
Type of Exhibit: Direct Testimony
Sponsoring Parties: MIEC and Vicinity
Case No.: GR-2021-0108
Date Testimony Prepared: May 12, 2021

**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

Direct Testimony and Schedule of

Greg R. Meyer

On behalf of

**Missouri Industrial Energy Consumers
and Vicinity Energy Kansas City, Inc.**

May 12, 2021



Project 11068

1 Q HAVE YOU PERFORMED A COMPREHENSIVE REVIEW OF SPIRE'S REVENUE
2 REQUIREMENT?

3 A No. The MIEC and Vicinity are relying on the comprehensive review that the
4 Commission Staff typically performs in the course of its audit. We will review the direct
5 Staff filing and anticipate providing further support on additional issues in our rebuttal
6 testimony. Therefore, the silence on any specific issue herein should not be considered
7 an endorsement of that position by either the MIEC or Vicinity.

8 Q WHAT IS THE REVENUE REQUIREMENT IMPACT FROM THE ADJUSTMENTS
9 YOU ARE PROPOSING?

10 A Table 2 lists each adjustment I am sponsoring and the value of that adjustment. In
11 total, I am recommending that Spire's revenue requirement be decreased by
12 \$5.4 million.²

Issue Description	Value (\$Million)
Research & Development Funding	\$1.0
Revenues	\$3.6
Uncollectibles	(\$0.7)
Insurance Premiums/Injuries & Damages Expense	\$1.5
Total Reduced Spire Revenue Requirement	\$5.4

²Total adjustments include both Spire East and West operating divisions.

1 **Research and Development Funding**

2 Q HAS SPIRE PROPOSED TO INCREASE ITS EXPENSES TO CONDUCT
3 RESEARCH AND DEVELOPMENT?

4 A Yes. Spire witness Wesley E. Selinger proposes to increase expenses to provide an
5 allowance for research and development funds.

6 Q ARE YOU OPPOSED TO THE ALLOWANCE FOR RESEARCH AND
7 DEVELOPMENT FUNDS?

8 A Yes.

9 Q WHAT IS YOUR RATIONALE FOR NOT ALLOWING FUNDS FOR RESEARCH AND
10 DEVELOPMENT?

11 A I have several reasons. First, Mr. Selinger dedicates a total of four lines of testimony
12 explaining why the research and development funds should be granted. I have included
13 the following lines of Mr. Selinger's direct testimony supporting funds for research and
14 development:

15 "Q. HAS SPIRE INCLUDED AN ALLOWANCE FOR RESEARCH
16 AND DEVELOPMENT IN RATES?

17 A. Yes. Schedule H-18 includes an allowance for research and
18 development funds of \$1 million to be included in base rates. This
19 equates to less than \$1 per customer per year. The Company is
20 continuing to explore innovative technologies that will deliver
21 benefits for our customers. This type of allowance has been
22 approved in over 30 jurisdictions across the U.S."

23 Half of that explanation justified the cost because it would equate to less than \$1 per
24 customer. A single sentence is dedicated to the apparent justification of the \$1 million
25 of research and development funds:

1 "The Company is continuing to explore innovative technologies that will
2 deliver benefits for our customers."

3 This is simply inadequate justification to require customers to fund such an endeavor.

4 Second, Mr. Selinger fails to distinguish the benefits Spire receives from dues
5 in organizations that also undertake the same or similar type of work, namely the
6 American Gas Association and Gas Technology Institute. It is my understanding that
7 Spire's current and proposed rates include the membership dues, that include research
8 and development, in these organizations.

9 At this time, there is simply no justification for allowing this funding. I, therefore,
10 am opposed to funding additional, stand-alone research and development costs for
11 Spire at \$1 million annually. In my opinion, Spire failed to meet its burden in direct
12 testimony to substantially support inclusion and recovery of these costs. Further, Spire
13 should not be allowed to bolster its inadequate direct case in subsequent rounds of
14 testimony, long after the opportunity for Staff and intervenors to conduct discovery on
15 the Company's direct filing has passed.

16 **Revenues**

17 **Q HAVE YOU REVIEWED THE REVENUE WORKPAPERS AND ADJUSTMENTS**
18 **INCLUDED IN THE RATE CASE?**

19 **A** Yes, I have reviewed both the revenue workpapers and the adjustments proposed by
20 Spire.

21 **Q PLEASE SUMMARIZE THE ADJUSTMENTS PROPOSED BY SPIRE.**

22 **A** Spire proposed to annualize residential ("RES") and small general service ("SGS")
23 revenues for the impact of customer growth and the effects of normal weather.

1 Q PLEASE LIST THE ADJUSTMENTS THAT SPIRE PROPOSED FOR THE EFFECTS
2 OF NORMAL WEATHER.

3 A Table 3 lists the adjustments Spire proposed to normalize the effects of weather.

<u>Revenue Class</u>	<u>Adjustment</u>
RES-MOE - Weather Normalization	\$1,055,801
RES-MOW - Weather Normalization	<u>\$1,322,971</u>
Total RES Weather Normalization	\$2,378,772
SGS-MOE - Weather Normalization	\$ 134,308
SGS-MOW - Weather Normalization	<u>\$ 147,192</u>
Total SGS Weather Normalization	\$ 281,500

4 I was able to trace these adjustments from the Spire workpapers to Schedule WES-1
5 H2-Rev-2. At this time, I do not have any concerns or proposed revisions to these
6 adjustment amounts.

7 Q PLEASE LIST THE ADJUSTMENTS SPIRE PROPOSED TO REFLECT CUSTOMER
8 GROWTH.

9 A Spire proposed two adjustments for each operating division (Spire East and West).
10 One adjustment was for customer growth during the test year ended September 30,

1 2020 and the other adjustment was to grow customers from September 2020 through
2 May 2021. Table 4 lists the adjustments proposed by Spire.

Revenue Class	Adjustment
RES-MOE - Customer Growth in Test Year	\$ 676,299
RES-MOE - Customer Growth Beyond Test Year	\$ 878,364
RES-MOW - Customer Growth in Test Year	\$ 1,124,449
RES-MOW - Customer Growth Beyond Test Year	<u>\$ 1,489,937</u>
Total Residential Customer Growth	\$ 4,169,049
SGS-MOE - Customer Growth in Test Year	\$ 135,086
SGS-MOE - Customer Growth Beyond Test Year	\$ 193,062
SGS-MOW - Customer Growth in Test Year	\$ (68,460)
SGS-MOW - Customer Growth Beyond Test Year	<u>\$ (88,782)</u>
Total	\$ 170,906

3 **Q ARE THESE ADJUSTMENTS AS THEY APPEAR IN THE SPIRE WORKPAPERS**
4 **REFLECTED IN THE REVENUE SCHEDULE YOU REFERENCED EARLIER**
5 **(SCHEDULE WES-1 H2-REV-2).**

6 **A** No. I could not match the adjustments listed above to the revenue schedule. For
7 example, for RES growth, Spire lists \$930,715 as an adjustment to test year residential
8 revenues on Schedule WES-1-H2-REV-2 for inclusion in adjusted test year operating

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1 results. As can be seen from the above table, the RES revenue growth total is
2 \$4,169,049, an amount exceeding \$930,715 by approximately \$3.2 million. For the
3 SGS class, the difference is an understatement of approximately \$73,000 (\$170,906-
4 \$98,243) as listed on the same schedule.

5 **Q DO YOU AGREE WITH THE ANNUALIZED TOTALS OF THE REVENUE GROWTH**
6 **ADJUSTMENTS?**

7 A No. I believe Spire has understated the revenue adjustments to reflect customer growth
8 during the test year. Based on my review of Spire's workpapers, I would assert that
9 Spire only included 11 months of customer growth to annualize revenues. Spire took
10 the growth in customers from a 12-month period. For example, in the Spire East
11 Residential class, customer growth was measured in the following way:³

12	Spire Residential Customers at January 2019	613,679
13	Less Spire Residential Customers at January 2020	616,659
14	Customer Growth in One Year	2,980
15	Monthly Customer Growth	248 (2,980/12)

16 However, when Spire annualized for the monthly customer growth, it only grew
17 customers for 11 months instead of 12. This annualization method would understate
18 revenues when there was positive or overstate revenues for negative (loss of
19 customers) customer growth.

20 **Q WHICH DIVISIONS EXPERIENCED CUSTOMER GROWTH AND WHICH DIVISIONS**
21 **LOST CUSTOMERS?**

22 A Table 5 shows the customer growth or losses for purposes of annualizing revenues.

³MOE Regression Weather and Cust. Annual Adj. Test Year; 3-Cust Ann.

TABLE 5	
Customer Growth/Loss by <u>Operating Division and Customer Class</u>	
<u>Customer Class/ Operating Division</u>	<u>Annual Customer Growth/Loss</u>
Res/MOE	2,980
Res/MOW	6,277
SGS/MOE	313
SGS/MOW	(227)

1 Overall, Table 5 shows that Spire's RES and SGS classes are growing. Given Spire's
 2 revenue annualization methodology, annualized revenues are understated and, thus,
 3 Spire's additional revenue request is overstated.

4 **Q HAVE YOU ESTIMATED THE TOTAL AMOUNT OF REVENUES THAT YOU**
 5 **BELIEVE ARE UNDERSTATED BY CUSTOMER CLASS?**

6 **A** Yes. I contend that the RES revenues are understated by approximately \$295,000,
 7 and the SGS revenues are understated by approximately \$10,000. These additional
 8 revenues would lower the required additional revenues Spire is requesting in this rate
 9 case.

10 **Q HAVE YOU CALCULATED THE TOTAL REVENUE IMPACT FOR THE RES AND**
 11 **SGS CLASSES?**

12 **A** Yes. Summing the different adjustments I have described results in a RES revenue
 13 increase of approximately \$3.5 million and an SGS revenue increase of approximately

1 \$82,000. Therefore, the total revenue adjustment for both the RES and SGS classes
2 would be approximately \$3.6 million.⁴

3 **Uncollectibles/Bad Debt Expense**

4 Q HAVE YOU REVIEWED THE UNCOLLECTIBLE/BAD DEBT ADJUSTMENT
5 PROPOSED BY SPIRE?

6 A Yes, I have.

7 Q DO YOU AGREE WITH THE PROPOSED ADJUSTMENT?

8 A No.

9 Q WHAT LEVEL OF BAD DEBT EXPENSE DO YOU RECOMMEND?

10 A In the last round of rate cases (Case Nos. GR-2017-0215 and GR-2017-0216), the
11 annualized level of bad debt expense included in customer rates was \$12,685,019.
12 Table 6 lists the bad debt expense for the last three years.

<u>Year</u>	<u>Bad Debt Expense</u>
2018	\$12,712,886
2019	\$13,315,589
2020	\$ 9,796,925

⁴\$3.6 million = \$3.2 million + \$295,000 + \$73,000 + \$10,000.

1 In 2018 and 2019, the level of actual uncollectibles was very close to the annualized
2 level built into rates in Spire's 2017 rate cases.

3 **Q IN 2020, THE LEVEL OF UNCOLLECTIBLES IS MUCH LOWER. DO YOU HAVE**
4 **AN EXPLANATION?**

5 A Yes. I believe the effects from the pandemic and utilities forgoing disconnecting
6 customers from service led to a smaller amount of bad debts expense in 2020. I am
7 also aware that Spire had authority to defer expenses above the amount included in
8 the prior rate case per the Commission Order in Case No. GU-2020-0376. Therefore,
9 I propose that Spire continue to record bad debt expenses from the level set in the last
10 Spire rate case, or \$12,685,019.

11 **Q WOULD YOUR PROPOSAL INCREASE THE REVENUE REQUIREMENT OF**
12 **SPIRE?**

13 A Yes, my proposal would increase the revenue requirement of Spire by approximately
14 \$743,219. Spire has proposed to decrease bad debts expense compared to the level
15 currently included in rates primarily because of the lower level in 2020 during the
16 pandemic. I am not in favor of including the level of bad debts from an extraordinary
17 event like the pandemic. Therefore, I am proposing no change in the level of bad debts
18 from the last rate case. My proposed adjustment would raise the revenue requirement
19 requested by Spire by \$743,219.

1 Insurance Premiums/Injuries and Damages Expense

2 Q DID SPIRE PROPOSE TO ADJUST ITS INSURANCE AND INJURIES AND
3 DAMAGES ("I&D") EXPENSES?

4 A Yes. Spire proposed to decrease Spire East's insurance and I&D expenses by
5 \$1.2 million. For Spire West, Spire proposed to increase expenses by \$2.3 million.

6 Q CAN YOU PROVIDE A BREAKDOWN OF WHAT CONSTITUTES THE
7 INSURANCE/I&D ADJUSTMENTS?

8 A Yes. I have prepared Table 7 that shows the various adjustments proposed by Spire
9 for the different types of insurance and I&D expenses.

