

*Exhibit No.:*  
*Issue(s):* Capitalized Overheads  
*Witness:* Matthew R. Young  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Direct Testimony  
*Case No.:* GR-2022-0179  
*Date Testimony Prepared:* August 31, 2022

**MISSOURI PUBLIC SERVICE COMMISSION**  
**FINANCIAL AND BUSINESS ANALYSIS DIVISION**  
**AUDITING DEPARTMENT**

**DIRECT TESTIMONY**  
**Revenue Requirement**

**OF**

**MATTHEW R. YOUNG**

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

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

*Jefferson City, Missouri*  
*August 2022*

**TABLE OF CONTENTS OF  
DIRECT TESTIMONY OF  
MATTHEW R. YOUNG  
SPIRE MISSOURI, INC., d/b/a Spire  
CASE NO. GR-2022-0179**

1  
2  
3  
4  
5  
6  
7  
8  
9

**EXECUTIVE SUMMARY .....1**

**CAPITALIZED OVERHEADS – BACKGROUND .....2**

**CAPITALIZED OVERHEADS – ONGOING EXPENSE .....4**

**CAPITALIZED OVERHEADS – REGULATORY ASSET .....5**

1 **DIRECT 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. 13<sup>th</sup> Street,  
7 Kansas City, Missouri, 64105.

8 Q. By whom and in what capacity are you employed?

9 A. I am a Utility Regulatory Audit Unit Supervisor on the Staff of the Missouri  
10 Public Service Commission (“Staff”).

11 Q. Please describe your educational background and experience.

12 A. I earned a Bachelor of Liberal Arts from The University of Missouri – Kansas  
13 City in May 2009 and a Master of Science with an emphasis in Accounting, also from  
14 The University of Missouri – Kansas City, in December 2011. I have been employed by the  
15 Missouri Public Service Commission (“Commission”) since July 2013. During this time I have  
16 conducted a variety of audits, which are listed in Schedule MRY-d1.

17 Q. What are your responsibilities?

18 A. I perform rate audits and prepare miscellaneous filings for consideration by the  
19 Commission. I review exhibits and testimony on assigned issues, develop accounting  
20 adjustments and issue positions, which are supported by workpapers and testimony. For cases  
21 that do not require testimony, I prepare Staff recommendation memorandums.

22 **EXECUTIVE SUMMARY**

23 Q. What is the purpose of your direct testimony?

1           A.     In this testimony, I will present and describe Staff’s adjustments to Spire  
2 Missouri’s cost of service to account for the impacts of the overhead audit ordered by the  
3 Commission in Spire Missouri’s prior rate case, Case No. GR-2021-0108. Staff recommends  
4 adjusting the test year in the current case to recognize Spire Missouri’s revised capitalization  
5 methodologies. Staff also recommends that the Commission approve recovery of Spire  
6 Missouri’s deferred overhead costs that are related to construction but currently are not  
7 capitalized per the Commission’s Order.<sup>1</sup> Lastly, Staff recommends that the overhead  
8 regulatory asset be amortized over a 15 year period.

9           **CAPITALIZED OVERHEADS – BACKGROUND**

10           Q.     What are capitalized overheads?

11           A.     Capitalized overheads are the portion of total overhead costs that are related to  
12 construction activities. Spire Missouri collects overhead costs in cost pools and then books the  
13 overhead costs to the income statement and balance sheet based on their underlying cost drivers.  
14 The portion of overheads booked to the balance sheet (e.g. plant-in-service) are capitalized  
15 overheads.

16           Q.     Have there been any recent disputes before the Commission regarding Spire  
17 Missouri’s capitalized overheads?

18           A.     Yes. Capitalized overheads was in the scope of several recent proceedings,  
19 beginning with Spire Missouri’s Infrastructure System Replacement Surcharge (“ISRS”) Case  
20 Nos. GO-2019-0115 and GO-2019-0116. In the most recent rate case, the Commission heard  
21 recommendations from Staff, The Office of the Public Counsel (“Public Counsel”), and Spire  
22 Missouri regarding capitalized overheads and issued an *Amended Report and Order*. I have

---

<sup>1</sup> See *Amended Report and Order*, Case No. GR-2021-0108.

1 attached to this testimony as MRY-d2 an excerpt of this Order that is pertinent to capitalized  
2 overheads. Also attachment MRY-d3 is the Commission's *Order Denying Applications for*  
3 *Rehearing and Providing Clarification* which addressed capitalized overheads.

4 Q. Please summarize the Commission's decision in its *Amended Report and Order*  
5 regarding Spire Missouri's treatment of capitalized overheads.

