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Witness: Matthew R. Young
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MISSOURI PUBLIC SERVICE COMMISSION
FINANCIAL AND BUSINESS ANALYSIS DIVISION
AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

MATTHEW R. YOUNG

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

CASE NO. GR-2022-0179

Jefferson City, Missouri
October 2022

**** Denotes Confidential Information ****

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1 **REBUTTAL TESTIMONY OF**

2 **MATTHEW R. YOUNG**

3 **SPIRE MISSOURI, INC., d/b/a Spire**

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

5 Q. Please state your name and business address.

6 A. My name is Matthew R. Young. My business address is 615 E. 13th Street,
7 Room 201, Kansas City, Missouri, 64105.

8 Q. Are you the same Matthew R. Young that filed direct testimony on August 31,
9 2022 in this proceeding?

10 A. Yes I am.

11 **EXECUTIVE SUMMARY**

12 Q. What is the purpose of your rebuttal testimony?

13 A. I will respond to the direct testimony of Spire Missouri’s witness Eric Bouselli
14 regarding the recovery of deferred overhead costs.

15 Q. What is Staff’s position on the recovery of deferred overheads?

16 A. Staff recommends recovery of deferred overheads that are related to capital
17 projects¹, but does not support the recovery of deferred overhead costs that are not related to
18 capital projects, including the overheads that were deferred in Spire Missouri’s Infrastructure
19 System Recovery Surcharge (“ISRS”) case, Case No. GO-2022-0171.

20 Q. Why does Staff not recommend cost recovery of deferred overheads that are not
21 related to capital projects?

¹ Staff recommends a 15 year recovery period of deferred capital overhead costs.

1 A. As explained in more detail below, granting cost recovery of deferred O&M
2 overheads would only satisfy the interests of Spire Inc. and the financial institutions interested
3 in Spire Inc.'s level of earnings. Staff's position is that the Missouri Public Service
4 Commission's ("Commission") general purpose, and the direction provided by the Commission
5 in prior dockets, indicates that the interest of the ratepayers should be the basis of cost recovery.
6 Since the O&M overheads were deferred because of Spire Missouri's imprudent historical
7 capitalization methodologies, it is appropriate and reasonable to deny cost recovery.

8 **DEFERRED OVERHEAD ASSET**

9 Q. Please define the deferred overhead asset.

10 A. Spire Missouri established a regulatory asset in FERC account 182.753 to
11 comply with the Commission's *Amended Report and Order* issued in Spire Missouri's previous
12 rate case, Case No. GR-2021-0108. Spire Missouri is using this asset to defer three separate
13 buckets of overhead costs for consideration in the current rate case. The three buckets of
14 overheads are 1) overhead costs related to capital projects, 2) overhead costs related to O&M
15 expenses and, 3) overhead costs that were deferred from Spire Missouri's ISRS case, Case No.
16 GO-2022-0171 for consideration in this rate case.

17 Q. What did the Commission order in Spire Missouri's previous rate case?

18 A. In Case No. GR-2021-0108 the Commission ordered that Spire Missouri shall
19 cease recovery of *all* non-operational overheads, irrespective of the relationship of the
20 overheads to capital or expense, until it can show compliance with the Uniform System of
21 Accounts ("USOA").

22 Q. What implications does the Commission's decision have on the recovery of
23 deferred costs?

1 A. The Commission’s decision caused Spire Missouri to defer non-operational
2 overheads into a regulatory asset regardless of the prudence, amount, type, or basis of allocation
3 of the costs. Now that Staff has completed its audit of overhead capitalization and Spire
4 Missouri’s compliance with the USOA has been analyzed and applied to overhead
5 capitalization methodologies, the parties can now present recommendations on the appropriate
6 cost recovery of the overheads deferred.

7 **DEFERRED CAPITAL OVERHEADS**

8 Q. What are deferred capital overheads?

9 A. Deferred capital overheads are Administrative & General (“A&G”) overhead
10 costs (e.g. A&G labor, payroll benefits, insurance, etc.) that have been shown to have a
11 relationship to construction activity. However, in order to comply with the Commission’s order
12 in Spire Missouri’s previous rate case, these capital costs were not capitalized as they typically
13 would have been.

14 Q. Do Staff and Spire Missouri agree on the cost recovery of deferred capital
15 overheads?

16 A. I believe there is an agreement on the amount, but not on the recovery period.
17 Staff and Spire Missouri agree that there should be cost recovery for overheads that were shown
18 to be related to construction but have different recommendations on how long the recovery
19 period should be for these costs.