<u>Spire's Insurance/I&D Adjustments</u>		
<u>Insurance Type</u>	<u>Spire East Adjustment</u>	<u>Spire West Adjustment</u>
1. Claims		
Workers Compensation Paid		
Excess Liability Paid/Auto Claims Paid		
Total Claims Paid Adjustment	\$ (692,792)	\$ 946,246
2. Property Insurance*	\$ (145,476)	\$ 43,394
3. Excess Liability and Workers Comp.*	\$ (715,854)	\$1,175,271
4. D&O, Fiduciary, & Cyber*	<u>\$ 306,340</u>	<u>\$ 134,139</u>
Total Adjustments	\$(1,247,782)	\$2,299,050
<hr style="width: 10%; margin-left: 0;"/> *Adjustments after transfers to construction		

1 Q DO YOU AGREE WITH THE ADJUSTMENTS PROPOSED BY SPIRE?

2 A No. Many of the adjustments proposed by Spire are not appropriate for calculating
3 rates.

4 Q PLEASE DESCRIBE THE CONCERNS.

5 A I have two main concerns with the adjustments proposed by Spire. First, some of the
6 adjustments proposed by Spire go beyond the test year in this rate case. Spire provided
7 a workpaper that showed various insurance premiums due for renewal on March 2021.
8 Spire proposed to increase the 2020 premium rates by an additional 10%. The
9 Company's prospective adjustment clearly goes beyond the test year in this case. If
10 Spire desires to provide the new March 2021 premiums in the context of its true-up
11 audit, it can propose to update those premium rates and resulting costs in that phase
12 of the pending rate case. Currently, those adjustments are pure speculation until the
13 actual premiums are finalized.

14 Spire also has claimed zero expense for certain premiums during the test year.
15 Unless insurance coverage has been materially altered, dropped or restructured, the
16 zero expense claim is hard to believe because premiums for certain lines of coverage
17 have been incurred for several years and support for a zero expense amount appearing
18 on the books of Spire has not been supplied. I will now discuss each premium and
19 claim adjustment separately, identifying the adjustments that I believe are necessary
20 for Spire's cost of service.

21 **Claims Paid**

22 Q WHAT ADJUSTMENT DID SPIRE PROPOSE FOR CLAIMS PAID?

23 A Spire proposed a three-year average of total claims paid.

1 Q DO YOU AGREE WITH THIS METHODOLOGY AND, IF NOT, WHY?

2 A No. I have prepared Table 8 that shows the breakdown of the claims for the last three
3 years.

TABLE 8			
<u>Breakdown of Claims</u>			
<u>Claim Type</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Spire East			
Workers Comp.	\$ 1,562,331	\$ 1,315,196	\$ 1,269,587
Excess Liability	\$ 646,716	\$ 826,243	\$ 297,464
Auto	\$ 404,045	\$ 126,356	\$ 201,224
Total	\$ 2,613,092	\$ 2,267,795	\$ 1,768,275
Spire West			
Workers Comp.	\$ 1,180,835	\$ 1,227,696	\$ 1,008,653
Excess Liability	\$ 689,847	\$ 1,048,827	\$ 386,974
Auto	\$ 60,886	\$ 57,155	\$ 85,031
Total	\$ 1,931,568	\$ 2,333,678	\$ 1,480,658

4 As can be seen from Table 8, Spire's claims paid in 2020 are reflective of the ongoing
5 nature of paid claims except for excess liability claims. In 2020, excess liability claims
6 paid for Spire East and West appear low. I, therefore, would propose using a three-
7 year average for those claims paid and hold the other claims paid at the test year levels.
8 This will result in annualized claims paid of \$2,060,952 for Spire East and \$1,802,233

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1 for Spire West.⁵ These paid claim totals are \$155,435 and \$287,187 less than
2 proposed by Spire.⁶ These reduced claims paid will reduce the revenue requirement
3 of Spire.

4 **Property Insurance**

5 **Q PLEASE DESCRIBE THE ADJUSTMENT YOU PROPOSE TO SPIRE'S PROPERTY**
6 **INSURANCE ANNUALIZATION.**

7 **A** This was one of the annualizations I previously discussed wherein Spire projected
8 increases in insurance premiums beyond the test year. In the area of property
9 insurance, the premiums are renewed in March of each year. Spire has proposed to
10 increase the premium rates for property insurance at March 2020 by 10% based on
11 premiums that are due to be renewed in March 2021. I propose to include the
12 annualized level of property insurance from the March 2020 renewal. This is the most
13 current premium amount known at the time of Spire's direct filing and should be used
14 to set Spire's cost of service. If Spire's March 2021 premiums have changed, it can
15 propose to include those premiums in its true-up. My proposed adjustment would
16 reduce Spire's adjustments by approximately \$35,000 for Spire East and \$18,000 for
17 Spire West.

⁵Spire East – (\$646,716 + \$826,243 + \$297,464) / 3 years + \$1,269,587 + \$201,224.
Spire West – (\$689,847 + \$1,048,827 + \$386,974) / 3 years + \$1,008,653 + \$85,031.
⁶Spire East – \$2,216,387 - \$2,060,952 = \$155,435.
Spire West – \$2,089,420 - \$1,802,233 = \$287,187.

1 Excess Liability and Workers Compensation

2 Q DID SPIRE PROPOSE THE ADJUSTMENT FOR EXCESS LIABILITY AND
3 WORKERS COMPENSATION CONSISTENT WITH THE APPROACH USED FOR
4 PROPERTY INSURANCE? IF YES, ARE YOUR ARGUMENTS THE SAME?

5 A Yes, and my arguments are the same.

6 Q WHAT IS THE VALUE IN YOUR ADJUSTMENT TOTAL TO SPIRE EAST AND
7 WEST?

8 A My proposed adjustments would lower Spire's East and West revenue requirements by
9 \$411,699 and \$161,021, respectively.

10 D&O, Fiduciary, and Cyber

11 Q WHAT CONCERNS DO YOU HAVE WITH THE ANNUALIZED LEVELS OF THESE
12 PREMIUMS PROPOSED BY SPIRE?

13 A I take no exception to the levels proposed by Spire. However, I am concerned with the
14 claim by Spire that the test year level of expenses for these premiums is \$0. I cannot
15 at this time accept that level of test year expense. The Company has claimed to have
16 paid for these expenses dating back to 2011, in some instances. I will not divulge
17 specific values of premiums paid, as Spire has classified that information as
18 Confidential.

19 Q WHAT LEVEL OF EXPENSE DO YOU PROPOSE TO INCLUDE FOR THE TEST
20 YEAR LEVEL OF EXPENSES IN THIS INSTANCE?

21 A I propose to include the level of test year expense listed in response to MIEC Data
22 Request 4.7. This is the best estimate at this time what the true level of expense is for

1 these premiums. By including the test year level of premiums for these types of
2 coverages, the adjustments proposed by Spire would be reduced for Spire East and
3 Spire West by \$270,783 and \$118,711, respectively.

4 Q PLEASE SUMMARIZE YOUR ADJUSTMENTS IN THIS AREA.

5 A Table 9 will summarize the incremental adjustment values I am proposing relative to
6 Spire's adjustments.

<u>Premium Type</u>	<u>Spire East Adjustment</u>	<u>Spire West Adjustment</u>
Claims Paid	\$ 155,435	\$ 287,187
Property Insurance	\$ 34,992	\$ 17,577
Excess Liability and Workers Comp.	\$ 411,699	\$ 161,021
D&O, Fiduciary, & Cyber	<u>\$ 270,783</u>	<u>\$ 118,711</u>
Total	\$ 872,909	\$ 584,496

7 **Property Taxes/Tracker**

8 Q HAVE YOU REVIEWED THE PROPERTY TAX EXPENSES IN THIS RATE CASE?

9 A Yes, I have.

10 Q HOW WERE PROPERTY TAXES HANDLED IN THE LAST SPIRE RATE CASE?

11 A In the last case during the hearings, the Staff, Spire and Office of Public Counsel
12 reached an agreement to allow the continuation of a Kansas property tax tracker. It

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1 was argued that Kansas property taxes could become volatile because gas inventory
2 values are based on gas volumes and market prices at January 1 of the tax year.

3 During the hearing, the issue of the Tax Cuts and Jobs Act ("TCJA") was
4 debated. The Commission decided that in exchange for allowing the ratemaking effects
5 from the TCJA, it would also allow all property taxes payable by Spire to be tracked for
6 purposes of that rate case. Since the last rate case, Spire has had the authority to track
7 the property taxes it has paid against a level established by the Commission. In this
8 rate case, Spire proposes to amortize the additional property taxes it paid over the
9 amount established in rates over three years.

10 **Q IS SPIRE REQUESTING A PROPERTY TAX TRACKER IN THIS CASE?**

11 A Yes, it is. However, there is no specific request in direct testimony in this rate case.
12 Spire witness Charles J. Kuper filed direct testimony on the issue of property taxes.
13 Nowhere in Mr. Kuper's testimony does he request a property tax tracker. The MIEC
14 submitted Data Request No. 4.1 asking Spire if it was seeking a property tax tracker.
15 Spire responded that it was indeed seeking to continue the property tax tracker. Spire's
16 response to MIEC Data Request No. 4.1 is attached hereto as Schedule GRM-1.

17 **Q DO YOU SUPPORT THE CONTINUATION OF A PROPERTY TAX TRACKER IN**
18 **THIS CASE?**

19 A Absolutely not. Spire has not presented any testimony even requesting a property tax
20 tracker. In addition, Spire has not presented any evidence that would support why a
21 property tax tracker is needed. Just because a utility receives a special regulatory tool
22 in one case does not mean that it should remain in effect in subsequent cases without
23 the utility having to justify its continued use. Spire has failed to justify the continued

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1 use of the property tax tracker. At least in the issue of requesting \$1 million for research
2 and development, there was an attempt to provide brief direct testimony requesting the
3 funding, although the testimony was wholly inadequate. Here, there is simply nothing
4 in the record that even remotely supports the claimed need for a property tax tracker.
5 This issue should be rejected by the Commission, as Spire has failed to adequately
6 justify its request. Any attempt to introduce this issue in rebuttal should be dismissed
7 as well. Spire has failed in its burden with this issue.

8 **Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

9 **A** Yes, it does.

15

See 14

16

Exhibit No:
Issues: Cost Allocation Mechanics;
Pension Assets
Witness: Timothy W. Krick
Type of Exhibit: Direct Testimony
Sponsoring Party: Spire Missouri Inc.
Case No.: GR-2021-0108
Date Prepared: December 11, 2020

SPIRE MISSOURI INC.

CASE NO. GR-2021-0108

DIRECT TESTIMONY

OF

TIMOTHY W. KRICK

DECEMBER 11, 2020

COST ALLOCATION MECHANICS

1
2 **Q. PLEASE DESCRIBE HOW SPIRE COMPLIES WITH APPLICABLE COST**
3 **ALLOCATION REGULATIONS.**

4 A. Spire utilizes a Cost Allocation Manual (“CAM”) to support Spire’s compliance with the
5 Commission’s Affiliate Transactions Rules (“Rules”) as established in 20 CSR 4240-40.015
6 and 4240-40.016, which are intended to prevent regulated utilities from subsidizing their non-
7 regulated operations and provide the public assurances their rates are not adversely impacted
8 by Spire’s non-regulated activities. The Rules state that the CAM should include the criteria,
9 guidelines and procedures Spire will follow to be in compliance with the Rules, including cost
10 allocation, market valuation and internal cost methods related to its transactions with affiliates
11 (except with regard to HVAC services as defined in 20 CSR 4240-40.017). Such methods
12 and requirements are designed to ensure no financial advantage or preferential treatment
13 occurs between Spire and its un-regulated affiliates, especially as it relates to its customers’
14 information. The CAM was approved by the Commission in 2013.

15
16 **Q. PLEASE DESCRIBE DEVELOPMENTS IN THE CAM SINCE SPIRE’S LAST RATE**
17 **CASE.**

18 A. In the Commission’s 2018 Report and Order regarding Spire’s last rate cases (GR-2017-0215
19 and GR-2017-0216), the Commission found that Spire’s existing 2013 CAM should be
20 rewritten, with the help of the Commission Staff (“Staff”), the Office of the Public Counsel,
21 (“OPC”) and interested stakeholders through a working group. Amended Order, pp. 59-60.
22 The Commission declined to order Spire to adopt any specific changes to the CAM, but the
23 parties recognized that the CAM must be revised in light of Spire’s recent acquisitions.
24 Consistent with the Commission’s Order, and pursuant to the working docket established
25 under Case No. AW-2018-0394, Spire has been coordinating with the working group,
26 comprised of Spire, Staff, and OPC, to draft an updated CAM. Despite many meetings with
27 the working group, a universal agreement regarding changes to the CAM has not yet been

1 reached. Discussions regarding the updated CAM are still ongoing and the Company is
2 hopeful to submit an updated CAM to the Commission that reflects some of the progress
3 resulting from the efforts of the working group during the pendency of this filing.

