

**33**

See 5

**34**

See 32

**35**

See 32

**Confidential**

**36**

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**CONFIDENTIAL**

RES-R-5 Public







**37**

Spire Missouri Inc. DBA as Spire Missouri East

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**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<br>Spire Missouri East | This Report Is:<br>(1) <input checked="" type="checkbox"/> An Original<br>(2) <input type="checkbox"/> A Resubmission | Date of Report<br>(Mo, Da, Yr) | Year/Period of Report<br>End of 9/30/2020 |
|---|---|--------------------------------|---|

**General Description of Construction Overhead Procedure**

1. For each construction overhead explain: (a) the nature and extent of work, etc., the overhead charges are intended to cover, (b) the general procedure for determining the amount capitalized, (c) the method of distribution to construction jobs, (d) whether different rates are applied to different types of construction, (e) basis of differentiation in rates for different types of constructions, and (f) whether the overhead is directly or indirectly assigned.
2. Show below the computation of allowance for funds used during construction rates, in accordance with the provision of Gas Plant Instructions 3 (17) of the Uniform System of Accounts.
3. Where a net-of-tax rate for borrowing funds is used, show the appropriate tax effect adjustment to the computations below in a manner that clearly indicates the amount of reduction in the gross rate for tax effects.

1. Construction overhead policy:  
The construction overheads are administrative expenses, injuries and damages and employee and director pensions and benefits.
  - a. The transfers to construction are intended to cover that portion of these accounts which is attributable to construction on a general basis, but which is not directly applicable to a particular work order.
  - b. The amount capitalized is determined by apportionment of administrative and general expenses for the year based on the percentage of construction labor to total labor charges.
  - c. Distribution to construction is based on a percentage of total charges. The percentage is obtained by relating applicable construction charges to the amount to be capitalized. Standard rate apportionments are applied to individual work orders based on monthly charges, and variance rate apportionments are applied on fiscal year to date charges.
  - d. The apportionment to construction is applied in two groups, general overheads and employee benefit overheads. General overheads are applied to total charges on applicable work orders, and employee benefit overheads are applied to direct and indirect labor charges on applicable work orders.
  - e. Work orders for the purchase of land, land rights, and general plant are excluded from the overhead apportionment. The exclusion of certain purchases from the overhead transfer is consistent with commission rulings in past cases.
  - f. Overheads are indirectly assigned to applicable construction costs as described above.
  
2. Allowance for funds policy:
  - a. The allowance base includes all constructed asset gas plant accounts.
  - b. The allowance is computed by applying the rate to:
    1. One-half of current month's charges to uncompleted work orders.
    2. All charges for prior months for construction which is not yet in service at the end of the current month.

NOTE: Payroll accruals and accumulated interest are excluded from charges upon which the calculation is made.
  - c. The weighted-average allowance rate applied to applicable construction in fiscal 2020 was 1.4%.

|   |   |                                |   |
|---|---|--------------------------------|---|
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|---|---|--------------------------------|---|

**General Description of Construction Overhead Procedure (continued)**

COMPUTATION OF ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION RATES

- For line (5), column (d) below, enter the rate granted in the last rate proceeding. If not available, use the average rate earned during the preceding 3 years.
- Identify, in a footnote, the specific entity used as the source for the capital structure figures.
- Indicate, in a footnote, if the reported rate of return is one that has been approved in a rate case, black-box settlement rate, or an actual three-year average rate.

1. Components of Formula (Derived from actual book balances and actual cost rates):

| Line No. | Title<br>(a)                                  | Amount<br>(b) | Capitalization<br>Ratio (percent)<br>(c) | Cost Rate<br>Percentage<br>(d) |
|----------|---|---------------|--|--------------------------------|
| (1)      | Average Short-Term Debt                       | S             |  |                                |
| (2)      | Short-Term Interest                           |               |  | s                              |
| (3)      | Long-Term Debt                                | D             |  | d                              |
| (4)      | Preferred Stock                               | P             |  | p                              |
| (5)      | Common Equity                                 | C             |  | c                              |
| (6)      | Total Capitalization                          |               | 100%                                     |                                |
| (7)      | Average Construction Work in Progress Balance | W See Note:   |  |                                |