6 A. In its *Amended Report and Order*, the Commission generally found that Spire  
7 Missouri had not sufficiently shown that its methodologies for capitalizing overheads were in  
8 compliance with the Federal Energy Regulatory Commission's ("FERC") Uniform System of  
9 Accounts ("USOA"). The Commission ordered that Spire Missouri shall cease *recovery of*  
10 non-operational overheads until compliance is shown. The Commission further ordered that  
11 any capitalized overheads that are expensed outside of a test year period will not be recoverable.  
12 However, the Commission established an allowance for non-operational overheads associated  
13 with used and useful plant additions to be posted to a regulatory asset account as of the  
14 December 23, 2021 effective date of tariffs. The Commission stated that,

15 [t]his will allow changes to indirect overhead allocations to be  
16 implemented on a prospective basis in either ISRS filings or Spire  
17 Missouri's next rate case... However, this treatment will prevent  
18 inclusion of non-operational overhead costs that are ultimately  
19 determined to be inappropriate from being included in plant additions  
20 recovered through ISRS cases before the resolution of this issue in Spire  
21 Missouri's next rate case.<sup>2</sup>

22 Q. Did Staff complete the ongoing audit of overhead capitalization?

23 A. Yes. Staff filed its Report on capitalized overheads on March 18, 2022 in Case  
24 No. GR-2021-0108. Spire filed its response on March 28, 2022 that generally agreed to

---

<sup>2</sup> *Amended Report and Order*, Case No. GR-2021-0108, Pages 82 - 83.

1 revisions to its overhead capitalization methodologies. The Commission issued an *Order*  
2 *Authorizing Accounting Treatment* on April 13, 2022.

3 Q. What adjustments are necessary to implement the Commission’s guidance in its  
4 *Amended Report and Order* in Spire Missouri’s current cost of service?

5 A. To implement the Commission’s guidance, Staff made adjustments to: a) the  
6 test year Administrative and General (“A&G”) expenses to reflect the agreed-to capitalization  
7 methodologies and b) to include a regulatory asset holding overheads that were not capitalized  
8 per the Commission’s *Amended Report and Order* but have a relationship to construction.

9 **CAPITALIZED OVERHEADS – ONGOING EXPENSE**

10 Q. Why is it necessary to adjust the test year expenses to reflect the new  
11 capitalization methodologies?

12 A. Some expenses were recorded during the test year that do not reflect the  
13 level of expense using ongoing capitalization methodologies. For example, the test year  
14 expense for injuries and damages costs were booked as 100% Operations & Maintenance  
15 Expenses (“O&M”) and 0% capital. As a result of the overhead audit, injuries and damages  
16 will now be split between O&M and capital. To recognize the new overhead transfer rates, Staff  
17 adjusted the test year cost of payroll, general payroll benefits, 401k expense, pensions,  
18 Other Post-Employment Benefits (“OPEBs”), Supplemental Executive Retirement Plan  
19 (“SERP”), payroll taxes, IT costs, injuries and damages, insurance expense, and director’s costs.

20 Q. Do these adjustments to the test year fully match Spire Missouri’s revised  
21 overhead methodologies to ongoing expense?

1           A.     No. To fully represent ongoing expense another adjustment is needed. To  
2 annualize and normalize Spire Missouri’s current cost of service, Staff calculated O&M rates<sup>3</sup>  
3 for use in Staff’s various annualization and normalization recommendations for ongoing costs.  
4 This two-step adjustment process leads to annualized and normalized expenses that represent  
5 Spire Missouri’s ongoing cost of service. The first step adjusts the test year ended May 31,  
6 2021 for the revision to O&M rates (as affected by revisions to capital transfer rates) and the  
7 second step calculates costs as of May 31, 2022 with the ongoing O&M rates. Staff will also  
8 use the ongoing O&M rates in its true-up adjustments as of September 30, 2022.

9     **CAPITALIZED OVERHEADS – REGULATORY ASSET**

10          Q.     What is the regulatory asset for overheads?

11          A.     In its *Amended Report and Order*, the Commission stated, “[T]he Commission  
12 has no choice but to find that Spire Missouri has failed to meet its burden that it is in compliance  
13 with USOA Gas Plant Instructions and properly capitalizing overheads.” Because the  
14 Commission’s Order was based on a finding of non-compliance, it ordered that Spire Missouri  
15 should not recover capitalized overheads until compliance with the USOA was shown.  
16 The Commission’s Order could not, and did not, bifurcate the overheads that were related to  
17 construction from all overheads, but the Commission did allow for cost deferral of overheads  
18 related to construction.

19          Q.     How did Staff quantify the amount of deferred overheads that are related to  
20 construction?

21          A.     Staff summed the overheads Spire Missouri incurred that are related to  
22 construction, but not recovered per the Commission’s *Amended Report and Order*, from

---

<sup>3</sup> O&M rates represent the portion of the total cost that is booked to income statement accounts.

1 December 23, 2021<sup>4</sup> through May 31, 2022. This amount represents costs incurred that are  
2 eligible for capitalization under methodologies agreed to in Case No. GR-2021-0108. Staff will  
3 update this balance through September 30, 2022 in this case.

4 Q. Is Spire Missouri still deferring these costs?

5 A. Yes. Spire Missouri has not resumed capitalizing A&G overheads to  
6 plant-in-service. Staff recommends that Spire Missouri continue to defer the overheads that are  
7 related to construction and not recovered in rates through September 30, 2022 and resume  
8 capitalization of overheads to plant-in-service on October 1, 2022.

