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**DIRECT TESTIMONY**

**OF**

**ANGELA SCHABEN**

**SPIRE MISSOURI INC.**

**CASE NO. GR-2022-0179**

**INTRODUCTION**

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

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

**Q. What are your qualifications and experience?**

A. Please refer to the Schedule ADS-d1 attached hereto.

**Q. Have you testified previously before the Missouri Public Service Commission?**

A. I have prepared and submitted pre-filed testimony, but I have not yet been called to testify before the Commission. Please refer to the Schedule ADS-d2 attached hereto.

**Q. What is the purpose of your testimony?**

A. The purpose of my testimony is to address issues related to corporate allocations based on shared service functions. Additionally, there are concerns that Spire’s shared service model is inappropriately billing regulated customers too much for non-regulated services.

**Q. Would you explain which company or companies you are referring to when you address Spire or “the Company” in this testimony?**

A. All references made to “the Company” is intended for either Spire, Inc. or Spire Missouri, Inc.

1 **Q. Please summarize your recommendations as presented in the subsequent testimony.**

2 A. The Spire, Inc. parent company is not assigned a reasonable share of corporate costs through  
3 the current corporate shared services function distribution. My recommendation to the  
4 Commission is a reasonable adjustment to account for goods and services Spire Inc. and other  
5 Spire affiliates received resulting from corporate shared service functions. Additionally, the  
6 costs to Spire Missouri East and Spire Missouri West allocated through shared service  
7 functions in this rate case should be adjusted to account for Spire's planned project of moving  
8 shared service cost center groups from Spire Missouri and other Spire utilities to Spire Services  
9 on January 1, 2023.

10 **CORPORATE ALLOCATIONS**

11 **Q. Please describe how Spire Shared Services, Inc. operates, from your understanding.**

12 A. Spire Shared Services, Inc. is utilized to distribute shared services costs between Spire Inc.  
13 affiliates based on predetermined and defined allocators.

14 **Q. Does Spire Missouri have a documented process to identify what goods and services  
15 qualifies as a benefit to Spire affiliates?**

16 A. Based on the Company's response to OPC DR 1115, the "shared service model used by Spire  
17 Missouri and its affiliates for over a half decade now" and "such benefits were extensively  
18 analyzed and quantified in the Direct Testimony of Thomas J. Flaherty in Case No. GR-  
19 2017-0215. The mechanics of how this process works and ultimately results in such benefits  
20 is further documented and assured by the Company's implementation of the costing, pricing  
21 and allocation principles in its Cost Allocation Manual and other applicable affiliate rules  
22 and standards.

1 **Q. To which corporate shared services are you referencing when you refer to shared services**  
2 **by corporate function?**

3 A. I am referring to the Spire, Inc. company-wide shared services found on page five of the  
4 confidential shared services descriptions provided in response to Staff DR 0037.

5 **Q. Please list the corporate shared services functions specific to Spire as listed in response**  
6 **to Staff DR 0037.**

7 A. The Spire corporate shared services listed are as follows: \*\*

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1 **Q. How are these company-wide shared service functions allocated between Spire and its**  
2 **affiliates?**

3 A. \*\* \_\_\_\_\_  
4 \_\_\_\_\_  
5 \_\_\_\_\_  
6 \_\_\_\_\_ \*\*1

7 **Q. Are these corporate shared service functions similar to the Spire Missouri service**  
8 **functions that provide support to Spire Inc. affiliates and the holding company?**

9 A. Based on information provided by the Company in response to Staff DR 0014, Spire Missouri  
10 employees provide services that benefit the entire company at the corporate level. The  
11 organizational structure of Spire East in particular consists of considerably more positions  
12 providing services benefiting the corporation as a whole, yet the cost of providing these  
13 services is not appropriately assigned to the Spire parent company.

14 **Q. Please explain.**

15 A. The table below provides several examples of current Spire Missouri employee functions and  
16 sub-functions that should be currently provided under the corporate shared service model.<sup>2</sup> In  
17 this example, Spire Missouri East is assigned a higher number of full time employees (“FTE”)  
18 to certain shared services functions than Spire Missouri West. This is particularly noticeable  
19 in certain corporate communications, finance, and leadership positions that are assigned 100%  
20 to Spire Missouri East under Spire Missouri’s current organizational structure. \*\*

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<sup>1</sup> Page 4 of the [confidential shared services descriptions fy22.pptx](#) document provided in response to Staff DR 0037.

<sup>2</sup> According to the Company’s response to Staff DR 0014, as of 03/31/2022, Spire Missouri’s organizational listing is comprised of 2,450 employees, with 1,777 assigned to Missouri East and 673 assigned to Missouri West. This table only provides a sample of 149 Spire Missouri employee assignments with 135 assigned to Missouri East and 14 assigned to Missouri West.