4 **Q. PLEASE DESCRIBE SPIRE'S OVERALL PHILOSOPHY FOR RECORDING AND**
5 **ALLOCATING COSTS.**

6 A. Consistent with its Commission-approved CAM, Spire's objective is to directly assign costs
7 to the utility operating companies and affiliates to the extent it is possible and practical to do
8 so. For costs that are not direct charged to a specific entity, Spire utilizes cost causation factors
9 that most closely align with the business driver of the costs and the benefiting entities. In the
10 absence of direct charge or cost causation, Spire commonly uses a general allocator widely
11 used by utilities known as the Modified Massachusetts Formula ("MMF"), which allocates
12 costs based on an average of fixed assets, revenue, and payroll.

13 **Q. PLEASE EXPLAIN THE BACKGROUND OF THE SPIRE SERVICES ENTITY.**

14 A. Spire Services Company ("the SSC" or "Spire Services") was created in July of 2015 as the
15 result of the company's growth and the need for a formal platform to efficiently execute the
16 allocation of shared services costs to affiliates. The initial purpose of the entity was to adopt
17 a shared services model for three primary reasons: to facilitate, simplify, and provide
18 transparency to the allocation of shared costs between operating companies and affiliates. This
19 was the first step of an ongoing, longer-term initiative to evaluate, design, and implement a
20 mature shared service model. The SSC has no net income, and all costs charged and allocated
21 to the SSC are re-allocated to other affiliates. In short, the SSC is primarily used as an
22 accounting vehicle to ensure costs are properly tracked and allocated to each entity in an
23 appropriate manner.

24 **Q. ARE ANY SPIRE EMPLOYEES FORMALLY EMPLOYED BY THE SSC?**

25 A. No, not at this time. All employees are employed directly by the operating companies or
26 other affiliates, and only charge time and expenses to the SSC for shared costs and
27 activities. There is a project underway to evaluate changing the legal entity (employer) of

1 several hundred employees that normally provide services to more than one subsidiary, or
2 those that fall into traditional corporate service functions, to Spire Services. This
3 employment change is planned for execution on January 1, 2022.
4

5 **Q. ARE THERE OTHER BUSINESS ACTIVITIES PERFORMED UNDER THE SSC?**

6 A. Yes, over time the SSC has been used to consolidate contracts under one entity and
7 consolidate certain benefit plans. Spire Services is the legal entity through which we enter
8 into service contracts with vendors. This structure allows vendors to provide services to
9 numerous Spire entities under one master agreement in lieu of multiple separate
10 agreements between the vendor and each Spire entity. The charges for the services are then
11 direct charged to the entity receiving the service, or allocated in accordance with applicable
12 rules if the service is being provided for the benefit of multiple entities. We use the same
13 master agreement structure for the purchase of equipment and supplies, thereby allowing
14 for much more cost-effective and efficient purchasing practices. By administering
15 relationships and contracting at the Spire Services entity level, we are able to coordinate
16 the acquisition of services, equipment and supplies for the economic benefit of customers
17 and shareholders. For example, Spire's health and welfare plans, as well as our 401(k)
18 plan, are sponsored and administered by Spire Services. This approach has enabled the
19 enterprise to merge many of its plans, which has created administrative synergies,
20 alignment of benefits for employees, and cost savings. By consolidating the oversight and
21 administration of the plans in one entity (Spire Services), we have been able to streamline
22 processes and enhance the quality and cost efficiency of our plans.

23 **Q. PLEASE DESCRIBE ANY OTHER NOTABLE DEVELOPMENTS IN THE SSC**
24 **SINCE SPIRE'S LAST RATE CASE.**

25 A. When the Company embarked on improving its website and developing a new and enhanced
26 IT platform (internally referred to as "Spire One"), a project team was developed that led and
27 coordinated all aspects of the project from early development to implementation, including

1 overseeing the resources (internal and external), costs, scope, schedule, etc. Beginning in the
2 middle of fiscal year 2017, IT assets that benefited more than one business or entity have
3 been tracked and developed in the SSC. An allocation method was assigned for each project
4 based on cost causation; for example, the website projects were allocated based on customers;
5 Spire One initiatives were based on 3-factor, customers, and miles of main; and Operations
6 Service Foundation based on miles of main.

7 Additionally, the allocations process is now managed in a new system, Oracle Profitability
8 and Cost Management Cloud Service ("PCMCS"), that was implemented as part of the Spire
9 One Project at the beginning of fiscal year 2020. The system used previously was a
10 PowerPlant based allocations module. PCMCS was implemented to improve allocations
11 visibility, traceability, and reporting and to automate certain manual processes that existed
12 using the PowerPlant module.

13 **Q. WHAT FUNCTIONS CHARGE COSTS TO THE SSC?**

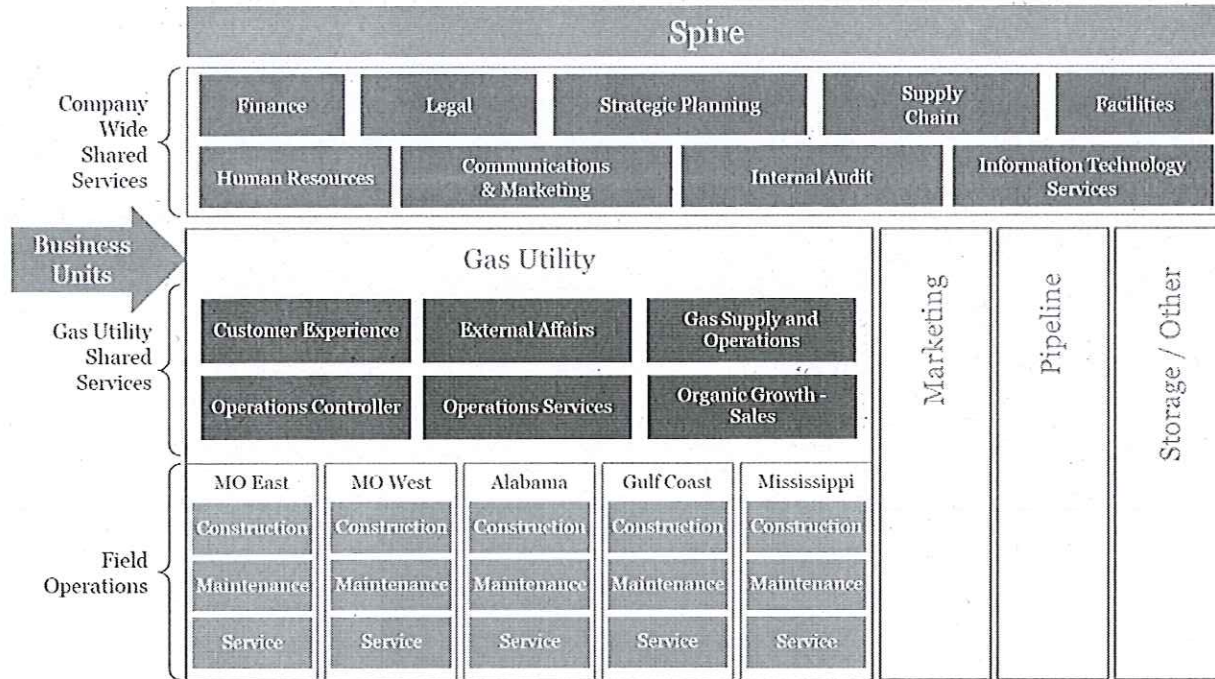
14 A. Functions that utilize the SSC generally fall into two categories: Company Wide shared
15 services and Gas Utility shared services. Company-wide shared services include: Executive
16 and Governance, Human Resources, Finance, Information Technology Services, Facilities &
17 Corporate Security, Legal & Insurance, PMO, Continuous Improvement, Strategic Planning,
18 Corporate Communications & Marketing, Supply Chain, Internal Audit & Enterprise Risk,
19 and Regulatory & External Affairs. Gas Utility shared services include: Construction
20 Engineering & GIS, System Control & Gas Supply, Customer Experience, Measurement,
21 Compliance & Pipeline Integrity, Business Development, Health & Safety, Fleet
22 Management, Operational Support & Other Services. A description of each shared service
23 function is provided in Schedule TWK-1.

24 **Q. ARE ALL OF THE COSTS FOR THESE FUNCTIONS CHARGED THROUGH THE**
25 **SSC?**

26 A. No, most functions utilize some combination of direct charge and allocation through causal
27 and general factors. The company-wide shared services departments tend to use more causal

1 and general factors instead of direct charge as they support multiple affiliates. The Gas Utility
 2 shared functions typically use a higher percentage of direct charge since their support tends to
 3 be more discrete. The chart below, Figure 1, is a pictorial of the shared service landscape.

4 **Figure 1: Spire Shared Services Overview**



16 **Q. CAN YOU EXPLAIN HOW THE COSTS FLOW THROUGH THE SSC AND ARE**
 17 **ALLOCATED BETWEEN AFFILIATES?**

18 **A.** Projects (or work orders) are utilized in Oracle to systematically collect costs. Currently, there
 19 are approximately 200 projects established that are associated with a pre-defined allocation
 20 method. Employees use projects to charge their time/payroll, travel expenses, and
 21 procurement of certain goods and services. When a shared service project is charged, costs
 22 are collected in the SSC from the affiliates throughout the month. As part of the financial
 23 close each month, a company-wide process within PCMCS is generated that calculates the
 24 allocation of those costs to each affiliate, based on the pre-defined allocation percentage
 25 defined at the project level. The percentage is derived based on the causal factor used and the
 26 companies that benefit from the costs incurred. Projects generally fall into an aggregated
 27 subset of cost pools, such as those that impact all entities, utilities only, or region (MO vs.

1 Southeast), and then further broken down into pools by causal factors. A journal entry is
2 recorded (from the allocations subledger PCMCS) that allocates all the costs in the SSC back
3 out to the affiliates each month, and the associated net inter-company accounts receivable or
4 payable with SSC is settled in the subsequent month.

5 **Q. HOW ARE OPERATING COMPANIES REIMBURSED FOR THE COST OF**
6 **SHARED SERVICES PROVIDED TO OTHER OPERATING COMPANIES AND**
7 **AFFILIATES?**

8 A. During the financial closing of each month the accounting teams reconcile the amounts due
9 from and payable to the SSC. In total, the SSC will have inter-company accounts receivables
10 and accounts payables with affiliates that, in total, fully offset each other. Balances are fully
11 settled with cash payments in each subsequent month. The shared services entity holds no
12 cash at the end of each month, as 100% of the amount received by affiliates is fully distributed
13 to others through the inter-company settlement process.

14 **Q. HOW IS THE DETERMINATION MADE REGARDING WHETHER THE COSTS**
15 **OF A PARTICULAR DEPARTMENT OR FUNCTION SHOULD BE DEFINED AS**
16 **DIRECT OR ALLOCATED?**

17 A. Each year during the budgeting process we evaluate actual results for the current year and
18 plans for the next year with department heads. During this review it is determined if any
19 department functions or activities have significantly changed and whether the allocation
20 factors and approach are appropriate for the following year. Based on this review, a summary
21 of projects typically used for each department is updated annually and communicated to
22 employees in each department. The employees are provided this guide and are instructed on
23 what projects to use to charge their time, expenses, and for the procurement of goods and
24 services. The project used defines the allocation method, including direct charges.

25 **Q. HOW ARE COSTS MONITORED TO ENSURE INDIVIDUALS ARE CHARGING**
26 **THE CORRECT PROJECTS SO THAT EXPENSES ARE NOT BEING**
27 **ERRONEOUSLY ALLOCATED?**

1 A. Spire provides instruction to employees on how to code time and expenses so that time is
2 charged to the proper allocator or operating unit. Supervisors and/or approvers of time and
3 expenditures are responsible for verifying that charges are accurate.

4 In addition, payroll and other expenses are budgeted at the project level, and, as part of the
5 budget, we run through the allocations process that is similar to the actual process, which sets
6 the primary basis for comparison and variance analysis throughout the year. Each month a
7 process is performed to review expenses incurred to date versus budget, forecast, and prior
8 year for all shared service functions with department heads in coordination with the Financial
9 Planning & Analysis and Operations Analytics (“FP&A”) teams. During this review,
10 variances and trends are analyzed and discussed as well as projects and activities planned for
11 the remaining months of the year and the impact on expenses. Each month department heads,
12 in coordination with the FP&A, re-forecast expenses and spend for the remaining months of
13 the year, and the cycle repeats in subsequent months. The variances and changes to forecasts
14 are presented and discussed in monthly business review meetings for each operating unit that
15 include participants from finance and operations management, including the Business Unit
16 Presidents, CFO, and COO. Additionally, reporting that includes explanations for relevant
17 variances are distributed to executive management and the Board of Directors monthly.