9 Q. Is it appropriate to amortize this asset over a period of time?

10 A. Yes. If the Commission had not ordered Spire Missouri to defer these overheads,  
11 the costs would have been booked to Plant-in-service and recovered through depreciation  
12 expense. In that spirit, it is appropriate for Spire Missouri to recover the cost of overheads that  
13 are plant-related through an amortization.

14 Q. What is the appropriate time period to recover the cost of the overhead  
15 regulatory asset?

16 A. Staff amortized the overhead regulatory asset over a fifteen year period.  
17 A fifteen-year recovery period is a balance between the very short recovery period  
18 recommended by Spire and a very long recovery period based on a composite level of  
19 depreciation.

20 Q. Does this conclude your direct testimony?

21 A. Yes it does.

---

<sup>4</sup> The effective date of rates in Case No. GR-2021-0108.



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 ) Case No. GR-2022-0179  
a General Rate Increase for Natural Gas )  
Service Provided in the Company's )  
Missouri Service Areas )

**AFFIDAVIT OF MATTHEW R. YOUNG**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

**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 *Direct 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.

*Matthew Young*  
\_\_\_\_\_  
MATTHEW R. YOUNG

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 29<sup>th</sup> day of August 2022.

D. SUZIE MANKIN  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: April 04, 2025  
Commission Number: 12412070

*D. Suzie Mankin*  
\_\_\_\_\_  
Notary Public

## Matthew R. Young

### **Educational and Employment Background and Credentials**

I am employed as a Senior Utility Regulatory Auditor for the Missouri Public Service Commission (“Commission”). I earned a Bachelor of Liberal Arts Degree from The University of Missouri – Kansas City in May 2009 and a Master of Science in Accounting, also from The University of Missouri – Kansas City, in December 2011. I have been employed by the Commission as a Regulatory Auditor since July 2013.

As a Utility Regulatory Auditor, I perform rate audits and prepare miscellaneous filings for consideration by the Commission. In addition, I review exhibits and testimony on assigned issues, develop accounting adjustments and issue positions which are supported by workpapers and written testimony. For cases that do not require prepared testimony, I prepare Staff Recommendation Memorandums.

Cases in which I have participated and the scope of my contributions are listed below:

<b>Case/Tracking Number</b>	<b>Company Name</b>	<b>Scope of Issues</b>	<b>Testified at Hearing</b>
GO-2022-0339	Spire Missouri	Revenue Requirement	
GR-2022-0179	Spire Missouri	Capitalized Overheads	
GO-2022-0171	Spire Missouri	Capitalized Overheads	
ER-2022-0129 ER-2022-0130	Evergy Metro Evergy West	Prospective Tracking, Income Taxes, Fuel Expense and Inventory, DSM Opt-Out and Iatan Regulatory Assets, Plant, Reserve, Amortization Expense.	
EO-2022-0105	Evergy Metro	Revenue Requirement Issues	
ER-2021-0240 GR-2021-0241	Ameren Missouri	Incentive Compensation	
GR-2021-0108	Spire Missouri	Capitalized Overheads, Income Taxes, Rate Base Amortizations	Yes
SA-2021-0017	Missouri American Water Company	Feasibility Studies, Construction Cost Estimates	Yes

Matthew R. Young

Case/Tracking Number	Company Name	Scope of Issues	Testified at Hearing
GO-2021-0030 GO-2021-0031	Spire – East and Spire – West	ISRS Rate Base	
GA-2021-0010	Spire – West	Costs to Expand Distribution System	
WR-2020-0264	Raytown Water Company	Tank Painting and Tower Maintenance, Taxes, Leases, Capitalized Depreciation	
GO-2020-0229 GO-2020-0230	Spire – East and Spire – West	ISRS Rate Base	
GA-2020-0105	Spire – West	Costs to Expand Distribution System	
WA-2019-0366 SA-2019-0367	Missouri American Water Company	Sale of Assets, Rate Base	
WA-2019-0364 SA-2019-0365	Missouri American Water Company	Sale of Assets, Rate Base	
GO-2019-0356 GO-2019-0357	Spire – East and Spire – West	Overhead Costs in Rate Base, Reconciliation	Yes
ER-2019-0335	Ameren Missouri	Incentive Compensation, Fuel Inventory	
WO-2019-0184	Missouri American Water Company	ISRS Rate Base	
SA-2019-0161	United Services Inc.	Application for Certificate, Rate Base	
ER-2018-0145 ER-2018-0146	Kansas City Power & Light & KCP&L Greater Missouri Operations	Fuel Prices & Inventories, Purchased Power Expense, Pensions, OPEBs, SERP, Outside Services	
WM-2018-0104	Missouri American Water Company	Rate Base	