Direct Testimony of  
Angela Schaben  
File No. GR-2022-0179

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1 **Q. Considering that the Spire Missouri employee function sample above assigns**  
2 **considerably more Spire Missouri East employees to corporate level functions and sub-**  
3 **functions, would this potentially lend bias to certain corporate allocation factors utilized**  
4 **in the allocations of indirect costs?**

5 A. Yes. Allocations derived from FTE head counts, based on the example above would  
6 disproportionately assign more costs to Spire Missouri East.

7 **Q. Can you provide examples of these allocation factors?**

8 A. Yes. Prospective examples include the allocator utilized for allocating square footage costs,  
9 the employee/head count allocation, and potentially the 3 factor corporate allocation and IT 3  
10 factor allocation, depending on how payroll for these employees is processed.

11 **Q. So even though the Spire's shared service model has been utilized for "over a half decade**  
12 **now", do you believe that shared services are currently allocated sufficiently by corporate**  
13 **function between Spire Missouri and other Spire Inc. affiliates, to include the parent**  
14 **company?**

15 A. Not at this time. The Spire corporate shared services functions listed above are functions that  
16 benefit the entire corporation, including the parent company. Based on the most recent cost  
17 allocation report provided by the Company in December 2021, a disproportionate amount of  
18 costs are assigned to Spire Missouri while a minimal amount is assigned to the parent company  
19 even though certain shared functions are carried out to achieve success for the entire  
20 corporation rather than the individual operating companies.

21 **Q. Please describe the difference between shared service functions provided at the corporate**  
22 **level versus shared service functions provided at the operating company level.**

23 A. Corporate level shared service functions would include long term strategic planning, a variety  
24 of financial functions relating to SEC filings, investor relations, income tax preparation,

1 corporate communications, and a range of other functions. Officers and executive  
2 management at the corporate level should oversee the strategic planning for Spire Inc. as a  
3 whole, which should include optimal long term strategic planning for each operating company  
4 and inter-company relations. This type of planning would require knowledge of each operating  
5 company and how the management decisions relating to each operating company benefit the  
6 corporation's financial position as a whole. According to Spire Inc.'s corporate organization  
7 chart, Spire Missouri, Inc., Spire Alabama, Inc., Spire EnergySouth, Inc., Spire Gulf, Inc., and  
8 Spire Mississippi, Inc., are all gas utility companies under the Spire, Inc. parent corporate  
9 umbrella. The overall strategic planning and management business decisions made at the  
10 Spire, Inc. parent company level should consider subsequent ramifications between its gas  
11 utility operating companies operations and effects on the overall corporate financial health  
12 current, and potential, investors are analyzing.

13 **Q. Should the Company reconsider how it's allocating corporate shared services?**

14 A. Yes. The Spire parent company should incur its fair share of the indirect costs related to  
15 managing the corporate entity as a whole. Spire Inc.'s tax return shows operating costs in  
16 several categories. If Spire Inc.'s tax return reports operating costs for income tax purposes,  
17 these operating costs should be allocated properly when setting rates.

18 **Q. To which costs are you referring?**

19 A. The consolidated schedules of the Company's tax return shows \*\*\_\_\_\_\_ \*\* in salaries and  
20 wages under the Spire, Inc. parent. Depreciation in the amount of \*\*\_\_\_\_\_ \*\* is also  
21 reported under the Spire Inc. consolidated tax return schedule. Additionally, the consolidated  
22 schedules also show \*\*\_\_\_\_\_ \*\* allocated only under Spire Missouri for the compensation  
23 of officers. Officer compensation should be allocated across the entire corporation or charged  
24 to Spire Inc., and should not just fall under Spire Missouri.

1 **Q. Spire Inc. reports income and deductions on its tax return<sup>3</sup> related to income from “gross**  
2 **receipts or sales” and deductions from “salaries and wages”. What does this imply?**

3 A. The reporting of “gross receipts or sales”, “salaries and wages”, and depreciation of fixed assets  
4 suggests that Spire Inc. should be allocated costs based on the three-factor formula which is  
5 one allocation method utilized by the Company to assign indirect costs. The three-factor  
6 formula is calculated based on fixed assets, revenues, and direct payroll.

7 **Q. Is Spire Inc. allocated costs based on the three-factor formula?**

8 A. No. According to Company witness Timothy W. Krick in GR-2021-0108, Spire Inc.’s  
9 “purpose is to merely own shares of other companies. Therefore, it receives no allocation of  
10 such costs.”<sup>4</sup>

11 **Q. If Spire Inc.’s purpose is to “merely own shares of other companies”, why did it report**  
12 **taxable income and deductions on its tax return?**

13 A. I am not certain.

14 **Q. The financial condition of Spire Inc., as a whole, clearly relies on the corporate shared**  
15 **service functions currently carried out by its various gas utility operating companies. If**  
16 **Spire Inc. is not charged adequate costs for the goods and services it receives from its**  
17 **affiliate gas utility companies, does this violate any Commission rules?**

18 A. The fact that Spire Inc. is not assigned adequate costs for corporate shared service function  
19 goods and services, indicates that the Company is violating 20 CSR 4240-40.015(2)(A) of the  
20 Commission’s affiliate transaction rule. Essentially, “Spire Missouri has developed and  
21 implemented a system where rates charged to Spire Missouri’s customers include the costs  
22 of goods and services provided to Spire Missouri’s parent company, Spire Inc. Spire

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<sup>3</sup> Confidential schedule ADS-d3, page 2.