18 **Q. CAN YOU EXPAND ON YOUR EXPLANATION OF HOW EMPLOYEES CHARGE**
19 **TIME AND PAYROLL?**

20 A. Employees that typically charge the SSC projects utilize ADP to submit their hours and time
21 coding on a bi-weekly basis for each payroll cycle. In ADP there are default projects assigned
22 for each combination of cost center (department) and home office (a field that indicates legal
23 entity employed by). The default project was initially determined during the implementation
24 of the most recent version of ADP and will be verified annually during the budgeting process
25 and updated when necessary. The majority of employees in shared service departments charge
26 their time to the default project, but there are instances where employees must change the
27 coding to ensure their time is allocated appropriately, such as when working on a capital

1 project or on an activity that is not normally part of their role. There are also instances where
2 a sub-group within a cost center regularly changes their default based on the work they
3 perform since only one default can be assigned per cost center combination.

4 **Q. HOW ARE CAUSAL AND GENERAL ALLOCATION FACTORS CALCULATED,**
5 **AND HOW OFTEN ARE THEY UPDATED?**

6 A. The factors used for allocations are set at the beginning of the year based on either budget or
7 prior year actual and monitored periodically throughout the year. If business circumstances
8 have resulted in a significant change to allocation factors during the fiscal year, management
9 will review and determine if a change is needed based on materiality. Since the majority of
10 allocations are based on the activity of the prior year, the factors essentially get-trued up on a
11 one-year lag. A summary of the shared service factors that impact Spire Missouri is included
12 as Schedule TWK-2.

13 **Q. CAN YOU PROVIDE AN EXAMPLE OF WHEN FACTORS WERE UPDATED**
14 **DURING THE FISCAL YEAR?**

15 A. Yes, the most recent example is during fiscal year 2020 due to the roll-out and mid-year go
16 live of the new Oracle Platform (Spire One) to the Southeast Utilities. Since those companies
17 went live on May 1, 2020 and started to receive support for the applications, this was
18 determined to be material enough to change. The allocation was updated later in the year after
19 May, and was updated both retroactively to May and prospectively in this instance. Another
20 example was the acquisition of EnergySouth and integration into the SSC in fiscal year 2016.

21 **Q. WHAT ACTIONS HAS SPIRE TAKEN TO ENSURE THAT THE SSC IS**
22 **OPERATING AS DESIGNED AND THAT COSTS ARE BEING APPROPRIATELY**
23 **ALLOCATED?**

24 A. The annual budgeting process and monthly review at the department level is the best evidence
25 that it is operating as designed, as explained above. In fiscal year 2020, in preparation for the
26 fiscal year 2021 budget, the Gas Utility Business Unit Presidents also met with the head of

1 each shared service function to review trends in costs and expenses from recent years, and
2 ongoing and upcoming projects.

3 **Q. DOES SPIRE PROVIDE PERIODIC REPORTING OF SHARED SERVICE**
4 **ALLOCATIONS?**

5 A. Yes, the Company provides an annual report in the format required by the approved CAM,
6 but acknowledges that the report is not reflective of the current environment and could be
7 improved. The Company supports an overhaul of the reporting of cost allocations and shared
8 service costs and are in ongoing discussions with both Staff and OPC regarding the format
9 and frequency of a new report.

10 **Q. ARE THERE OTHER ALLOCATION PROCESSES FOR SPIRE MISSOURI**
11 **SEPARATE FROM THE SSC?**

12 A. Yes, the majority of this testimony explains the process for the allocation of shared service
13 costs between affiliates through the SSC. There are additional steps within Spire Missouri
14 and other utilities that allocate costs within the entities, primarily between O&M and Capital,
15 and also between the operating units of Spire East and Spire West.

16 **Q. ARE THE ALLOCATION METHODS USED FOR SPIRE MISSOURI DIFFERENT**
17 **THAN THE APPROACH FOR THE SSC?**

18 A. Yes and no. Yes, in that there are similar types of allocation methods used, such as miles of
19 main or headcount to allocate costs between the operating units or to clearing accounts. No,
20 in that the majority of allocations that occur within Spire Missouri are associated with the
21 capitalization of overheads and are primarily driven by direct labor or use of resources such
22 as vehicles. The process and systems used to capitalize overheads has changed in recent years,
23 but the underlying and fundamental approach is consistent with the practice used for decades.

17

See 16

18

Rules of Department of Commerce and Insurance

Division 4240—Public Service Commission Chapter 40—Gas Utilities and Gas Safety Standards

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**Title 20—DEPARTMENT OF
COMMERCE AND INSURANCE**

**Division 4240—Public Service
Commission**

**Chapter 40—Gas Utilities and
Gas Safety Standards**

20 CSR 4240-40.015 Affiliate Transactions

PURPOSE: This rule is intended to prevent regulated utilities from subsidizing their non-regulated operations. In order to accomplish this objective, the rule sets forth financial standards, evidentiary standards and record keeping requirements applicable to any Missouri Public Service Commission (commission) regulated gas corporation whenever such corporation participates in transactions with any affiliated entity (except with regard to HVAC services as defined in section 386.754, RSMo Supp. 1998, by the General Assembly of Missouri). The rule and its effective enforcement will provide the public the assurance that their rates are not adversely impacted by the utilities' nonregulated activities.

(1) Definitions.

(A) Affiliated entity means any person, including an individual, corporation, service company, corporate subsidiary, firm, partnership, incorporated or unincorporated association, political subdivision including a public utility district, city, town, county, or a combination of political subdivisions, which directly or indirectly, through one (1) or more intermediaries, controls, is controlled by, or is under common control with the regulated gas corporation.

(B) Affiliate transaction means any transaction for the provision, purchase or sale of any information, asset, product or service, or portion of any product or service, between a regulated gas corporation and an affiliated entity, and shall include all transactions carried out between any unregulated business operation of a regulated gas corporation and the regulated business operations of a gas corporation. An affiliate transaction for the purposes of this rule excludes heating, ventilating and air conditioning (HVAC) services as defined in section 386.754, RSMo by the General Assembly of Missouri.

(C) Control (including the terms "controlling," "controlled by," and "common control") means the possession, directly or indirectly, of the power to direct, or to cause the direction of the management or policies of an entity, whether such power is exercised through one (1) or more intermediary entities, or alone, or in conjunction with, or pursuant to an agreement with, one or more

other entities, whether such power is exercised through a majority or minority ownership or voting of securities, common directors, officers or stockholders, voting trusts, holding trusts, affiliated entities, contract or any other direct or indirect means. The commission shall presume that the beneficial ownership of ten percent (10%) or more of voting securities or partnership interest of an entity constitutes control for purposes of this rule. This provision, however, shall not be construed to prohibit a regulated gas corporation from rebutting the presumption that its ownership interest in an entity confers control.

(D) Corporate support means joint corporate oversight, governance, support systems and personnel, involving payroll, shareholder services, financial reporting, human resources, employee records, pension management, legal services, and research and development activities.

(E) Derivatives means a financial instrument, traded on or off an exchange, the price of which is directly dependent upon (i.e., "derived from") the value of one or more underlying securities, equity indices, debt instruments, commodities, other derivative instruments, or any agreed-upon pricing index or arrangement (e.g., the movement over time of the Consumer Price Index or freight rates). Derivatives involve the trading of rights or obligations based on the underlying product, but do not directly transfer property. They are used to hedge risk or to exchange a floating rate of return for fixed rate of return.

(F) Fully distributed cost (FDC) means a methodology that examines all costs of an enterprise in relation to all the goods and services that are produced. FDC requires recognition of all costs incurred directly or indirectly used to produce a good or service. Costs are assigned either through a direct or allocated approach. Costs that cannot be directly assigned or indirectly allocated (e.g., general and administrative) must also be included in the FDC calculation through a general allocation.

(G) Information means any data obtained by a regulated gas corporation that is not obtainable by nonaffiliated entities or can only be obtained at a competitively prohibitive cost in either time or resources.

(H) Preferential service means information or treatment or actions by the regulated gas corporation which places the affiliated entity at an unfair advantage over its competitors.

(I) Regulated gas corporation means every gas corporation as defined in section 386.020, RSMo, subject to commission regulation pursuant to Chapter 393, RSMo.

(J) Unfair advantage means an advantage that cannot be obtained by nonaffiliated entities or can only be obtained at a competitively prohibitive cost in either time or resources.

(K) Variance means an exemption granted by the commission from any applicable standard required pursuant to this rule.

(2) Standards.

(A) A regulated gas corporation shall not provide a financial advantage to an affiliated entity. For the purposes of this rule, a regulated gas corporation shall be deemed to provide a financial advantage to an affiliated entity if—

1. It compensates an affiliated entity for goods or services above the lesser of—

A. The fair market price; or

B. The fully distributed cost to the regulated gas corporation to provide the goods or services for itself; or

2. It transfers information, assets, goods or services of any kind to an affiliated entity below the greater of—

A. The fair market price; or

B. The fully distributed cost to the regulated gas corporation.

(B) Except as necessary to provide corporate support functions, the regulated gas corporation shall conduct its business in such a way as not to provide any preferential service, information or treatment to an affiliated entity over another party at any time.

(C) Specific customer information shall be made available to affiliated or unaffiliated entities only upon consent of the customer or as otherwise provided by law or commission rules or orders. General or aggregated customer information shall be made available to affiliated or unaffiliated entities upon similar terms and conditions. The regulated gas corporation may set reasonable charges for costs incurred in producing customer information. Customer information includes information provided to the regulated utility by affiliated or unaffiliated entities.

(D) The regulated gas corporation shall not participate in any affiliated transactions which are not in compliance with this rule, except as otherwise provided in section (10) of this rule.

(E) If a customer requests information from the regulated gas corporation about goods or services provided by an affiliated entity, the regulated gas corporation may provide information about its affiliate but must inform the customer that regulated services are not tied to the use of an affiliate provider and that other service providers may be available. The regulated gas corporation may provide reference to other service providers or to commercial listings, but is not required to do



so. The regulated gas corporation shall include in its annual Cost Allocation Manual (CAM), the criteria, guidelines and procedures it will follow to be in compliance with the rule.

(F) Marketing materials, information or advertisements by an affiliate entity that share an exact or similar name, logo or trademark of the regulated utility shall clearly display or announce that the affiliate entity is not regulated by the Missouri Public Service Commission.

(3) Evidentiary Standards for Affiliated Transactions.

(A) When a regulated gas corporation purchases information, assets, goods or services from an affiliated entity, the regulated gas corporation shall either obtain competitive bids for such information, assets, goods or services or demonstrate why competitive bids were neither necessary nor appropriate.

(B) In transactions that involve either the purchase or receipt of information, assets, goods or services by a regulated gas corporation from an affiliated entity, the regulated gas corporation shall document both the fair market price of such information, assets, goods and services and the fully distributed cost to the regulated gas corporation to produce the information, assets, goods or services for itself.

(C) In transactions that involve the provision of information, assets, goods or services to affiliated entities, the regulated gas corporation must demonstrate that it—

1. Considered all costs incurred to complete the transaction;
2. Calculated the costs at times relevant to the transaction;
3. Allocated all joint and common costs appropriately; and
4. Adequately determined the fair market price of the information, assets, goods or services.

(D) In transactions involving the purchase of goods or services by the regulated gas corporation from an affiliated entity, the regulated gas corporation will use a commission-approved CAM which sets forth cost allocation, market valuation and internal cost methods. This CAM can use benchmarking practices that can constitute compliance with the market value requirements of this section if approved by the commission.

(4) Record Keeping Requirements.

(A) A regulated gas corporation shall maintain books, accounts and records separate from those of its affiliates.

(B) Each regulated gas corporation shall maintain the following information in a mutually agreed-to electronic format (i.e., agreement between the staff, Office of the Public Counsel and the regulated gas corporation) regarding affiliate transactions on a calendar year basis and shall provide such information to the commission staff and the Office of the Public Counsel on, or before, March 15 of the succeeding year:

1. A full and complete list of all affiliated entities as defined by this rule;
2. A full and complete list of all goods and services provided to or received from affiliated entities;
3. A full and complete list of all contracts entered with affiliated entities;
4. A full and complete list of all affiliate transactions undertaken with affiliated entities without a written contract together with a brief explanation of why there was no contract;
5. The amount of all affiliate transactions, by affiliated entity and account charged; and
6. The basis used (e.g., fair market price, FDC, etc.) to record each type of affiliate transaction.