Matthew R. Young

Case/Tracking Number	Company Name	Scope of Issues	Testified at Hearing
WM-2018-0023	Liberty Utilities	Sale of Assets, Rate Base	
WR-2017-0343	Gascony Water Company	Rate Base	Yes
GR-2017-0215 GR-2017-0216	Laclede Gas Company & Missouri Gas Energy	Pensions, OPEBs, SERP, Incentive Compensation, Equity Compensation, Severance Costs	Yes
WR-2017-0139	Stockton Hills Water Company	Revenue, Expenses, Rate Base	
ER-2016-0285	Kansas City Power & Light	Forfeited Discounts, Bad Debt Expense, Customer Growth, Cash Working Capital, Payroll and Payroll Related Costs, Incentive Compensation, Rate Case Expense, Renewable Energy Standards Cost Recovery, Property Taxes	Yes
SR-2016-0202	Raccoon Creek Utility Operating Company	Rate Base	
ER-2016-0156	KCP&L Greater Missouri Operations	Payroll, Payroll Benefits, Payroll Taxes, Incentive Compensation, Injuries and Damages, Insurance Expense, Property Tax Expense, Rate Case Expense	
SR-2016-0112	Cannon Home Association	Revenues and Expenses, Rate Base	
WR-2016-0109 SR-2016-0110	Roy-L Utilities	Revenues and Expenses, Rate Base	
WO-2016-0098	Missouri American Water Company	ISRS Revenues	
WR-2015-0246	Raytown Water Company	Revenues and Expenses, Rate Base	

Matthew R. Young

Case/Tracking Number	Company Name	Scope of Issues	Testified at Hearing
SC-2015-0152	Central Rivers Wastewater Utility	Verification of amounts identified in Complaint	
WR-2015-0104	Spokane Highlands Water Company	Revenues and Expenses, Rate Base	
GR-2015-0026	Laclede Gas Company	Plant Additions and Retirements, Contributions in Aid of Construction	
GR-2015-0025	Missouri Gas Energy	Plant Additions and Retirements, Contributions in Aid of Construction	
WR-2015-0020	Gascony Water Company	Revenues and Expenses, Rate Base	
SM-2015-0014	Raccoon Creek Utility Operating Company	Sale of Assets, Rate Base, Acquisition Premium	
ER-2014-0370	Kansas City Power & Light	Injuries & Damages, Insurance, Payroll, Payroll Benefits, Payroll Taxes, Property Taxes, Rate Case Expense	Yes
SR-2014-0247	Central Rivers Wastewater Utility	Revenues and Expenses, Rate Base, Affiliated Transactions	
HR-2014-0066	Veolia Energy Kansas City	Payroll, Payroll Benefits, Payroll Taxes, Bonus Compensation, Property Taxes, Insurance Expense, Injuries & Damages Expense, Outside Services, Rate Case Expense	
GO-2014-0179	Missouri Gas Energy	Plant Additions, Contributions in Aid of Construction	

Matthew R. Young

<b>Case/Tracking Number</b>	<b>Company Name</b>	<b>Scope of Issues</b>	<b>Testified at Hearing</b>
GR-2014-0007	Missouri Gas Energy	Advertising & Promotional Items, Dues and Donations, Lobbying Expense, Miscellaneous Expenses, PSC Assessment, Plant in Service, Depreciation Expense, Depreciation Reserve, Prepayments, Materials & Supplies, Customer Advances, Customer Deposits, Interest on Customer Deposits	
SA-2014-0005	Central Rivers Wastewater Utility	Application for Certificate, Revenue and Expenses, Plant in Service, Depreciation Reserve. Other Rate Base Items	

**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 )

**File No. GR-2021-0108**  
**Tracking No. YG-2021-0133**

---

---

**AMENDED REPORT AND ORDER**

---

---

**Issue Date:** November 12, 2021

**Effective Date:** November 22, 2021

## **Findings of Fact regarding Capitalized Overheads – Issue 15**

239. Capitalized overheads are costs that are indirectly related to a capital project that the utility has elected to capitalize rather than to expense (e.g. engineering, legal work, insurance, taxes, interest, etc.).<sup>302</sup>

240. In recent ISRS cases OPC has raised a concern about the amount of overheads. The issue was deferred to this rate case.<sup>303</sup>

241. As a subsidiary of a publicly traded corporation, Spire Missouri follows accounting methods prescribed by Generally Accepted Accounting Principles (GAAP) and as a gas utility regulated by Missouri, Spire Missouri must also follow the accounting methods prescribed by the FERC USOA.<sup>304</sup>

242. While some costs are clearly either expenses or capital expenditures in nature, Spire Missouri has discretion to assign many costs as it chooses.<sup>305</sup>

243. Without Spire Missouri completing the special study of the supervisor timecard distributions, described in USOA Gas Plan Instructions, Section 4(B), there is no way to determine an appropriate capital transfer rate, based on the USOA requirements.<sup>306</sup>

244. A consequence of the single-issue ratemaking nature of the ISRS is that it creates an incentive to maximize the overhead costs charged to ISRS eligible work orders.<sup>307</sup>

---

<sup>302</sup> Ex. 125, Young rebuttal, pp. 1-2.

<sup>303</sup> ISRS cases, File Nos. GO-2019-0356 and GO-2019-0357.

<sup>304</sup> Ex. 101, Staff Cost of Service Report, p. 31, Ins. 2-5.

<sup>305</sup> Ex. 101, Staff Cost of Service Report, p. 31, Ins. 8-9.

<sup>306</sup> Tr. Vol. 10, p. 161, Ins. 16 – 24.

<sup>307</sup> Ex. 125, Young rebuttal, p. 3, Ins. 6-8.



