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Spire Missouri

RES-R-5 Public

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12/15/2020

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Exhibit No.:

Issues:

**Filing Overview
Introduction of Witnesses
Fresh Perspectives
One Spire Missouri
COVID-19 Assistance
Incentive Compensation
Combined Heat and Power
Carbon Neutral Initiative**

Witness:

Type of Exhibit:

Sponsoring Party:

Case No:

Testimony Date:

**Scott A. Weitzel
Direct Testimony
Spire Missouri Inc.
GR-2021-0108
December 11, 2020**

SPIRE MISSOURI INC.

CASE NO. GR-2021-0108

DIRECT TESTIMONY

OF

SCOTT A. WEITZEL

1 Q. DESCRIBE THE PROPOSED CHANGE TO THE GAS NOMINATION
2 PROCESS FOR SCHOOLS.

3 A. The Company is proposing to manage the gas nominations for all of the schools. This is
4 the process currently used by the Spire East schools.

5 Q. ARE THERE ANY OTHER ITEMS TO INCLUDE PERTAINING TO
6 IMPLEMENTING A SINGE SCHOOL TARIFF?

7 A. The Company currently manages the school programs differently between Spire East and
8 West. In fact, the largest gas marketer for Spire Missouri schools also has to manage different
9 processes depending on which side of the state their school is located. This consolidation of the
10 tariffs will help streamline the process by making processes identical for all of Spire.

11

12

INCENTIVE COMPENSATION

13 Q. WHAT HAS BEEN THE COMMISSION'S HISTORIC POLICY REGARDING
14 INCENTIVE COMPENSATION?

15 A. The Commission has previously disallowed earnings-based or equity-based compensation
16 from rate recovery, noting that incentivizing employees to improve a company's bottom line
17 aligns employee interests with shareholders, rather than ratepayers.⁶ As such, the Commission
18 has denied Spire's recovery of earnings-based or equity-based employee incentive compensation
19 amounts in rates.⁷

⁶ March 7, 2018 Amended Report and Order, Case Nos. GR-2017-0215, 0216, at pp. 122-123.

⁷ Id.

1 Q. HAS SPIRE MADE ANY REVISIONS TO ITS ANNUAL INCENTIVE PLAN?

2 A. Yes. In the fall of 2018, Spire's management conducted a detailed review of the
3 Company's current annual incentive plan ("AIP") design. This review was focused on the
4 utility's business unit metric. Prior to this review, the business unit metric was Utility Operating
5 Income. Following review and discussion by Spire management, the decision was made to
6 eliminate this metric for all non-officer plan participants and establish two new metrics: (1)
7 Utility Contribution Margin; and (2) Utility Adjusted O&M per customer.

8 Q. PLEASE EXPLAIN HOW THESE METRICS ARE CALCULATED.

9 A. Utility Contribution Margin is calculated in the following manner:

10
$$\text{Utility Contribution Margin} = \text{Utility Gross Revenue} - \text{Gas Costs} - \text{Gross Receipts Tax}, \text{ as referred}$$

11 to as Net Operating Revenue.

12 Utility Adjusted O&M per Customer is calculated as:

13
$$\text{Utility Adjusted O\&M per Customer} = (\text{Utility Operating \& Maintenance Expenses} + \text{Property}$$

14 Taxes) / 12 Month Average Customers.

15 Q. WHAT IS SPIRE'S RATIONALE FOR ESTABLISHING THESE NEW
16 METRICS?

17 A. Spire believes that these two new metrics offer benefits for both our customers and our
18 employees. By increasing the Contribution Margin, employee incentives are aligned with a
19 direct benefit to the customer. Our employees can impact out Contribution Margin by adding
20 and/or retaining customers. This increases Contribution Margin, broadening the base for which
21 our cost structure can be distributed, and lessens the impact on existing customers. Customers
22 also benefit directly from reductions in O&M per Customer. Improvements in efficiency and
23 productivity, and reducing or eliminating of costs lowers Operating & Maintenance expenses,

1 which in turn lowers the cost structure proportioned to each of our customers. This impact can
2 be compounded by also increasing our customers, which distributes our fixed and variable costs
3 across a larger pool, thereby lowering each customer's total share of costs. Both of these
4 customer-focused metrics contribute to more affordable rates for our customers while aligning
5 and complementing Spire's other customer satisfaction and safety metrics.

6 **Q. WHAT BENEFITS DO THESE METRICS HAVE FOR SPIRE EMPLOYEES?**

7 A. These metrics allow each employee to have a clear "line of sight" and better
8 understanding regarding how their day-to-day efforts can contribute to Contribution Margin
9 and/or impact O&M per customer.