(C) In addition each regulated gas corporation shall maintain the following information regarding affiliate transactions on a calendar year basis:

1. Records identifying the basis used (e.g., fair market price, FDC, etc.) to record all affiliate transactions; and
2. Books of accounts and supporting records in sufficient detail to permit verification of compliance with this rule.

(5) Records of Affiliated Entities.

(A) Each regulated gas corporation shall ensure that its parent and any other affiliated entities maintain books and records that include, at a minimum, the following information regarding affiliate transactions:

1. Documentation of the costs associated with affiliate transactions that are incurred by the parent or affiliated entity and charged to the regulated gas corporation;
2. Documentation of the methods used to allocate and/or share costs between affiliated entities, including other jurisdictions and/or corporate divisions;
3. Description of costs that are not subject to allocation to affiliate transactions and documentation supporting the nonassignment of these costs to affiliate transactions;
4. Descriptions of the types of services that corporate divisions and/or other centralized functions provided to any affiliated entity or division accessing the regulated gas corporation's contracted services or facilities;

5. Names and job descriptions of the employees from the regulated gas corporation that transferred to a nonregulated affiliated entity;

6. Evaluations of the effect on the reliability of services provided by the regulated gas corporation resulting from the access to regulated contracts and/or facilities by affiliated entities;

7. Policies regarding the availability of customer information and the access to services available to nonregulated affiliated entities desiring use of the regulated gas corporation's contracts and facilities; and

8. Descriptions of, and supporting documentation related to, any use of derivatives that may be related to the regulated gas corporation's operation even though obtained by the parent or affiliated entity.

(6) Access to Records of Affiliated Entities.

(A) To the extent permitted by applicable law, and pursuant to established commission discovery procedures, a regulated gas corporation shall make available the books and records of its parent and any other affiliated entities when required in the application of this rule.

(B) The commission shall have the authority to—

1. Review, inspect and audit books, accounts and other records kept by a regulated gas corporation or affiliated entity for the sole purpose of ensuring compliance with this rule and make findings available to the commission; and
2. Investigate the operations of a regulated gas corporation or affiliated entity and their relationship to each other for the sole purpose of ensuring compliance with this rule.

(C) That this rule does not modify existing legal standards regarding which party has the burden of proof in commission proceedings.

(7) Record Retention.

(A) Records required under this rule shall be maintained by each regulated gas corporation for a period of not less than six (6) years.

(8) Enforcement.

(A) When enforcing these standards, or any order of the commission regarding these standards, the commission may apply any remedy available to the commission.

(9) The regulated gas corporation shall train and advise its personnel as to the requirements and provisions of this rule as appropriate to ensure compliance.

(10) Variances.



(A) A variance from the standards in this rule may be obtained by compliance with paragraphs (10)(A)1. or (10)(A)2. The granting of a variance to one regulated gas corporation does not constitute a waiver respecting or otherwise affect the required compliance of any other regulated gas corporation to comply with the standards. The scope of a variance will be determined based on the facts and circumstances found in support of the application—

1. The regulated gas corporation shall request a variance upon written application in accordance with commission procedures set out in 4 CSR 240-2.060(11); or

2. A regulated gas corporation may engage in an affiliate transaction not in compliance with the standards set out in subsection (2)(A) of this rule, when to its best knowledge and belief, compliance with the standards would not be in the best interests of its regulated customers and it complies with the procedures required by subparagraphs (10)(A)2.A. and (10)(A)2.B. of this rule—

A. All reports and record retention requirements for each affiliate transaction must be complied with; and

B. Notice of the noncomplying affiliate transaction shall be filed with the secretary of the commission and the Office of the Public Counsel within ten (10) days of the occurrence of the noncomplying affiliate transaction. The notice shall provide a detailed explanation of why the affiliate transaction should be exempted from the requirements of subsection (2)(A), and shall provide a detailed explanation of how the affiliate transaction was in the best interests of the regulated customers. Within thirty (30) days of the notice of the noncomplying affiliate transaction, any party shall have the right to request a hearing regarding the noncomplying affiliate transaction. The commission may grant or deny the request for hearing at that time. If the commission denies a request for hearing, the denial shall not in any way prejudice a party's ability to challenge the affiliate transaction at the time of the annual CAM filing. At the time of the filing of the regulated gas corporation's annual CAM filing the regulated gas corporation shall provide to the secretary of the commission a listing of all noncomplying affiliate transactions which occurred between the period of the last filing and the current filing. Any affiliate transaction submitted pursuant to this section shall remain interim, subject to disallowance, pending final commission determination on whether the noncomplying affiliate transaction resulted in the best interests of the regulated customers.

(11) Nothing contained in this rule and no action by the commission under this rule shall be construed to approve or exempt any activity or arrangement that would violate the antitrust laws of the state of Missouri or of the United States or to limit the rights of any person or entity under those laws.

AUTHORITY: sections 386.250, RSMo Supp. 1998, and 393.140, RSMo 1994. This rule originally filed as 4 CSR 240-40.015. Original rule filed April 26, 1999, effective Feb. 29, 2000. Moved to 20 CSR 4240-40.015, effective Aug. 28, 2019.*

**Original authority: 386.250, RSMo 1939, amended 1963, 1967, 1977, 1980, 1987, 1988, 1991, 1993, 1995, 1996 and 393.140, RSMo 1939, amended 1949, 1967.*

20 CSR 4240-40.016 Marketing Affiliate Transactions

PURPOSE: This rule sets forth standards of conduct, financial standards, evidentiary standards and record keeping requirements applicable to all Missouri Public Service Commission (commission) regulated gas corporations engaging in marketing affiliate transactions (except with regard to HVAC services as defined in section 386.754, RSMo Supp. 1998, by the General Assembly of Missouri).

(1) Definitions.

(A) Affiliated entity means any person, including an individual, corporation, service company, corporate subsidiary, firm, partnership, incorporated or unincorporated association, political subdivision including a public utility district, city, town, county, or a combination of political subdivisions, which directly or indirectly, through one (1) or more intermediaries, controls, is controlled by, or is under common control with the regulated gas corporation. This term shall also include "marketing affiliate" (as hereinafter defined) and all unregulated business operations of a regulated gas corporation.

(B) Affiliate transaction means any transaction for the provision, purchase or sale of any information, asset, product or service, or portion of any product or service, between a regulated gas corporation and an affiliated entity, and shall include all transactions carried out between any unregulated business operation of a regulated gas corporation and the regulated business operations of a gas corporation. An affiliate transaction for the purposes of this rule excludes heating, ventilating and air conditioning (HVAC) services as defined in section 386.754, RSMo by the General Assembly of Missouri.

(C) Control (including the terms "controlling," "controlled by," and "common control") means the possession, directly or indirectly, of the power to direct, or to cause the direction of the management or policies of an entity, whether such power is exercised through one (1) or more intermediary entities, or alone, or in conjunction with, or pursuant to an agreement with, one (1) or more other entities, whether such power is exercised through a majority or minority ownership or voting of securities, common directors, officers or stockholders, voting trusts, holding trusts, affiliated entities, contract or any other direct or indirect means. The commission shall presume that the beneficial ownership of ten percent (10%) or more of voting securities or partnership interest of an entity constitutes control for purposes of this rule. This provision, however, shall not be construed to prohibit a regulated gas corporation from rebutting the presumption that its ownership interest in an entity confers control.

(D) Corporate support means joint corporate oversight, governance, support systems and personnel, involving payroll, shareholder services, financial reporting, human resources, employee records, pension management, legal services, and research and development activities.

(E) Derivatives means a financial instrument, traded on or off an exchange, the price of which is directly dependent upon (i.e., "derived from") the value of one (1) or more underlying securities, equity indices, debt instruments, commodities, other derivative instruments, or any agreed-upon pricing index or arrangement (e.g., the movement over time of the Consumer Price Index or freight rates). Derivatives involve the trading of rights or obligations based on the underlying product, but do not directly transfer property. They are used to hedge risk or to exchange a floating rate of return for a fixed rate of return.

(F) Fully distributed cost (FDC) means a methodology that examines all costs of an enterprise in relation to all the goods and services that are produced. FDC requires recognition of all costs incurred directly or indirectly used to produce a good or service. Costs are assigned either through a direct or allocated approach. Costs that cannot be directly assigned or indirectly allocated (e.g., general and administrative) must also be included in the FDC calculation through a general allocation.

(G) Information means any data obtained by a regulated gas corporation that is not obtainable by nonaffiliated entities or can only be obtained at a competitively prohibitive cost in



either time or resources.

(H) Long-term means a transaction in excess of thirty-one (31) days.

(I) Marketing affiliate means an affiliated entity which engages in or arranges a commission-related sale of any natural gas service or portion of gas service, to a shipper.

(J) Opportunity sales means sales of unused contract entitlements necessarily held by a gas corporation to meet the daily and seasonal swings of its system customers and are intended to maximize utilization of assets that remain under regulation.

(K) Preferential service means information, treatment or actions by the regulated gas corporation which places the affiliated entity at an unfair advantage over its competitors.

(L) Regulated gas corporation means every gas corporation as defined in section 386.020, RSMo, subject to commission regulation pursuant to Chapter 393, RSMo.

(M) Shippers means all current and potential transportation customers on a regulated gas corporation's natural gas distribution system.

(N) Short-term means a transaction of thirty-one (31) days or less.

(O) Transportation means the receipt of gas at one point on a regulated gas corporation's system and the redelivery of an equivalent volume of gas to the retail customer of the gas at another point on the regulated gas corporation's system including, without limitation, scheduling, balancing, peaking, storage, and exchange to the extent such services are provided pursuant to the regulated gas corporation's tariff, and includes opportunity sales.

(P) Unfair advantage means an advantage that cannot be obtained by nonaffiliated entities or can only be obtained at a competitively prohibitive cost in either time or resources.

(Q) Variance means an exemption granted by the commission from any applicable standard required pursuant to this rule.

(2) Nondiscrimination Standards.

(A) Nondiscrimination standards under this section apply in conjunction with all the standards under this rule and control when a similar standard overlaps.

(B) A regulated gas corporation shall apply all tariff provisions relating to transportation in the same manner to customers similarly situated whether they use affiliated or nonaffiliated marketers or brokers.

(C) A regulated gas corporation shall uniformly enforce its tariff provisions for all shippers.

(D) A regulated gas corporation shall not, through a tariff provision or otherwise, give its marketing affiliate and/or its customers any preference over a customer using a non-

affiliated marketer in matters relating to transportation or curtailment priority.

(E) A regulated gas corporation shall not give any customer using its marketing affiliate a preference, in the processing of a request for transportation services, over a customer using a nonaffiliated marketer, specifically including the manner and timing of such processing.

(F) A regulated gas corporation shall not disclose or cause to be disclosed to its marketing affiliate or any nonaffiliated marketer any information that it receives through its processing of requests for or provision of transportation.

(G) If a regulated gas corporation provides information related to transportation which is not readily available or generally known to other marketers to a customer using a marketing affiliate, it shall provide that information (electronic format, phone call, facsimile, etc.) contemporaneously to all nonaffiliated marketers transporting on its distribution system.

(H) A regulated gas corporation shall not condition or tie an offer or agreement to provide a transportation discount to a shipper to any service in which the marketing affiliate is involved. If the regulated gas corporation seeks to provide a discount for transportation to any shipper using a marketing affiliate, the regulated gas corporation shall, subject to an appropriate protective order—

1. File for approval of the transaction with the commission and provide a copy to the Office of the Public Counsel;

2. Disclose whether the marketing affiliate of the regulated gas corporation is the gas supplier or broker serving the shipper;

3. File quarterly public reports which provide the aggregate periodic and cumulative number of transportation discounts provided by the regulated gas corporation; and

4. Provide the aggregate number of such agreements which involve shippers for whom the regulated gas corporation's marketing affiliate is or was at the time of the granting of the discount the gas supplier or broker.

(I) A regulated gas corporation shall not make opportunity sales directly to a customer of its marketing affiliate or to its marketing affiliate unless such supplies and/or capacity are made available to other similarly situated customers using nonaffiliated marketers on an identical basis given the nature of the transactions.

(J) A regulated gas corporation shall not condition or tie agreements (including prearranged capacity release) for the release of interstate or intrastate pipeline capacity to any service in which the marketing affiliate is involved under terms not offered to nonaffiliated companies and their customers.

(K) A regulated gas corporation shall maintain its books of account and records completely separate and apart from those of the marketing affiliate.

(L) A regulated gas corporation is prohibited from giving any customer using its marketing affiliate preference with respect to any tariff provisions that provide discretionary waivers.