2. Gross Rate for Borrowed Funds  $s(SW) + d[(D/(D+P+C)) (1-(SW))]$

3. Rate for Other Funds  $[1-(SW)][p(P/(D+P+C)) + c(C/(D+P+C))]$

4. Weighted Average Rate Actually Used for the Year:

- Rate for Borrowed Funds -
- Rate for Other Funds -

Note: The average AFUDC rate for Spire Missouri East:

October 2019 - September 2020

Annual Rate  
1.4 %



Spire Missouri Inc. DBA as Spire Missouri West

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**Company Full Certificated Name**

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

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| <b>General Description of Construction Overhead Procedure</b>   |   |                                |   |
| <p>1. For each construction overhead explain: (a) the nature and extent of work, etc., the overhead charges are intended to cover, (b) the general procedure for determining the amount capitalized, (c) the method of distribution to construction jobs, (d) whether different rates are applied to different types of construction, (e) basis of differentiation in rates for different types of constructions, and (f) whether the overhead is directly or indirectly assigned.</p> <p>2. Show below the computation of allowance for funds used during construction rates, in accordance with the provision of Gas Plant Instructions 3 (17) of the Uniform System of Accounts.</p> <p>3. Where a net-of-tax rate for borrowing funds is used, show the appropriate tax effect adjustment to the computations below in a manner that clearly indicates the amount of reduction in the gross rate for tax effects.</p> |   |                                |   |

1. Construction overhead policy:  
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NOTE: Payroll accruals and accumulated interest are excluded from charges upon which the calculation is made.
  - c. The weighted-average allowance rate applied to applicable construction in fiscal 2020 was 1.4%.



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**General Description of Construction Overhead Procedure (continued)**

COMPUTATION OF ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION RATES

1. For line (5), column (d) below, enter the rate granted in the last rate proceeding. If not available, use the average rate earned during the preceding 3 years.
2. Identify, in a footnote, the specific entity used as the source for the capital structure figures.
3. Indicate, in a footnote, if the reported rate of return is one that has been approved in a rate case, black-box settlement rate, or an actual three-year average rate.

1. Components of Formula (Derived from actual book balances and actual cost rates):

| Line No. | Title<br>(a)                                  | Amount<br>(b) | Capitalization Ratio (percent)<br>(c) | Cost Rate Percentage<br>(d) |
|----------|---|---------------|---------------------------------------|-----------------------------|
| (1)      | Average Short-Term Debt                       | S             |                                       |                             |
| (2)      | Short-Term Interest                           |               |                                       | s                           |
| (3)      | Long-Term Debt                                | D             |                                       | d                           |
| (4)      | Preferred Stock                               | P             |                                       | p                           |
| (5)      | Common Equity                                 | C             |                                       | c                           |
| (6)      | Total Capitalization                          |               | 100%                                  |                             |
| (7)      | Average Construction Work in Progress Balance | W See Note:   |                                       |                             |

2. Gross Rate for Borrowed Funds  $s(S/W) + d((D/(D+P+C)) (1-(S/W)))$

3. Rate for Other Funds  $[1-(S/W)][p/(D+P+C) + c(C/(D+P+C))]$

4. Weighted Average Rate Actually Used for the Year:

- a. Rate for Borrowed Funds -
- b. Rate for Other Funds -

Note: The average AFUDC rate for Spire Missouri West:

October 2019 - September 2020

Annual Rate  
1.4 %

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4. *Overhead construction costs.* A. All overhead construction costs, such as engineering, supervision, general office salaries and expenses, construction engineering and supervision by others than the accounting utility, law expenses, insurance, injuries and damages, relief and pensions, taxes and interest, shall be charged to particular jobs or units on the basis of the amounts of such overheads reasonably applicable thereto, to the end that each job or unit shall bear its equitable proportion of such costs and that the entire cost of the unit, both direct and overhead, shall be deducted from the plant accounts at the time the property is retired.

B. As far as practicable, the determination of pay roll charges includible in construction overheads shall be based on time card distributions thereof. Where this procedure is impractical, special studies shall be made periodically of the time of supervisory employees devoted to construction activities to the end that only such overhead costs as have a definite relation to construction shall be capitalized. The addition to direct construction costs of arbitrary percentages or amounts to cover assumed overhead costs is not permitted.