245. Spire Missouri applies the same capital transfer rate to injuries and damages insurance, nearly the entire office supplies account, and directors and officers insurance despite the varying relationship of those costs to construction.<sup>308</sup>

246. Removing the capitalized Administrative and General overheads and instead treating those costs as expenses would increase the revenue requirement by nearly \$115 million; about \$50 million attributable to General Overheads, and the remaining \$65 million to Employee Benefit and Pension Costs.<sup>309</sup>

247. Staff has not made any adjustment in its proposed cost of service to transfer capitalized overhead costs to expense.<sup>310</sup>

248. Spire Missouri provided a copy of the general ledger as its transaction level support for all of its capitalized overhead costs.<sup>311</sup>

249. Spire Missouri did not produce specific time reporting or cost studies supporting its capitalized overheads as required by the USOA to support that its overhead policy and procedure have a definite relationship to construction and are eligible to be capitalized.<sup>312</sup>

250. It would be impossible to estimate an impact on customers without performing the overhead cost study. It could lead to a rate increase, decrease, or no material change. Spire Missouri recommends the results of any study to determine the relationship of overhead costs to construction projects be brought forward in the filing of

---

<sup>308</sup> Ex. 140, Young surrebuttal, p. 16, Ins. 14-16.

<sup>309</sup> Ex. 17, Krick surrebuttal, p. 7, Ins. 6-15.

<sup>310</sup> Tr. Vol. 10, 146, Ins. 16-25.

<sup>311</sup> Ex. 17, Krick surrebuttal, p. 9, Ins. 3-5.

<sup>312</sup> Ex. 203, Schallenberg direct, p. 24, Ins. 12-19.

the next rate case, and any changes to indirect overhead allocations be implemented on a prospective basis during that future case when establishing rates.<sup>313</sup>

251. A retrospective order removing capitalized overhead amounts back to October 1, 2019, as initially proposed by OPC would result in a write-off of overhead costs capitalized to plant-in-service during the test year of approximately \$87 million.<sup>314</sup>

252. Labor that is direct charged to a construction project is not considered an overhead.<sup>315</sup>

253. Spire Missouri's time reporting system allows each employee to code their time directly to a capital project, an income statement-related activity, or a clearing account.<sup>316</sup>

254. Instead of conducting studies of the time charged to clearing accounts by its employees, Spire Missouri uses the direct labor charges as the basis of distributing overhead payroll costs.<sup>317</sup>

255. In September 1988, the National Association of Regulatory Utility Commissioners (NARUC) issued "Interpretation of Uniform System of Accounts for Electric and Gas Utilities." Interpretation No. 59 answers questions regarding the methods used for the capitalization of administrative and general expenses, specifically the use of proportional direct charges.<sup>318</sup>

---

<sup>313</sup> Ex. 17, Krick surrebuttal, pp. 10-11.

<sup>314</sup> Ex. 17, Krick surrebuttal, p. 12, Ins. 7-9.

<sup>315</sup> Ex. 140, Young surrebuttal, p. 17, Ins. 1-2.

<sup>316</sup> Ex. 140, Young surrebuttal, p. 17, Ins. 2-3.

<sup>317</sup> Ex. 140, Young surrebuttal, p. 17, Ins. 8-10.

<sup>318</sup> Ex. 140, Young surrebuttal, pp. 17-18.

256. NARUC endorses the use of the incremental cost method which identifies a relationship of a capital cost to construction by proving the cost would not have been incurred if the construction was not undertaken.<sup>319</sup>

257. Spire Missouri has relied exclusively on an arbitrary relationship between direct and indirect labor to account for overhead payroll costs, and the related payroll benefits that follow payroll.<sup>320</sup>

258. Spire Missouri uses a concept called 'cost elements' to charge work orders. Those cost elements are lost by the time construction-work-in-process is unitized to the FERC plant accounts.<sup>321</sup>

259. Spire Missouri does not keep records sufficient to show each overhead cost in its utility plant account and also has not provided support to show the bases used to distribute its overheads.<sup>322</sup>

260. It is not reasonable to assume the time devoted to capital projects of field employee supervisors and their supervisors is dictated by the field employee direct labor charged to the same capital projects. Therefore, Spire Missouri has not provided support for its indirect labor assigned to capitalized overheads.<sup>323</sup>

261. The label "non-operational overhead costs" is one of three capital cost categories presented by Spire Missouri and represents costs that are not direct charges and not related to field operations.<sup>324</sup>

---

<sup>319</sup> Ex. 140, Young surrebuttal, p. 18, Ins. 5-8.

<sup>320</sup> Ex. 140, Young surrebuttal, p. 19, Ins. 1-6.

<sup>321</sup> Ex. 140, Young surrebuttal, p. 19, Ins. 11-14.

<sup>322</sup> Ex. 140, Young surrebuttal, p. 19, Ins. 14-16.

<sup>323</sup> Tr. Vol. 10, p. 149, Ins. 2-19.

<sup>324</sup> Ex. 140, Young surrebuttal, p. 21, Ins. 3-5.