(M) A regulated gas corporation shall maintain records when it is made aware of any marketing complaint against an affiliated entity—

1. The records should contain a log detailing the date the complaint was received by the regulated gas corporation, the name of the complainant, a brief description of the complaint and, as applicable, how it has been resolved. If the complaint has not been recorded by the regulated gas corporation within thirty (30) days, an explanation for the delay must be recorded.

(N) A regulated gas corporation will not communicate to any customer, supplier or third parties that any advantage may accrue to such customer, supplier or third party in the use of the regulated gas corporation's services as a result of that customer, supplier or third party dealing with its marketing affiliate and shall refrain from giving any appearance that it speaks on behalf of its affiliated entity.

(O) If a customer requests information about a marketing affiliate, the regulated gas corporation may provide the requested information but shall also provide a list of all marketers operating on its system.

(3) Standards.

(A) A regulated gas corporation shall not provide a financial advantage to an affiliated entity. For the purposes of this rule, a regulated gas corporation shall be deemed to provide a financial advantage to an affiliated entity if—

1. It compensates an affiliated entity for information, assets, goods or services above the lesser of—

A. The fair market price; or

B. The fully distributed cost to the regulated gas corporation to provide the information, assets, goods or services for itself; or

2. It transfers information, assets, goods or services of any kind to an affiliated entity below the greater of—



A. The fair market price; or

B. The fully distributed cost to the regulated gas corporation.

(B) Except as necessary to provide corporate support functions, the regulated gas corporation shall conduct its business in such a way as not to provide any preferential service, information or treatment to an affiliated entity over another party at any time.

(C) Specific customer information shall be made available to affiliated or unaffiliated entities only upon consent of the customer or as otherwise provided by law or commission rules or orders. General or aggregated customer information shall be made available to affiliated or unaffiliated entities upon similar terms and conditions. The regulated gas corporation may set reasonable charges for costs incurred in producing customer information. Customer information includes information provided to the regulated utility by affiliated or unaffiliated entities.

(D) The regulated gas corporation shall not participate in any affiliated transactions which are not in compliance with this rule, except as otherwise provided in section (11) of this rule.

(E) If a customer requests information from the regulated gas corporation about goods or services provided by an affiliated entity, the regulated gas corporation may provide information about the affiliate but must inform the customer that regulated services are not tied to the use of an affiliate provider and that other service providers may be available. Except with respect to affiliated and nonaffiliated gas marketers which are addressed in section (2) of this rule, the regulated gas corporation may provide reference to other service providers or to commercial listings, but is not required to do so. The regulated gas corporation shall include in its annual Cost Allocation Manual (CAM), the criteria, guidelines and procedures it will follow to be in compliance with the rule.

(F) Marketing materials, information or advertisements by an affiliate entity that share an exact or similar name, logo or trademark of the regulated utility shall clearly display or announce that the affiliate entity is not regulated by the Missouri Public Service Commission.

(4) Evidentiary Standards for Affiliate Transactions.

(A) When a regulated gas corporation purchases information, assets, goods or services from an affiliated entity, the regulated gas corporation shall either obtain competitive bids for such information, assets, goods or services or demonstrate why competitive bids were neither necessary nor appropriate.

(B) In transactions that involve either the purchase or receipt of information, assets, goods or services by a regulated gas corporation from an affiliated entity, the regulated gas corporation shall document both the fair market price of such information, assets, goods and services and the fully distributed cost to the regulated gas corporation to produce the information, assets, goods or services for itself.

(C) In transactions that involve the provision of information, assets, goods or services to affiliated entities, the regulated gas corporation must demonstrate that it—

1. Considered all costs incurred to complete the transaction;
2. Calculated the costs at times relevant to the transaction;
3. Allocated all joint and common costs appropriately; and
4. Adequately determined the fair market price of the information, assets, goods or services.

(D) In transactions involving the purchase of information, assets, goods or services by the regulated gas corporation from an affiliated entity, the regulated gas corporation will use a commission-approved CAM which sets forth cost allocation, market valuation and internal cost methods. This CAM can use benchmarking practices that can constitute compliance with the market value requirements of this section if approved by the commission.

(5) Record Keeping Requirements.

(A) A regulated gas corporation shall maintain books, accounts and records separate from those of its affiliates.

(B) Each regulated gas corporation shall maintain the following information in a mutually agreed-to electronic format (i.e., agreement between the staff, Office of the Public Counsel and the regulated gas corporation) regarding affiliate transactions on a calendar year basis and shall provide such information to the commission staff and the Office of the Public Counsel on, or before, March 15 of the succeeding year:

1. A full and complete list of all affiliated entities as defined by this rule;
2. A full and complete list of all goods and services provided to or received from affiliated entities;
3. A full and complete list of all contracts entered with affiliated entities;
4. A full and complete list of all affiliate transactions undertaken with affiliated entities without a written contract together with a brief explanation of why there was no contract;
5. The amount of all affiliate transac-

tions, by affiliated entity and account charged; and

6. The basis used (e.g., market value, book value, etc.) to record each type of affiliate transaction.

(C) In addition each regulated gas corporation shall maintain the following information regarding affiliate transactions on a calendar year basis:

1. Records identifying the basis used (e.g., fair market price, fully distributed cost, etc.) to record all affiliate transactions; and
2. Books of accounts and supporting records in sufficient detail to permit verification of compliance with this rule.

(6) Records of Affiliated Entities.

(A) Each regulated gas corporation shall ensure that its parent and any other affiliated entities maintain books and records that include, at a minimum, the following information regarding affiliate transactions:

1. Documentation of the costs associated with affiliate transactions that are incurred by the parent or affiliate and charged to the regulated gas corporation;
2. Documentation of the methods used to allocate and/or share costs between affiliated entities, including other jurisdictions and/or corporate divisions;
3. Description of costs that are not subject to allocation to affiliate transactions and documentation supporting the nonassignment of these costs to affiliate transactions;
4. Descriptions of the types of services that corporate divisions and/or other centralized functions provided to any affiliated entity or division accessing the regulated gas corporation's contracted services or facilities;
5. Names and job descriptions of the employees from the regulated gas corporation that transferred to a nonregulated affiliated entity;
6. Evaluations of the effect on the reliability of services provided by the regulated gas corporation resulting from the access to regulated contracts and/or facilities by affiliated entities;
7. Policies regarding the availability of customer information and the access to services available to nonregulated affiliated entities desiring use of the regulated gas corporation's contracts and facilities; and
8. Descriptions of, and supporting documentation related to, any use of derivatives that may be related to the regulated gas corporation's operation even though obtained by the parent or affiliated entity.

(7) Access to Records of Affiliated Entities.

(A) To the extent permitted by applicable law, and pursuant to established commission

rules, by affiliated entity and account charged; and

6. The basis used (e.g., market value, book value, etc.) to record each type of affiliate transaction.

(C) In addition each regulated gas corporation shall maintain the following information regarding affiliate transactions on a calendar year basis:

1. Records identifying the basis used (e.g., fair market price, fully distributed cost, etc.) to record all affiliate transactions; and
2. Books of accounts and supporting records in sufficient detail to permit verification of compliance with this rule.

(6) Records of Affiliated Entities.

(A) Each regulated gas corporation shall ensure that its parent and any other affiliated entities maintain books and records that include, at a minimum, the following information regarding affiliate transactions:



discovery procedures, a regulated gas corporation shall make available the books and records of its parent and any other affiliated entities when required in the application of this rule.

(B) The commission shall have the authority to—

1. Review, inspect and audit books, accounts and other records kept by a regulated gas corporation or affiliated entity for the sole purpose of ensuring compliance with this rule and make findings available to the commission; and

2. Investigate the operations of a regulated gas corporation or affiliated entity and their relationship to each other for the sole purpose of ensuring compliance with this rule.

(C) This rule does not modify existing legal standards regarding which party has the burden of proof in commission proceedings.

(8) Record Retention.

(A) Records required under this rule shall be maintained by each regulated gas corporation for a period of not less than six (6) years.

(9) Enforcement.

(A) When enforcing these standards, or any order of the commission regarding these standards, the commission may apply any remedy available to the commission.

(10) The regulated gas corporation shall train and advise its personnel as to the requirements and provisions of this rule as appropriate to ensure compliance.

(11) Variances.

(A) A variance from the standards in this rule may be obtained by compliance with paragraphs (11)(A)1. or (11)(A)2. The granting of a variance to one regulated gas corporation does not constitute a waiver respecting or otherwise affect the required compliance of any other regulated gas corporation to comply with the standards. The scope of a variance will be determined based on the facts and circumstances found in support of the application—

1. The regulated gas corporation shall request a variance upon written application in accordance with commission procedures set out in 4 CSR 240-2.060(11); or

2. A regulated gas corporation may engage in an affiliate transaction not in compliance with the standards set out in subsection (2)(A) of this rule, when to its best knowledge and belief, compliance with the standards would not be in the best interests of its regulated customers and it complies with the procedures required by subparagraphs

(11)(A)2.A. and (11)(A)2.B. of this rule—

A. All reports and record retention requirements for each affiliate transaction must be complied with; and

B. Notice of the noncomplying affiliate transaction shall be filed with the secretary of the commission and the Office of the Public Counsel within ten (10) days of the occurrence of the noncomplying affiliate transaction. The notice shall provide a detailed explanation of why the affiliate transaction should be exempted from the requirements of subsection (2)(A), and shall provide a detailed explanation of how the affiliate transaction was in the best interests of the regulated customers. Within thirty (30) days of the notice of the noncomplying affiliate transaction, any party shall have the right to request a hearing regarding the noncomplying affiliate transaction. The commission may grant or deny the request for hearing at that time. If the commission denies a request for hearing, the denial shall not in any way prejudice a party's ability to challenge the affiliate transaction at the time of the annual CAM filing. At the time of the filing of the regulated gas corporation's annual CAM filing the regulated gas corporation shall provide to the secretary of the commission a listing of all noncomplying affiliate transactions which occurred between the period of the last filing and the current filing. Any affiliate transaction submitted pursuant to this section shall remain interim, subject to disallowance, pending final commission determination on whether the noncomplying affiliate transaction resulted in the best interests of the regulated customers.

(12) Nothing contained in this rule and no action by the commission under this rule shall be construed to approve or exempt any activity or arrangement that would violate the antitrust laws of the state of Missouri or of the United States or to limit the rights of any person or entity under those laws.

AUTHORITY: sections 386.250, RSMo Supp. 1998 and 393.140, RSMo 1994. This rule originally filed as 4 CSR 240-40.016. Original rule filed April 26, 1999, effective Feb. 29, 2000. Moved to 20 CSR 4240-40.016, effective Aug. 28, 2019.*

**Original authority: 386.250, RSMo 1939, amended 1963, 1967, 1977, 1980, 1987, 1988, 1991, 1993, 1995, 1996 and 393.140, RSMo 1939, amended 1949, 1967.*

20 CSR 4240-40.017 HVAC Services Affiliate Transactions

PURPOSE: This rule prescribes the requirements for HVAC services affiliated entities and regulated gas corporations when such gas corporations participate in affiliated transactions with an HVAC affiliated entity as set forth in sections 386.754, 386.756, 386.760, 386.762 and 386.764, RSMo by the General Assembly of the State of Missouri.

(1) Definitions.

(A) Affiliated entity means any entity not regulated by the Public Service Commission which is owned, controlled by or under common control with a utility and is engaged in HVAC services.

(B) Control (including the terms "controlling," "controlled by," and "common control") means the possession, directly or indirectly, of the power to direct, or to cause the direction of the management or policies of an entity, whether such power is exercised through one (1) or more intermediary entities, or alone, or in conjunction with, or pursuant to an agreement with, one (1) or more other entities, whether such power is exercised through a majority or minority ownership or voting of securities, common directors, officers or stockholders, voting trusts, holding trusts, affiliated entities, contract or any other direct or indirect means. The commission shall presume that the beneficial ownership of more than ten percent (10%) of voting securities or partnership interest of an entity confers control for purposes of this rule. This provision, however, shall not be construed to prohibit a regulated gas corporation from rebutting the presumption that its ownership interest in an entity confers control.

(C) Fully distributed cost means a methodology that examines all costs of an enterprise in relation to all the goods and services that are produced. Fully distributed cost requires recognition of all costs incurred directly or indirectly used to produce a good or service. Costs are assigned either through a direct or allocated approach. Costs that cannot be directly assigned or indirectly allocated (e.g. general and administrative) must also be included in the fully distributed cost calculation through a general allocation.

(D) HVAC services means the warranty, sale, lease, rental, installation, construction, modernization, retrofit, maintenance or repair of heating, ventilating and air conditioning (HVAC) equipment.

(E) Regulated gas corporation means a gas corporation as defined in section 386.020,



RSMo, subject to commission regulation pursuant to Chapter 393, RSMo.