10 **Q. HOW DOES THE CHANGE IN AIP METRICS ALIGN WITH SPIRE'S GOALS**
11 **AS A UTILITY?**

12 A. Overall, Spire believes that these changes reinforce our continued commitment to
13 continuous improvement and creates a better line of sight to our employees and customers. Each
14 employee's individual or team metrics continue to be directly aligned to the customer, as those
15 metrics remain focused on customer satisfaction, safety, distribution infrastructure, cost savings
16 and fiscal measurements.

17 **Q. WHAT CHANGES IS SPIRE PROPOSING TO ITS INCENTIVE**
18 **COMPENSATION PLAN IN THIS PROCEEDING?**

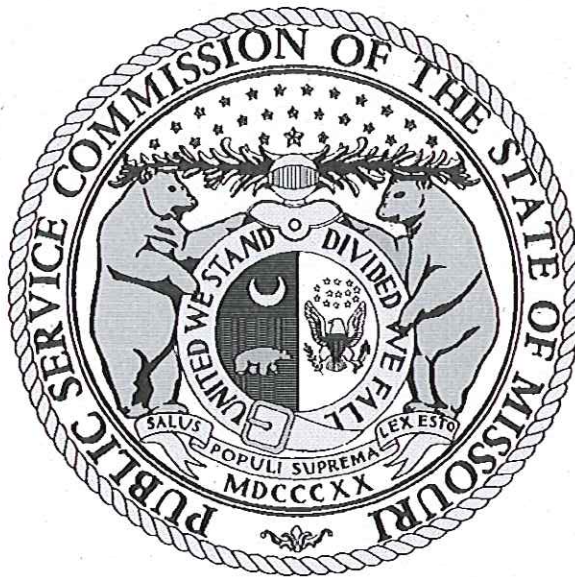
19 A. Spire proposes to modify its incentive compensation plan to further move towards a more
20 O&M-based performance metric. These changes more closely align with Spire's commitment to
21 its customers to enhance service and maintain affordable natural gas delivery.

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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 period ending December 30, 2020. This includes amounts pursuant to the Federal Unemployment
2 Taxes Act (“FUTA”), State Unemployment Taxes Act (“SUTA”), and Federal Insurance
3 Contributions Act (“FICA”) taxes. Staff’s annualized payroll and most current tax rates were used
4 to calculate the level of payroll tax proposed in this case.

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

9 *Staff Expert/Witness: Jared Giacone*

10 **2. Incentive Compensation**

11 **Short-Term Incentive Compensation**

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

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

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

1 The Commission agrees with Staff and Public Counsel that the
2 financial incentive portions of the incentive compensation plan
3 should not be recovered in rates. Those financial incentives seek to
4 reward the company's employees for making their best efforts to
5 improve the company's bottom line. Improvements to the
6 company's bottom line chiefly benefit the company's shareholders,
7 not its ratepayers. Indeed, some actions that might benefit a
8 company's bottom line, such as a large rate increase, or the
9 elimination of customer service personnel, might have an adverse
10 effect on ratepayers.

11 If the company wants to have an incentive compensation plan that
12 rewards its employees for achieving financial goals that chiefly
13 benefit shareholders, it is welcome to do so. However, the
14 shareholders that benefit from that plan should pay the costs of that
15 plan. The portion of the incentive compensation plan relating to the
16 company's financial goals will be excluded from the company's cost
17 of service revenue requirement. (p. 43)

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

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

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

⁸⁹ For similar findings, see the Report and Orders in Case Nos. GR-96-285; ER-2006-0314; and ER-2007-0291.

⁹⁰ Case No. GR-2021-0108, Scott Weitzel Direct Testimony, page 23, lines 1-7.

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

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

13 **Long-Term Incentive Compensation**

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

18 *Staff Expert/Witness: Jeremy Juliette*

19 **3. SERP**

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

24 Included in Staff's revenue requirement recommendations are normalized levels of
25 recurring SERP payments (annuities) and a normalization of any large lump-sum SERP payments
26 Spire has made to its former executives and other highly-compensated former employees. SERP
27 payments are non-qualified retirement plans for officers and executives, which provide the pension
28 benefits these highly-compensated individuals would have received under other company
29 retirement plans but for compensation and benefit limits imposed by the Internal Revenue Service
30 ("IRS"). The Commission has traditionally included a reasonable amount of SERP expenses in