262. Staff's definition of non-operational overhead costs is derived from the direct testimony of Spire Missouri's witness, Krick in File Nos. GO-2019-0356 and GO-2019-0357.<sup>325</sup>

263. Non-operational overhead costs are employee benefits, shared services and administrative and general expenses.<sup>326</sup>

264. Non-operational overheads include engineering, the corporate engineering function, new growth support and other corporate type costs.<sup>327</sup>

265. Spire Services Inc.'s costs allocated to capitalized overheads are a subset of non-operational overhead costs.<sup>328</sup>

266. Non-operational overhead costs would be almost the entire list of overhead costs listed by OPC witness, Schallenberg in his direct testimony, Schedule RES-D-4.<sup>329</sup>

267. For Staff to be able to audit and determine Spire Missouri's compliance with the USOA, Spire Missouri would need to provide records of its plant accounts identifying the nature and amount of each overhead cost. The Staff would also require documentation to support the basis of the relationship the cost has to each construction project.<sup>330</sup>

268. OPC proposes a tracker be authorized to ensure that Spire Missouri's general overhead is not allowed to be over-recovered by transferring overheads to construction by an amount causing overhead expense to be less than the amount included in base rates in this case.<sup>331</sup>

---

<sup>325</sup> Tr. Vol. 10, p. 162-163.

<sup>326</sup> Tr. Vol. 10, p. 162-163.

<sup>327</sup> Tr. Vol. 10, p. 163, Ins. 16-24.

<sup>328</sup> Tr. Vol. 10, p. 164, Ins. 3-6.

<sup>329</sup> Tr. Vol. 10, p. 164-165.

<sup>330</sup> Tr. Vol. 10, p. 165, Ins. 7-18.

<sup>331</sup> Ex. 203, Schallenberg direct, p. 25, Ins. 19-21.

269. Staff's proposal envisions that it, Spire Missouri and OPC would provide status reports to the Commission as Spire Missouri provides documents that can be audited by Staff and can demonstrate Spire Missouri's compliance with the USOA and then implement the new capitalized overhead process in Spire Missouri's next rate case.<sup>332</sup>

270. Staff does not include a recommendation that disallowed overhead costs be captured in a tracker mechanism as expenses to be included Spire Missouri's next rate case.<sup>333</sup>

### **Conclusions of Law regarding Capitalized Overheads – Issue 15**

PP. The USOA Gas Plant Instruction, section 4, provides (in pertinent part):

#### 4. Overhead construction costs.

A. All overhead construction costs . . . shall be charged to particular jobs . . . 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 . . .

B. As far as practicable, the determination of pay roll charges includible in construction overheads shall be based on time card distributions thereof. Where . . . 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.

---

<sup>332</sup> Tr. Vol. 10, p. 153, lns.7-21.

<sup>333</sup> Tr. Vol. 10, p. 155, lns. 2-7.

QQ. The USOA provides a list of costs that are eligible for capitalization in Gas Plant Instruction 3, and limits the indirect costs eligible for capitalization to an appropriate amount in Gas Plant Instruction 4.<sup>334</sup>

RR. Spire Missouri is not in compliance with Gas Plant Instructions 3(A)(3) treatment of injuries and damages by posting losses to construction accounts and related insurance proceeds to expense accounts.<sup>335</sup>

SS. Spire Missouri is not in compliance with Gas Plant Instructions 3(A)(19) eligibility requirements for training costs when it includes generic training to construction accounts.<sup>336</sup>

TT. Gas Plant Instruction 4(A) limits overhead construction costs to appropriate amounts by requiring the overheads “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 . . .”<sup>337</sup>

UU. Gas Plant Instruction 4(C) requires records of construction work orders and utility plant accounts to be maintained so that the total amount of each overhead, the nature and quantity of each overhead that is charged to each work order and each plant account, as well as the basis of distributing the overhead costs, can be shown.<sup>338</sup>

VV. Gas Plant Instruction 4(B) requires the use of time card distributions as a basis of assigning overhead payroll to construction.<sup>339</sup>

---

<sup>334</sup> Ex. 140, Young surrebuttal, p. 14, Ins. 20-22.

<sup>335</sup> Ex. 140, Young surrebuttal, p. 15, Ins. 7-14.

<sup>336</sup> Ex. 140, Young surrebuttal, p. 15, Ins. 15-21.

<sup>337</sup> Ex. 140, Young surrebuttal, p. 16, Ins. 6-9.

<sup>338</sup> Ex. 140, Young surrebuttal, p. 19, Ins. 7-11.

<sup>339</sup> Ex. 140, Young surrebuttal, p. 17, Ins. 6-7.

WW. Gas Plant Instruction 4(B) states that the indirect payroll of supervisors should be capitalized “to the end that only such overhead costs as have a definite relation to construction shall be capitalized.”<sup>340</sup>

XX. Gas Plant Instruction 4(B) prohibits the use of arbitrary percentages to cover assumed overhead payroll costs.<sup>341</sup>

### **Decision regarding Capitalized Overheads – Issue 15**

The Commission finds that Spire Missouri is not properly capitalizing overheads. Spire Missouri’s cost elements, which it uses to charge work orders, are lost by the time construction-work-in-process is unitized to the FERC plant accounts. Without those cost elements, the Commission cannot find the record support for entries for overhead construction costs required by the USOA Gas Plant Instruction 4(C). Therefore, the Commission has no choice but to find that Spire Missouri has failed to meet its burden that it is in compliance with USOA Gas Plant Instructions and properly capitalizing overheads.