(F) Utility contractor means a person, including an individual, corporation, firm, incorporated or unincorporated association or other business or legal entity, that contracts, whether in writing or not in writing, with a regulated gas corporation to engage in or assist any entity in engaging in HVAC services, but does not include employees of a regulated gas corporation.

(2) A regulated gas corporation may not engage in HVAC services, except by an affiliated entity, or as provided in sections (8) and (9) of this rule.

(3) No affiliated entity or utility contractor may use any vehicles, service tools, instruments, employees, or any other regulated gas corporation assets, the cost of which are recoverable in the regulated rates for regulated gas corporation service, to engage in HVAC services unless the regulated gas corporation is compensated for the use of such assets at the fully distributed cost to the regulated gas corporation.

(A) The determination of a regulated gas corporation's cost in this section is defined in subsection (1)(D) of this rule.

(4) A regulated gas corporation may not use or allow any affiliated entity or utility contractor to use the name of such regulated gas corporation to engage in HVAC services unless the regulated gas corporation, affiliated entity or utility contractor discloses, in plain view and in bold type on the same page as the name is used on all advertisements or in plain audible language during all solicitations of such services, a disclaimer that states the services provided are not regulated by the commission.

(5) A regulated gas corporation may not engage in or assist any affiliated entity or utility contractor in engaging in HVAC services in a manner which subsidizes the activities of such regulated gas corporation, affiliated entity or utility contractor to the extent of changing the rates or charges for the regulated gas corporation's services above or below the rates or charges that would be in effect if the regulated gas corporation were not engaged in or assisting any affiliated entity or utility contractor in engaging in such activities.

(6) Any affiliated entities or utility contractors engaged in HVAC services shall maintain accounts, books and records separate and distinct from the regulated gas corporation.

(7) The provisions of this rule shall apply to any affiliated entity or utility contractor engaged in HVAC services that is owned, controlled or under common control with the regulated gas corporation providing regulated services in the state of Missouri or any other state.

(8) A regulated gas corporation engaging in HVAC services in the state of Missouri five (5) years prior to August 28, 1998, may continue providing, to existing as well as new customers, the same type of services as those provided by the regulated gas corporation five (5) years prior to August 28, 1998.

(A) To qualify for this exemption, the regulated gas corporation shall file a pleading before the commission for approval.

1. The commission may establish a case to determine if the regulated gas corporation qualifies for an exemption under this rule.

(9) The provisions of this section shall not be construed to prohibit a regulated gas corporation from providing emergency service, providing any service required by law or providing a program pursuant to an existing tariff, rule or order of the commission.

AUTHORITY: sections 386.760.1, RSMo Supp. 1998 and 393.140, RSMo 1994. This rule originally filed as 4 CSR 240-40.017. Original rule filed Dec. 17, 1998, effective Aug. 30, 1999. Moved to 20 CSR 4240-40.017, effective Aug. 28, 2019.*

**Original authority: 386.710.1, RSMo 1998 and 393.140, RSMo 1939, amended 1949, 1967.*

20 CSR 4240-40.018 Natural Gas Price Volatility Mitigation

PURPOSE: This rule represents a statement of commission policy that natural gas local distribution companies should undertake diversified natural gas purchasing activities as part of a prudent effort to mitigate upward natural gas price volatility and secure adequate natural gas supplies for their customers.

(1) Natural Gas Supply Planning Efforts to Ensure Price Stability.

(A) As part of a prudent planning effort to secure adequate natural gas supplies for their customers, natural gas utilities should structure their portfolios of contracts with various supply and pricing provisions in an effort to mitigate upward natural gas price spikes, and provide a level of stability of delivered natural gas prices.

(B) In making this planning effort, natural

gas utilities should consider the use of a broad array of pricing structures, mechanisms, and instruments; including, but not limited to, those items described in (2)(A) through (2)(H), to balance market price risks, benefits, and price stability. Each of these mechanisms may be desirable in certain circumstances, but each has unique risks and costs that require evaluation by the natural gas utility in each circumstance. Financial gains or losses associated with price volatility mitigation efforts are flowed through the Purchased Gas Adjustment (PGA) mechanism, subject to the applicable provisions of the natural gas utility's tariff and applicable prudence review procedures.

(C) Part of a natural gas utility's balanced portfolio may be higher than spot market price at times, and this is recognized as a possible result of prudent efforts to dampen upward volatility.

(2) Pricing Structures, Mechanisms and Instruments:

- (A) Natural Gas Storage;
- (B) Fixed Price Contracts;
- (C) Call Options;
- (D) Collars;
- (E) Outsourcing/Agency Agreements;
- (F) Futures Contracts; and
- (G) Financial Swaps and Options from Over the Counter Markets; and
- (H) Other tools utilized in the market for cost-effective management of price and/or usage volatility.

AUTHORITY: sections 386.250, RSMo 2000 and 393.130, RSMo Supp. 2003. This rule originally filed as 4 CSR 240-40.018. Original rule filed May 1, 2003, effective Dec. 30, 2003. Moved to 20 CSR 4240-40.018, effective Aug. 28, 2019.*

**Original authority: 386.250, RSMo 1939, amended 1963, 1967, 1977, 1980, 1987, 1988, 1991, 1993, 1995, 1996; 393.130, RSMo 1939, amended 1967, 1969, 2002.*

20 CSR 4240-40.020 Incident, Annual, and Safety-Related Condition Reporting Requirements

PURPOSE: This rule prescribes requirements and procedures for reporting certain gas-related incidents and safety-related conditions and for filing annual reports. It applies to gas systems subject to the safety jurisdiction of the Public Service Commission.

PUBLISHER'S NOTE: The secretary of state has determined that the publication of the entire text of the material which is incorporated by reference as a portion of this rule

19

See 18

20

Spire Missouri Inc. DBA as Spire Missouri East

Company Full Certificated Name

Do not abbreviate; include any Commission approved AKA/DBA/Fictitious Name, if applicable.

**GAS ANNUAL REPORT
SUPPLEMENTAL PAGES**

(Part 1 of 2)

TO THE

MISSOURI PUBLIC SERVICE COMMISSION

For the Calendar Year of
January 1 - December 31, 2020

This filing is required pursuant to Commission Rule 4 CSR 240-10.145 and/or Section 393.140, RSMo.

Security Level / Filing Type Options

Please choose one of the following filing type options:

- Public Submission (NOT Confidential)**
- Non-Public submission (Confidential / Filed Under Seal)**
For this filing to be considered Confidential, additional submission of materials is required, pursuant to Commission Rule 20 CSR 4240-2.135.

Revised: 12/12/2019

For use when filing under seal.

Name of Respondent Spire Missouri East Spire Missouri West	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr)	Year/Period of Report End of 9/30/2020
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Transactions with Associated (Affiliated) Companies

- Report below the information called for concerning all goods or services received from or provided to associated (affiliated) companies amounting to more than \$250,000.
- Sum under a description "Other", all of the aforementioned goods and services amounting to \$250,000 or less.
- Total under a description "Total", the total of all of the aforementioned goods and services.
- Where amounts billed to or received from the associated (affiliated) company are based on an allocation process, explain in a footnote the basis of the allocation.

Line No.	Description of the Good or Service (a)	Name of Associated/Affiliated Company (b)	Account(s) Charged or Credited (c)	Amount Charged or Credited (d)
1	Goods or Services Provided by Affiliated Company			
2	Natural Gas Supply	Spire Marketing Inc.	804	56,920,280
3	Transportation / Storage Service	Spire STL Pipeline LLC	804	27,852,534
4	Propane Transportation Service	Spire NGL Inc.	728	1,038,000
5				
6				
7	Total			85,810,814
8				
9				
10				
11				
12				
13				
14				
15	Goods or Services Provided for Affiliated Company			
16	Personnel Costs	Spire Alabama Inc.	408, 920, 926	21,294,611
17	Personnel Costs	Spire Gulf Inc.	408, 920, 927	3,586,225
18	Personnel Costs	Spire STL Pipeline LLC	408, 920, 928	3,455,927
19	Personnel Costs	Spire Marketing Inc.	408, 920, 928	2,572,139
20	Personnel Costs	Spire Storage West LLC	408, 920, 928	1,806,626
21	Personnel Costs	Spire Mississippi Inc.	408, 920, 928	851,759
22	Personnel Costs	Spire	408, 920, 928	355,611
23	Personnel Costs	Spire NGL Inc.	408, 920, 928	277,690
24	Property and Liability Insurance (2)	Spire Alabama Inc.	924, 925	5,843,367
25	Property and Liability Insurance (2)	Spire Gulf Inc.	924, 925	997,767
26	Property and Liability Insurance (2)	Spire STL Pipeline LLC	924, 925	354,364
27	Property and Liability Insurance (2)	Spire Storage West LLC	924, 925	298,936
28	General and Administrative Expense	Spire Alabama Inc.	924, 925	4,732,959
29	General and Administrative Expense	Spire Gulf Inc.	924, 925	586,070
30	Rent	Spire Alabama Inc.	924, 925	1,917,148
31	Rent	Spire Marketing Inc.	924, 925	364,567
32	Rent	Spire Storage West LLC	924, 925	318,698
33	ITS	Spire Storage West, LLC	825	289,489
34	Other	Various	Various	2,417,910
35				
36				
37				
38	Total			52,321,862
39				
40				
41				

- Allocated on cost-per-square footage per employee.
- Allocated based on percentage of net plant and equipment.
- Allocated based on 3 factor formula, percentage of labor hours, percentage of labor, or direct charge, depending on the good or service provided.

Spire Missouri Inc. DBA as Spire Missouri West

Company Full Certificated Name

Do not abbreviate; include any Commission approved AKA/DBA/Fictitious Name, if applicable.

GAS ANNUAL REPORT

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- (2) Allocated based on percentage of net plant and equipment.
- (3) Allocated based on 3 factor formula, percentage of labor hours, percentage of labor, or direct charge, depending on the good or service provided.

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See 18

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See 20

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See 18

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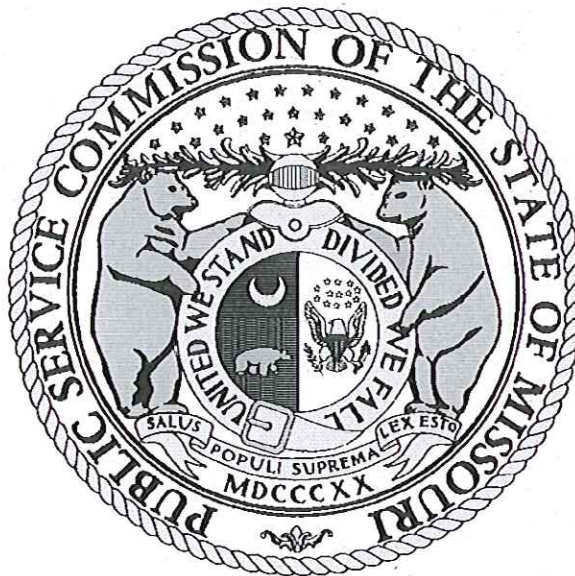
See 18

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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 ****

1 balances are included in rate base pursuant to the *Partial Non-Unanimous Stipulation and*
2 *Agreement*.

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

9 *Staff Expert/Witness: Keith Majors*

10 ***VII. Corporate Allocations***

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

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

29 Costs are distributed to the appropriate business segments by the use of several types of
30 allocation factors. These allocation factors are updated annually and include allocators to spread

1 costs corporate-wide (all business units), utility only (regulated operations), Missouri only
2 (Spire Missouri and non-regulated operations), and Missouri utility only (Spire Missouri).
3 Furthermore, these allocation factors can be derived from various cost drivers including employee
4 headcount, customer count, square footage used, fixed assets, and many others. When a cost pool
5 has no identifiable cost driver, the shared services model allocates costs based on a three factor
6 allocator that is a blend of fixed assets, revenue, and wages.

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

13 *Staff Expert/Witness: Matthew R. Young*

14 ***VIII. Income Statement-Revenues***

15 **A. Retail Revenues**

16 **1. Introduction**

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

23 One of the major tasks in a rate case is to determine the magnitude of any deficiency (or
24 excess) between a company's cost of service and its operating revenues. Test year revenues need
25 to be appropriately normalized and annualized in order to accurately measure the amount of any
26 deficiency (or excess) in the current level of operating revenues. Once determined, the deficiency
27 (or excess) can only be made up (or otherwise addressed) by adjusting retail rates (i.e., rate
28 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.

26

See 18

27

All About Holding Companies and Parent Companies



A holding company is a firm that doesn't have any actual operations, but rather only has investments in other firms. Most businesses are organized as operating companies, meaning they manufacture items or provide services. Essentially, a holding company invests in operating companies that actually produce goods or offer services. When a company has its own operations and also owns other companies, it's known as a parent company rather than a holding company. Here is an overview of holding and parent companies, including how they are similar to and different from each other.