20 Q. How do Staff’s and Spire Missouri’s proposals differ on the time period to
21 recover deferred capital overhead?

1 A. Staff recommends a 15 year recovery period for deferred capital overheads
2 which is longer than Spire Missouri's proposal of a two year recovery period of the total
3 deferred overhead asset.²

4 Q. Is a two year recovery period appropriate to apply to the deferred capital
5 overheads?

6 A. No, because the underlying costs are related to capital projects. If the capital
7 costs had been included in plant in service instead of deferred into a regulatory asset, those
8 costs would have been recovered through depreciation expense, which is determined by the
9 life of the asset within each individual plant account. Some of Spire Missouri's plant
10 accounts are depreciated over an 80 year expected life. However, the overheads were
11 deferred into a regulatory asset so some discretion is allowed when deciding an appropriate
12 amortization period.

13 Q. What is Staff's recommendation on the length of cost recovery?

14 A. Staff chose to amortize the deferred capital overheads over a 15 year period.
15 Staff selected this period as a reasonable recovery period that is between what could be called
16 the extreme recovery periods of 80 years and two years.

17 Q. Is Spire Missouri still deferring capital overhead costs to the regulatory asset?

18 A. No. On September 30, 2022 *Spire Missouri's Notice of Intent to Resume*
19 *Capitalization of Certain Overheads* was filed in this rate case. Spire Missouri explained that
20 on October 1, 2022 it will cease deferring capital overheads.

² Bouselli direct, page 22.

1 **DEFERRED O&M OVERHEADS**

2 Q. What are deferred O&M overheads?

3 A. Deferred O&M overheads are overheads that were historically capitalized before
4 Spire Missouri's prior rate case, but were found to be O&M in nature during the post-rate case
5 overhead audit. Spire Missouri has deferred O&M overheads incurred after December 23, 2021³
6 into the regulatory asset for consideration in this rate case.

7 Q. Did the Commission authorize the deferral of O&M overheads?

8 A. No, the Commission did not specifically allow for the deferral of O&M
9 overheads. On page 82 of the *Amended Report in Order* in the prior rate case, the
10 Commission ordered:

11 Non-operational overheads **associated with plant additions** to be
12 recognized as used and useful after the effective date of Spire Missouri's
13 tariff sheets may be posted to a regulatory asset account. [Emphasis
14 added.]

15 This order indicates that only deferred capital overheads are allowed to be held in a
16 regulatory asset. However, page 83 of the *Amended Report and Order* states:

17 The potential recovery of any of the disallowed capitalized non-
18 operational overheads as expenses that remain in the regulatory asset
19 account through the test year, update or true-up period of Spire
20 Missouri's next rate case will be reviewed by the Commission during
21 that rate case.

22 Q. How does this portion of the Commission's direction apply to deferred O&M
23 overheads?

24 A. Due to the nature of the amended test year in this case, all of the O&M overheads
25 that the Commission disallowed are eligible for consideration in this case. In other words, all

³ Effective date of rates in Case No. GR-2021-0108.

1 O&M overheads Spire Missouri has incurred falls within the amended test year, update or
2 true-up period of the current case.

3 Q. Do Staff and Spire Missouri agree on the recovery of deferred O&M overheads?

4 A. No. Spire Missouri recommends including the deferred O&M overheads in rate
5 base along with the deferred capital overheads, and amortizing the total asset over two years.
6 Staff's position is that the deferred O&M overheads exist only because Spire Missouri used
7 imprudent overhead capitalization methodologies, so there should be no recovery of deferred
8 O&M overheads.

9 Q. When you say imprudent overhead capitalization methodologies, what is the
10 standard for a prudent overhead capitalization methodology?

11 A. A prudent overhead capitalization methodology reflects the obligation of
12 a public utility to use the information available to make decisions that are in the best interest
13 of the public. Prudent decisions do not require clairvoyance or perfection but the
14 prudence standard does require avoidance of causing financial harm to individuals not in
15 control of decisions.

16 Q. In your opinion, would a prudent utility follow the USOA requirements for
17 capitalization of overheads?

18 A. Yes. In my opinion, a prudent utility would only capitalize the appropriate
19 amount of costs that are related to capital projects.

20 Q. Did the Commission find in Case No. GR-2021-0108 that Spire Missouri
21 followed the USOA requirements for capitalization of overheads?