The Commission will order Spire Missouri to cease recovery of capitalized non-operational overhead costs in plant, going forward, until Spire Missouri’s compliance with the USOA is shown. Non-operational overheads associated with plant additions to be recognized as used and useful after the effective date of Spire Missouri’s tariff sheets may be posted to a regulatory asset account. This will allow changes to indirect overhead allocations to be implemented on a prospective basis in either ISRS filings or Spire Missouri’s next rate case. Without Staff’s audit of Spire Missouri’s compliance with the USOA and Spire Missouri’s performing the required study it is not known whether the

---

<sup>340</sup> Ex. 140, Young surrebuttal, p. 16, Ins. 18-20.

<sup>341</sup> Ex. 140, Young surrebuttal, p. 16, Ins. 20-21.

impact will lead to a rate increase, decrease or no material change. However, this treatment will prevent inclusion of non-operational overhead costs that are ultimately determined to be inappropriate from being included in plant additions recovered through ISRS cases before the resolution of this issue in Spire Missouri's next rate case.

Staff shall develop a list of deliverables needed from Spire Missouri for it to be able to audit source documents and any other documents necessary to support all overhead costs and the rationale and basis for overhead allocations, to where Staff can determine that Spire Missouri is in compliance with the USOA Plant Instructions capitalized overhead requirements. OPC may confer with Staff in the development of the list of deliverables. Staff, Spire Missouri, and OPC will provide status reports of the progress in Staff's completion of its audit and determination that Spire Missouri is in compliance with the USOA Plant Instruction overhead cost requirements.

The recognition of disallowed capitalized overheads as expenses of Spire Missouri will not be recoverable outside of a rate case test period. The potential recovery of any of the disallowed capitalized non-operational overheads as expenses that remain in the regulatory asset account through the test year, update or true-up period of Spire Missouri's next rate case will be reviewed by the Commission during that rate case. Overhead costs determined to be in compliance with the USOA Plant Instruction requirements shall be included in rate base at the first opportunity, whether in an ISRS case or rate case.



**STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION**

At a session of the Public Service Commission held at its office in Jefferson City on the 12<sup>th</sup> day of January, 2022.

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 )

**File No. GR-2021-0108**

**ORDER DENYING APPLICATIONS FOR REHEARING  
AND PROVIDING CLARIFICATION**

Issue Date: January 12, 2022

Effective Date: January 12, 2022

On November 12, 2021, the Commission issued its *Amended Report and Order*, which became effective November 22, 2021, regarding Spire Missouri Inc.'s request for a general rate increase. On November 19, 2021, the Office of the Public Counsel (OPC) timely filed an application for rehearing or reconsideration. On November 19, 2021, Spire Missouri also timely filed an application for rehearing or reconsideration.

Within its rehearing motion, Spire Missouri requested that the Commission confirm whether Spire's understanding of the treatment of capitalized overheads was accurate.<sup>1</sup> Although the Commission believes the issue is clearly addressed in its *Amended Report and Order*, based upon Spire Missouri's inaccurate interpretation of certain language, some further clarification is required. The Commission will clarify its intent as follows:

---

<sup>1</sup> *Spire's Application for Rehearing and Motion for Reconsideration of the Amended Report and Order*, para. 15.

- the Commission directed the cessation of all non-operational overheads, not just Administrative and General (A&G) as Spire Missouri avers;<sup>2</sup>
- the Commission allowed for Spire Missouri to implement changes on a prospective basis in either ISRS filings or Spire Missouri's next rate case, not just the next rate case as Spire Missouri avers;<sup>3</sup>
- the Commission will approve the records to be maintained and overhead treatment after Staff completes its audit and makes its recommendation, contrary to Spire Missouri's assertion that Staff completes its audit and then capitalization may continue;<sup>4</sup> and
- any non-operational overhead expenses included in the regulatory asset that fall outside of the test period of Spire's next rate case shall be considered for recovery during that rate case.<sup>5</sup>

Section 386.500.1, RSMo 2016, states that the Commission shall grant an application for rehearing if "in its judgment sufficient reason therefor be made to appear." In the judgment of the Commission, neither application for rehearing demonstrates sufficient reason to rehear the matter.

The Commission will deny the applications for rehearing.

---

<sup>2</sup> *Amended Report and Order*, issued November 12, 2021, Findings of Fact 261 through 264; see also p. 82, "The Commission will order Spire Missouri to cease recovery of capitalized nonoperational overhead costs in plant, going forward, until Spire Missouri's compliance with the USOA is shown."

<sup>3</sup> *Amended Report and Order*, issued November 12, 2021, p. 82, "This will allow changes to indirect overhead allocations to be implemented on a prospective basis in either ISRS filings or Spire Missouri's next rate case." See also p. 83 "Overhead costs determined to be in compliance with the USOA Plant Instruction requirements shall be included in rate base at the first opportunity, whether in an ISRS case or rate case."