<sup>4</sup> Rebuttal Testimony of Timothy W. Krick, File No. GR-2022-0108, Page 8, lines 9-13

1 Missouri is therefore providing financially advantageous and preferential treatment to Spire  
2 Inc.”<sup>5</sup>

3 **Q. Would modifying how the corporate shared services functions and cost groups operate**  
4 **rectify the apparent violation of the Commission’s affiliate transaction rule?**

5 A. Possibly. In fact, as reported in Spire’s Status Report on Employee Transfer<sup>6</sup> submitted July  
6 27, 2022, the Company indicates that “Spire has engaged with a vendor to set up the new  
7 payroll groups identified for Spire Services. A project manager is working with the cross-  
8 functional team to oversee the scope of work, track with the project plan, and ensure  
9 impacted business process are identified”. Fair distribution of the cost of goods and services  
10 Spire Inc. receives through the corporate shared service functions, through new payroll  
11 groups, minimizes Spire Inc.’s financial advantage at the expense of its affiliates.

12 **Q. Is the Company in the process of re-evaluating the corporate shared services functions**  
13 **and cost groups?**

14 A. The Company’s response to OPC data request number 1113 indicates that “Spire Services  
15 does not have its own employees presently. However, there is a project underway that will  
16 move certain shared services cost center groups from Spire Missouri and other Spire utilities  
17 to Spire Services on January 1, 2023.”

18 **Q. Would indirect costs be more accurately allocated if certain shared services cost center**  
19 **groups were moved from Spire Missouri and other Spire utilities to Spire Services?**

20 A. Potentially. This depends on which cost center groups were moved and the updated allocation  
21 factor formulas. A rate case is occurring now. Spire is acknowledging a project liable to affect  
22 rates, and this project is anticipated to take place in January 2023, just beyond the true-up

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<sup>5</sup> Rebuttal Testimony of Robert E. Schallenberg, File No. GR-2021-0108, pg. 10 lns. 10 – 13

<sup>6</sup> [gr-2021-0108 spire employee transfer update july update 7-27-22.pdf](#)

1 period of the current rate case. The company should provide details on the monetary impact  
2 this proposed project of moving cost center groups to Spire Services on January 1, 2023 will  
3 potentially affect rates, before new rates are even set. The rates set from this rate case should  
4 be adjusted to reflect monetary impacts resulting from the appropriate shift of employees from  
5 Spire Missouri and other affiliated utility gas operating companies to Spire Services.

6 **Q. Will this proposed project also assist in the calculation of a more precise information**  
7 **technology allocator for projects that benefit the entire corporation, to include the parent**  
8 **company?**

9 A. Possibly. If information technology and/or software projects cannot be directly assigned to a  
10 specific business unit because integration benefits the entire corporation, then the indirect  
11 allocation of these projects should also include Spire, Inc.

12 **Q. What is your recommendation to the Commission?**

13 A. Spire Missouri's shared service cost burden is high because Spire, Inc. is not assigned a  
14 reasonable share of corporate costs. The Company plans on moving shared service cost center  
15 groups from Spire Missouri and other Spire utilities to Spire Services on January 1, 2023,  
16 outside of the current rate case. This action shifts employee shared service functions from  
17 Spire Missouri to Spire Services which would affect consumer rates. I recommend the  
18 Commission adjust this rate case based on this project's monetary impact on Spire Missouri  
19 customer rates. If Spire Missouri's shared service cost burden remains disproportionate after  
20 specific cost center groups are moved to Spire Services, then I would recommend the use of a  
21 time study to accurately determine the amount of time that Spire Missouri employees spend on  
22 corporate shared service activities that benefit the corporate financial position. A time study  
23 could reasonably determine the level of costs that should be allocated to Spire, Inc. based on  
24 the employee time spent on specific corporate shared service functions.

1 **Q. Do you have any additional recommendations to the Commission regarding affiliate**  
2 **transactions?**

3 A. The costs to Spire Missouri East and Spire Missouri West allocated to shared services in this  
4 rate case should be adjusted to account for the shift of employees resulting from Spire's project  
5 of moving shared service cost center groups on January 1, 2023. Currently, I'm still in the  
6 process of reviewing discovery. However, I expect to provide specific dollar amounts relating  
7 to transactions between Spire, Inc. and its regulated and non-regulated entities in rebuttal  
8 testimony to support additional adjustments.

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

10 A. Yes.