Holding Company Basics

The businesses that both holding and parent companies own are known as subsidiaries. If the holding or parent company owns 100 percent of the subsidiary, it's called a wholly owned subsidiary.

A holding or parent company may own a smaller stake, including less than 50 percent, as long as it gives the subsidiary's managers day-to-day control. But to be a holding or parent company it must have overall control of the subsidiary, being able to hire and fire executives and set strategy. The controlling stake is one thing that distinguishes holding companies from [mutual funds](#) and [hedge funds](#) that have minority stakes in companies.

Certain tax benefits accrue to holding companies that own greater than 80 percent of the shares in a company.

Subsidiaries of parent companies are often not acquired by purchasing shares, which is the way holding companies typically get their subsidiaries. Instead, parent companies often create subsidiaries by spinning off operating units.

Unlike mutual funds and hedge funds, holding and parent companies are also long-term owners rather than short-term traders, just buying and selling ownership shares.

Holding Companies and Parent Companies: Examples



One of the best-known holding companies is [Berkshire Hathaway](#). Warren Buffett's company owns GEICO, Dairy Queen and Fruit of the Loom among other businesses. Another well-known holding company is Alphabet, which owns Google, YouTube, Nest and other companies.

These holding companies are conglomerates that own a number of otherwise unconnected businesses. Other holding companies are umbrella corporations that own, as subsidiaries, various operating units of what might otherwise be the same company. This is often seen in financial services, where examples include [JP Morgan Chase](#) and [Bank of America](#).

[Facebook](#) is a parent company. It has operations of its own and also has subsidiaries such as WhatsApp and Instagram. Amazon, another parent company,

owns subsidiaries such as Zappos and Whole Foods.

Holding Companies And Parent Companies: Benefits

There are numerous benefits to organizing a business as a holding company. One of the biggest is [risk management](#). If a subsidiary is sued and winds up owing a lot of money, for instance, the holding or parent company is not liable. A subsidiary can file for bankruptcy protection and the holding or parent company doesn't have to make good on its debts.

A subsidiary may enjoy lower borrowing costs if the holding or parent company chooses to make itself potentially liable by guaranteeing the subsidiary's debts.

Holding companies can also save money on taxes. The holding company can base itself in a state or country with low tax rates. That can reduce the taxes it must pay on money received from subsidiaries. If a holding company owns at least 80 percent of the subsidiary, it can avoid paying double federal [income taxes](#) on dividends the subsidiary pays to its stockholders.

Both holding and parent companies make it easier to divest businesses. It's simpler to sell a wholly owned subsidiary that operates separately from other subsidiaries than to carve out assets for sale.

Some wealthy families form holding companies in part to simplify inheritance bequests. Rather than heirs getting pieces of several businesses or other assets, they can get shares in the holding company.

Holding companies may own assets other than shares in another company. For instance, they may own intellectual property such as trademarks, copyrights, patents, real estate and mineral rights. A large corporation may set up separate subsidiaries for each of these. Other subsidiaries may own equipment, management services and even individual franchises.

Because they don't have to own 100 percent of a subsidiary to control it, holding companies let investors leverage their financial strength. They can purchase 51 percent of two companies instead of purchasing 100 percent of one. And sometimes control can be acquired for much less than 51 percent, allowing investors to achieve greater diversification without relinquishing control.

Holding Companies and Parent Companies: Limits



Holding companies usually don't directly manage their subsidiaries, however. When a company is acquired by a holding company, its existing management often stays in place. The holding company may direct long-term strategy and allocate capital resources. But it doesn't get involved in day-to-day management.

Parent companies may be more or less involved in their subsidiaries' management. Subsidiaries of parent companies may face liability if the parent company's business activities result in a legal loss or [bankruptcy](#).

Holding companies face some restrictions when it comes to the type of business entities that they can own. For instance, [S corporations](#) can't be owned by other corporations. Nor can they be owned by partnerships. This means that typical holding companies cannot own S corps. Also, [sole proprietorships](#) can't be owned by holding companies. They must be owned by individuals.

The Bottom Line

Holding and parent companies can be powerful tools for generating profits and protecting assets. They can help manage risk, reduce taxes and increase leverage. However, this is a complex area of business. Many businesses may be better off sticking with a less complex structure with different operating units.

Business Tips

- Whether being organized as a holding company is a good idea for your business is something a financial advisor can help you with. Finding the right financial advisor doesn't have to be hard. [SmartAsset's free tool](#) matches you with financial advisors in your area in 5 minutes. If you're ready to be matched with local advisors that will help you achieve your financial goals, [get started now](#).
- If you want to invest in a well-known brand like Google, you'll actually be investing in an entity known as Alphabet, the holding company that owns Google. To get started investing in these companies, [here are some brokerages](#) that can help you identify which holding, parent and independent operating companies would be a good fit for your portfolio.

28



Corporate Governance Guidelines

Updated July 30, 2020

These Corporate Governance Guidelines adopted by the Board of Directors of Spire Inc. represent the principles that govern the Board in its oversight of the affairs of the Company. These Guidelines are subject to the requirements of the Company's charter and bylaws, as well as applicable law, and may be modified from time to time as determined by the Board.

1. Director Qualifications

A majority of the members of the Board of Directors shall meet the criteria for independence required by the rules and regulations of the New York Stock Exchange. The Corporate Governance Committee will review with the Board, on an annual basis, the requisite skills, characteristics and qualifications to be sought in new Board members as well as the composition of the Board as a whole, including assessments of members' qualification as independent and consideration of diversity, age, skills and experience in the context of the needs of the Board. Nominees for directorship will be selected by the Corporate Governance Committee in accordance with its charter. The invitation to join the Board should be extended by the Board itself, by the Chairman of the Corporate Governance Committee and the Chairman of the Board.

It is the sense of the Board that a size of seven to twelve is appropriate. However, the Board will consider increasing its size to accommodate the availability of an outstanding candidate.

It is the policy of the Board that individual directors who retire, change employment or have any other significant change in their professional roles and responsibilities shall notify the Board of such change and offer to resign from the Board. The Corporate Governance Committee shall review the continued appropriateness of Board membership under the circumstances and make a recommendation to the Board.

No director may serve on more than **three** public company boards. Directors should advise the Chairman of the Board and the Chairman of the Corporate Governance Committee in advance of accepting an invitation to serve on another public company board. A Director shall retire from the Board at the annual meeting of shareholders' following the Director's 75th birthday.

2. Director Responsibilities

Directors shall exercise their business judgment to act in a manner they reasonably believe to be in the best interests of the Company and its shareholders and consistent with their fiduciary duties. In discharging that obligation, directors are entitled to rely on the honesty and integrity of the Company's senior executives and its outside advisors and auditors. Directors are expected to attend meetings of the Board and committees on which they serve, and to spend the time needed and to meet as frequently as necessary to properly discharge their responsibilities. They are expected to review materials made

available in advance of the meeting. Directors are also expected to attend the annual meeting of shareholders.

The Board is responsible for oversight of the business and affairs of the Company, including overseeing and monitoring the Company's strategic plan and operating plan and budget. The Board reviews the Company's financial and operating performance on an actual and comparative basis. The Board also considers management's evaluation of the risks related to the Company's business and strategy and the measures implemented by management to manage these risks.

The Board has approved the Company's Code of Business Conduct, which applies to the Board as well as the Company's employees, and also approves any changes to the Code. The Audit Committee oversees the implementation of the Code. The Board expects that management will strive to ensure that the Company's operations are conducted legally and within these ethical guidelines.

The Chairman of the Board may be a director who is also an officer or an independent director and may or may not be the same individual as the CEO, at the discretion of the Board. The Board believes it should be free to use its business judgment to determine what it believes is best for the Company in light of all the circumstances. If the Chairman is not an independent director, the independent directors will elect a Lead Director, who shall, among other things, preside during the executive sessions, which are held at least quarterly, and at any other Board meetings at which the Chairman is not present. The Board believes that management speaks for the Company. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are involved with the Company. It is expected, however, that Board members would do this with the knowledge of the management and, absent unusual circumstances or as contemplated by the committee charters, only at the request of management.

3. Board Committees

The Board will have at all times an Audit Committee, a Compensation Committee and a Corporate Governance Committee. All of the members of these committees will be independent directors under the criteria established by the New York Stock Exchange. Committee members will be appointed by the Board upon the recommendation of the Corporate Governance Committee, with consideration given to the desires of individual directors. It is the sense of the Board that consideration should be given to rotating committee members periodically, but that a specific rotation schedule should not be mandated.

Each committee will have its own charter. The charters will set forth the purposes, goals and responsibilities of the committees as well as the qualifications for committee membership, the committee structure and operations and the process for having the committee report to the Board. The charters will also provide that each committee will annually evaluate its performance.

The chair of each committee, in consultation with the committee members, will determine the frequency and length of the committee meetings consistent with any requirements set forth in the committee's charter. The chair of each committee, in consultation with the appropriate members of the committee and management, will develop the committee's agenda.

The Board and each committee have the power to hire independent legal, financial or other advisors as they may deem necessary, without consulting or obtaining the approval of any officer of the Company in advance.

The Board may, from time to time, establish or maintain additional committees as necessary or appropriate.

4. Director Access to Officers and Employees

Directors have access to employees of the Company. Any meetings or contacts that a director wishes to initiate may be arranged directly by the director, provided the director first notifies the Chair of the Board and the Leadership Council member to whom the employee reports of the planned meeting or contact. This notification requirement does not apply to meetings or contacts with members of the Leadership Council or the Corporate Secretary. The directors will use good judgment to ensure that any such meeting or contact is not disruptive to the business operations of the Company and will, to the extent not inappropriate, copy the CEO on any written communications between a director and an employee of the Company. In almost all instances, a director should not on a regular basis contact employees below the level of senior vice president without first notifying the Chair of the Board and the Leadership Council member to whom the employee reports.

The Board welcomes the regular attendance, at each Board meeting, of senior officers of the Company. If the CEO wishes to have additional Company personnel attendees on a regular basis, the CEO and the Chair should so discuss and agree.

Directors should also be cognizant of incurring expenses on behalf of the Company. Specific to necessary Board-related discussions and work with consultants, and even when confidentiality is involved and necessitated, the director should advise the CEO and responsible LC member of the requested work.

5. Director Compensation

The form and amount of director compensation will be reviewed by the Corporate Governance Committee, which will recommend changes as the Committee deems appropriate to the Board for its consideration and approval.

The Corporate Governance Committee will consider that directors' independence may be jeopardized if director compensation and perquisites exceed customary levels, if the Company makes substantial charitable contributions to organizations with which a director is affiliated, or if the Company enters into consulting or other contracts with (or provides other indirect forms of compensation to) a director or an organization with which the director is affiliated.

6. Director Orientation and Continuing Education

All new non-management directors will participate in the director orientation program offered by the Company. All other directors are also invited to attend the orientation. In order to enable non-management directors to better perform their duties and recognize and deal with various issues that may arise during their tenure as directors, all non-management directors, with the prior approval of the Chairman of the Board, may attend at the Company's expense outside director education programs selected from a list of continuing education programs approved by the Chairman of the Board. Directors will provide to the Board at its next meeting a brief overview and assessment of attended programs and report such attendance to the Corporate Secretary who will maintain a record of attendance. Additionally, from time to time, management advises, or invites outside experts to attend board meetings to advise, the Board on its responsibilities, management's responsibilities, developments relative to corporate governance and best corporate practices.

7. CEO Evaluation and Management Succession

The Compensation Committee will conduct an annual review of the CEO's performance and compensation. The Board of Directors will review the Compensation Committee's report and the Compensation Committee, its chair, or the Chairman of the Board (if independent) or Lead Director shall meet with the CEO to discuss the CEO's performance. The Board believes that evaluation of the CEO should be a comprehensive process based on both qualitative and quantitative factors, including the performance of the business, accomplishment of long-term objectives, positioning of the Company for the future, development of management, and leadership in the community and the industry.

The Compensation Committee should make an annual report to the Board on succession planning. The entire Board will work with the Compensation Committee to evaluate potential successors to the CEO. The CEO should, at all times, make available his or her recommendations and evaluations of potential successors, along with a review of any development plans recommended for such individuals.

8. Annual Performance Evaluation

The Board of Directors will conduct an annual self-evaluation to determine whether it and its committees are functioning effectively. The Board Chair will receive comments from all directors and report annually to the Board with an assessment of the Board's performance. This will be discussed with the full Board each fiscal year. The assessment will focus on the Board's contribution to the Company and specifically focus on areas in which the Board or management believes that the Board could improve.

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See 16