C. The record supporting the entries for overhead construction costs shall be so kept as to show the total amount of each overhead for each year, the nature and amount of each overhead expenditure charged to each construction work order and to each utility plant account, and the bases of distribution of such costs.

USOA General Plant Instructions, Section 3 Components of Construction Costs, item 4; Overhead Costs.

**39**

**See 37**

**40**

**See 37**

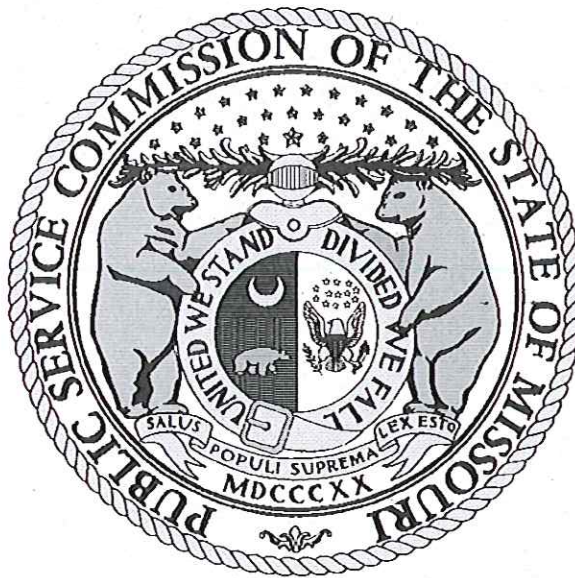
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**MISSOURI PUBLIC SERVICE COMMISSION**

**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           **G. Capitalization Policy**

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

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

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

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<sup>65</sup> Additional accounting guidance for certain costs can be found in the descriptions of specific plant and expense accounts.

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**See 37**

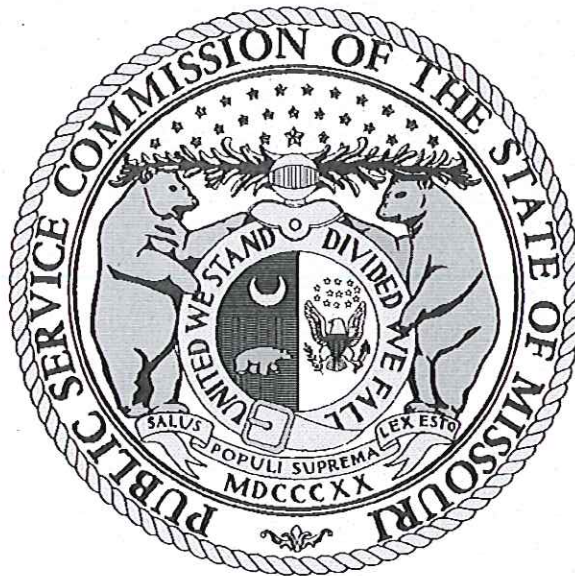
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# MISSOURI PUBLIC SERVICE COMMISSION

## 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 | there are costs currently capitalized by Spire that appear to conflict with the guidance set forth in  
2 | the USOA. Staff recommends the Commission order Spire to cease capitalizing non-operational  
3 | overhead costs, or as an alternative order Spire to cease capitalizing costs received from Spire  
4 | Inc.'s Shared Services entity, until such a time Spire can demonstrate the nature and quantity of  
5 | capitalized overhead costs and show the relationship between indirect costs and construction  
6 | projects of Spire East and Spire West in order to justify that the capitalized portion of overheads  
7 | is equitable. To align Staff's calculated revenue requirement with a Commission Order on this  
8 | matter, Staff further recommends the Commission order Staff's accounting adjustments to reflect  
9 | the Commission's order on Spire's capitalization policy. For clarity, Staff recommends that should  
10 | the Commission adopt Staff's recommendation, Spire should implement changes in overhead  
11 | capitalization prospectively from the effective date of tariffs from this rate case.

12 | *Staff Expert/Witness: Matthew R. Young*

#### 13 | **H. Cash Working Capital (CWC)**

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

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

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

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

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See 43