1 A. No. In Case No. GR-2021-0108 the Commission decided it had, "... no choice
2 but to find that Spire Missouri has failed to meet its burden that it is in compliance with USOA
3 Gas Plant Instructions and properly capitalizing overheads."⁴

4 Q. If the Commission decides that the deferred O&M overhead costs should be
5 recovered by Spire Missouri in this case, is a two year recovery period appropriate for deferred
6 O&M overheads?

7 A. Given that the underlying costs are expenses in nature and rates theoretically
8 reimburse utilities for expenses as they are incurred, a shorter recovery period may be
9 appropriate if recovery is approved. Currently, Staff expects Spire Missouri to file its next rate
10 case three years after the conclusion of the current case, so a three year amortization period
11 would be more appropriate. However since these costs are deferred into a regulatory asset, some
12 discretion on the recovery period is allowed.

13 Q. Why does Spire Missouri recommend the Commission approve recovery of
14 deferred O&M overheads?

15 A. Spire Missouri claims that the deferred O&M overheads, "...are prudent and
16 needed to operate [the] Company's business and it is appropriate for the Company to recover
17 those costs through the cost of service."⁵ Also, Spire Missouri states that, "[t]he Commission's
18 approval of the recovery of the regulatory asset authorized in Case No. GR-2021-0108 should
19 mitigate the concerns raised by [the Wells Fargo Securities' Utility and Infrastructure Team
20 and Bank of America's Global Research Team] and help avoid further adverse consequences
21 that might harm customers, like a credit downgrade."⁶

⁴ Case No. GR-2021-0108 *Amended Report and Order*, page 82.

⁵ Bouselli direct, page 22.

⁶ Bouselli direct, page 23.

1 Q. What concerns is Spire Missouri referring to?

2 A. Spire Missouri is referring to the financial community's analyses of the
3 Commission's decisions in Spire Missouri's prior rate case. In summary, Spire Missouri has
4 generally advised the Commission that its decision may cause an adverse reaction in the capital
5 markets and degrade the financial community's opinion of utility regulation in Missouri.

6 Q. Is the Commission's purpose to issue decisions that improve investor's
7 confidence in Missouri utilities?

8 A. No. The Commission exists to protect ratepayers from monopolistic utilities, not
9 to attract investors. This statement should not be interpreted to mean that the Commission
10 should not consider the ramifications of its decisions in the financial community because
11 ratepayers certainly benefit from a financially healthy utility. The Commission articulated its
12 purpose recently in its *Report and Order* for Kansas City Power & Light's rate case, Case No.
13 ER-2010-0355:

14 The Commission's guiding purpose in setting rates is to protect the
15 consumer against the natural monopoly of the public utility, generally
16 the sole provider of a public necessity. "[T]he dominant thought and
17 purpose of the policy is the protection of the public . . . [and] the protection
18 given the utility is merely incidental." However, the Commission must
19 also afford the utility an opportunity to recover a reasonable return on
20 the assets it has devoted to the public service. [footnotes omitted]

21 Q. Did the Commission's decision in Spire Missouri's prior rate case accomplish
22 its guiding purpose?

23 A. Yes. Since the Commission found that Spire Missouri was not in compliance
24 with the USOA, it protected consumers by halting recovery of non-operational overhead costs
25 until USOA compliance was shown. The Commission's decision protected ratepayers from
26 paying a rate of return on an inflated rate base investment.

1 Q. Why does Staff recommend denying recovery of deferred O&M overheads?

2 A. In the prior rate case, the Commission found that Spire Missouri was not in
3 compliance with the USOA regarding the capitalization of overheads. Despite Spire Missouri's
4 non-compliance, the Commission declined to retroactively remove non-operational overheads
5 from rate base in Case No. GR-2021-0108 but did decide to correct capitalization
6 methodologies going forward. Spire Missouri's departure from the USOA was further revealed
7 when PwC shared the results of its first two labor studies of the relationship between
8 construction and A&G employees.⁷ Spire Missouri's request to recover deferred O&M
9 overheads is essentially a request to recover expenses that were not reflected in the cost of
10 service because, "...Spire Missouri has failed to meet its burden that it is in compliance with
11 USOA Gas Plant Instructions and properly capitalizing overheads."⁸

12 Q. Is Staff asserting that the deferred O&M overheads are imprudent in any way?

13 A. No, Staff is not stating the costs themselves were imprudently incurred. In the
14 current case, Staff made adjustments to increase the test year O&M expenses in order to reflect
15 ongoing prudently incurred overhead costs. However, Staff is asserting that Spire Missouri's
16 former capitalization methodologies imprudently assigned O&M costs to rate base. This
17 imprudence is the heart of the reason why the Commission should deny recovery of the deferred
18 past O&M overheads.