<sup>4</sup> *Amended Report and Order*, issued November 12, 2021, p. 83.

<sup>5</sup> *Amended Report and Order*, issued November 12, 2021, p. 83, "The potential recovery of any of the disallowed capitalized non-operational overheads as expenses that remain in the regulatory asset account through the test year, update or true-up period of Spire Missouri's next rate case will be reviewed by the Commission during that rate case."

**THE COMMISSION ORDERS THAT:**

1. OPC's request for rehearing or reconsideration, filed on November 19, 2021, is denied.
2. Spire Missouri's request for rehearing or reconsideration, filed on November 19, 2021, is denied.
3. This order shall be effective when issued.



**BY THE COMMISSION**

A handwritten signature in black ink that reads "Morris L. Woodruff".

Morris L. Woodruff  
Secretary

Silvey, Chm., Rupp, Coleman, Holsman, and  
Kolkmeier CC., concur.

Hatcher, Regulatory Law Judge

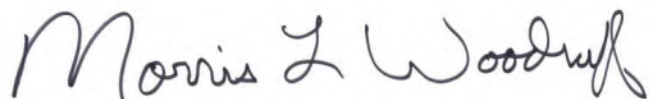
**STATE OF MISSOURI**

**OFFICE OF THE PUBLIC SERVICE COMMISSION**

I have compared the preceding copy with the original on file in this office and I do hereby certify the same to be a true copy therefrom and the whole thereof.

**WITNESS** my hand and seal of the Public Service Commission, at Jefferson City, Missouri, this 12<sup>th</sup> day of January, 2022.



  
Morris L. Woodruff  
Secretary



**MISSOURI PUBLIC SERVICE COMMISSION**

**January 12, 2022**

**File/Case No. GR-2021-0108**

**Missouri Public Service Commission**

Staff Counsel Department  
200 Madison Street, Suite 800  
P.O. Box 360  
Jefferson City, MO 65102  
staffcounsel@psc.mo.gov

**Office of the Public Counsel**

Marc Poston  
200 Madison Street, Suite 650  
P.O. Box 2230  
Jefferson City, MO 65102  
opcservice@opc.mo.gov

**Consumers Council of Missouri**

John B Coffman  
871 Tuxedo Blvd.  
St. Louis, MO 63119-2044  
john@johncoffman.net

**Legal Services of Eastern Missouri**

Paul Barrs  
4232 Forest Park Avenue  
St. Louis, MO 63108  
pabarrs@lsem.org

**Midwest Energy Consumers Group**

David Woodsmall  
308 E. High Street, Suite 204  
Jefferson City, MO 65101  
david.woodsmall@woodsmallllaw.com

**Missouri Industrial Energy Consumers (MIEC)**

Diana M Plescia  
130 S. Bemiston, Suite 200  
St. Louis, MO 63105  
dplescia@chgolaw.com

**Missouri Public Service Commission**

Kevin Thompson  
200 Madison Street, Suite 800  
P.O. Box 360  
Jefferson City, MO 65102  
kevin.thompson@psc.mo.gov

**Missouri School Boards' Association**

Richard S Brownlee III  
121 Madison  
Jefferson City, MO 65101  
rbrownlee@rsblobby.com

**National Housing Trust**

Andrew J Linhares  
3115 S. Grand Ave  
Suite 600  
St. Louis, MO 63118  
Andrew@renewmo.org

**Renew Missouri**

Tim Opitz  
409 Vandiver Dr Building 5, Suite 205  
Columbia, MO 65202  
tim@renewmo.org

**Spire**

Matthew Aplington  
700 Market Street  
Saint Louis, MO 63101  
matt.aplington@spireenergy.com

**Spire**

Goldie Bockstruck  
700 Market Street  
St. Louis, MO 63101  
goldie.bockstruck@spireenergy.com

**Spire**

Anne E Callenbach  
900 W. 48th Place, Suite 900  
Kansas City, MO 64112

**Spire**

Frank A Caro  
900 W. 48th Place, Suite 900  
Kansas City, MO 64112  
fcaro@polsinelli.com

**Spire**

Rachel Niemeier  
700 Market Street  
St. Louis, MO 63101  
rachel.niemeier@spireenergy.com

**Spire**

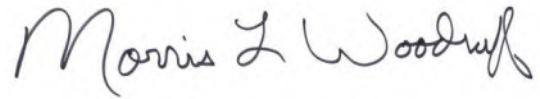
Andrew O Schulte  
900 W. 48th Place, Suite 900  
Kansas City, MO 64112-6411  
aschulte@polsinelli.com

**Vicinity Energy Kansas City, Inc.**

Lewis Mills  
221 Bolivar Street, Suite 101  
Jefferson City, MO 65101-1574  
lewis.mills@bclplaw.com

**Enclosed find a certified copy of an Order or Notice issued in the above-referenced matter(s).**

**Sincerely,**

A handwritten signature in black ink that reads "Morris L. Woodruff". The signature is written in a cursive style with a large, prominent "M" and "W".

**Morris L. Woodruff  
Secretary**

---

Recipients listed above with a valid e-mail address will receive electronic service. Recipients without a valid e-mail address will receive paper service.