19 Q. What evidence do you have that Spire Missouri's capitalization methodologies
20 were imprudent?

⁷ PwC is expected to complete its third and final labor study in September 2022.

⁸ Case No. GR-2021-0108 *Amended Report and Order* page 82.

1 A. The substantial change in the A&G labor overhead capitalization rate is strong
2 evidence that Spire Missouri's historical methodologies were imprudent. Subsequent to Spire
3 Missouri's prior rate case, it hired PwC to provide an independent third party review of how
4 much A&G labor is related to capital activities. PwC's preliminary findings prove that Spire
5 Missouri's historical capitalization rates of approximately ** [REDACTED]
6 [REDACTED] ** were too high. PwC's results, which are based on time studies, indicate that a
7 more appropriate capitalization rate is around ** [REDACTED]⁹ **. The drastic change shows the
8 imprudence of Spire Missouri's historical capitalization methodology.

9 Q. How long has Spire Missouri utilized its historical capitalization methodologies?

10 A. Spire Missouri's testimony in the prior rate case was that the underlying and
11 fundamental overhead capitalization approach has been consistent for decades.¹⁰

12 **DEFERRED ISRS OVERHEADS**

13 Q. What are the deferred ISRS overheads?

14 A. Spire Missouri's ISRS Case No. GO-2022-0171 included plant placed in-service
15 in between June 1, 2021 and December 31, 2021. In compliance with the Commission *Amended*
16 *Report and Order*, Spire Missouri did not include non-operational overheads incurred as of
17 December 23, 2021. However, overheads were booked to plant under Spire Missouri's
18 historical methodology prior to December 23, 2021. Staff made an adjustment to remove A&G
19 labor overheads from the June 1, 2021 through December 22, 2021 ISRS plant in its ISRS
20 recommendation. Note that Staff's adjustment did not attempt to adjust the remainder of the
21 A&G overheads (such as payroll benefits, insurance, IT expense, etc.) in the ISRS plant.

⁹ PwC's final findings on the A&G transfer rate will be known by true-up.

¹⁰ Timothy W. Krick Rebuttal testimony, page 10. Case No. GR-2021-0108.

1 Ultimately, the case was stipulated by the parties. One portion of the stipulation allowed
2 for Spire Missouri to defer an amount equal to Staff's overhead adjustment for consideration in
3 the current case, hence the deferral in the current overhead regulatory asset.

4 Q. How does Spire Missouri propose to treat these deferred ISRS overheads?

5 A. Spire Missouri includes the ISRS deferral in the overall overhead regulatory
6 asset, and amortizes the total cost over two years.

7 Q. Does Staff support cost recovery of deferred ISRS overheads?

8 A. No. These costs are subject to the same analysis Staff presented for deferred
9 O&M costs. The primary difference between deferred ISRS overheads and deferred O&M
10 overheads is the timeline. The deferred ISRS overheads were incurred June 1, 2021 through
11 December 22, 2021 while the deferred O&M overheads were incurred December 23, 2021
12 and beyond. Like the O&M overheads, the deferred ISRS overheads exist only because
13 Spire Missouri's historical capitalization methodologies imprudently assigned A&G labor to
14 capital projects.

15 **CONCLUSION**

16 Q. Will you please summarize your recommendations for the Commission?

17 A. Yes.

- 18 • I recommend that the Commission approve recovery of deferred capital
19 overheads and the recovery period should be set for fifteen years.
- 20 • I recommend that the Commission deny recovery of deferred O&M
21 overheads because they are a result of imprudent capitalization
22 methodologies.

Rebuttal Testimony of
Matthew R. Young

1 • I recommend that the Commission deny recovery of deferred ISRS
2 overheads because they are also a result of imprudent capitalization
3 methodologies.

4 Q. Does this conclude your rebuttal testimony?

5 A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Spire Missouri, Inc.)
d/b/a Spire's Request for Authority to)
Implement a General Rate Increase for)
Natural Gas Service Provided in the)
Company's Missouri Service Areas) Case No. GR-2022-0179

AFFIDAVIT OF MATTHEW R. YOUNG

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW MATTHEW R. YOUNG and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Rebuttal Testimony of Matthew R. Young*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Matt Young

MATTHEW R. YOUNG

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 4th day of October 2022.

M. Ridenhour

Notary Public



M. RIDENHOUR
My Commission Expires
July 22, 2023
Platte County
Commission #19603483