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NOL Deferred Tax
Asset in Rate Base
Witness: Alan D. Felsenthal
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SPIRE MISSOURI INC.

CASE NO. GR-2021-0108

SURREBUTTAL TESTIMONY

OF

ALAN D. FELSENTHAL

JULY 14, 2021

TABLE OF CONTENTS

SURREBUTTAL TESTIMONY OF ALAN D. FELSENTHAL..... 1

I. INTRODUCTION 1

II. PURPOSE OF TESTIMONY 2

III. PENSION FUNDING LEVELS 2

IV. INCLUSION OF NOL ADIT IN RATE BASE..... 8

V. CONCLUSION 16

1 **SURREBUTTAL TESTIMONY OF ALAN D. FELSENTHAL**

2 **I. INTRODUCTION**

3 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, OCCUPATION AND**
4 **EMPLOYER.**

5 A. My name is Alan Felsenthal. My business address is One North Wacker Drive, Chicago,
6 Illinois, 60606. I am a Managing Director at PricewaterhouseCoopers LLP (“PwC”).

7 **Q. ON WHOSE BEHALF ARE YOU SUBMITTING THIS SURREBUTTAL**
8 **TESTIMONY?¹**

9 A. I am submitting this testimony on behalf of Spire Missouri Inc. (“Spire” or “Company”),
10 including its two operating units, Spire East and Spire West.

11 **Q. ARE YOU THE SAME ALAN FELSENTHAL WHO SUBMITTED DIRECT AND**
12 **REBUTTAL TESTIMONY IN THIS PROCEEDING?**

13 A. Yes.

14 **Q. HAVE YOU READ THE REBUTTAL TESTIMONY OF JARED GIACONE**
15 **REPRESENTING THE STAFF OF THE MISSOURI PUBLIC SERVICE**
16 **COMMISSION (“STAFF”) ON THE ISSUE OF THE APPROPRIATE TARGET**
17 **PENSION CONTRIBUTION AND THE REBUTTAL TESTIMONY OF JOHN S.**
18 **RILEY ON BEHALF OF THE OFFICE OF THE PUBLIC COUNSEL (“OPC”) ON**

¹ This Surrebuttal Testimony was prepared in connection with the current Spire Missouri Inc. rate case and for the use and benefit of Spire Missouri Inc. PwC disclaims any contractual or other responsibility to others based on their access to or use of this surrebuttal testimony and the information contained herein.

1 SEVERAL INCOME TAX ISSUES, PARTICULARLY THE INCLUSION (OR
2 EXCLUSION) OF NOL ADIT ASSET IN RATE BASE?

3 A. Yes.

4 **II. PURPOSE OF TESTIMONY**

5 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

6 A. My Surrebuttal Testimony will address Staff witness Giacone’s recommendation for Spire
7 to contribute to its pension trust at an 80% targeted funding level instead of the 100%
8 targeted funding level proposed by Spire. I will also address OPC witness Riley’s proposal
9 to exclude the NOL ADIT Asset from rate base. Both Spire and Staff have included the
10 NOL ADIT Asset in the rate base determination.

11 **III. PENSION FUNDING LEVELS**

12 **Q. MR. GIACONE STATES: “STAFF’S POSITION SATISFIES THE STATUTORY**
13 **REQUIREMENT FOR PENSION FUNDING TO MAINTAIN AN 80% ERISA**
14 **FUNDING TARGET, AVOIDS AT-RISK STATUS AND AVOIDS ANY BENEFIT**
15 **RESTRICTIONS FROM BEING IMPOSED. STAFF’S POSITION REQUIRES**
16 **THE LEAST AMOUNT OF FUNDING IN RATES FROM CUSTOMERS. STAFF**
17 **DOES NOT AGREE WITH PLACING A BURDEN ON CURRENT RATEPAYERS**
18 **WITH HIGHER RATES FOR SPIRE TO ACHIEVE A FULLY-FUNDED**
19 **PENSION STATUS ON A MARKET BASIS TO THE POTENTIAL BENEFIT OF**
20 **FUTURE RATEPAYERS REALIZING POSSIBLE SAVINGS OF REDUCED OR**
21 **ELIMINATED PBGC VARIABLE RATE PREMIUMS AND POSSIBLE**
22 **REDUCED FUTURE PENSION FUNDING REQUIREMENTS.” (Giacone**
23 **Rebuttal, pgs. 5-6.) DO YOU AGREE?**

1 A. No. Mr. Giacone's position does not take into account certain important factors. For
2 example, the ERISA funding target is a measure of the value of benefits that have been
3 currently accrued, with no consideration for the impact of future salaries on the accrued
4 benefit. As a result, tying customer rates to 100% ERISA funding levels, let alone 80%,
5 results in tomorrow's customers paying for the benefits earned today.

6 Further, if a funded percentage of only 80% is targeted, then the remaining 20% must be
7 funded through asset returns in excess of the liability discount rate or, more likely,
8 increased contributions to the future generation of Spire's customers. In the meantime,
9 additional benefits will accrue under the plan which also must be funded. To the extent
10 asset returns are lower than the assumed discount rate, the shift of costs to future customers
11 becomes greater.

12 The purpose of ERISA minimum funding is to require contributions by the employer in
13 order to maintain a well-funded plan, which in turn provides benefit security for employees.
14 While ERISA does not require a plan to fund 100% of pension liabilities each year, funding
15 at that level is the target for minimum funding. Each year the minimum contribution is the
16 sum of normal cost (the cost of benefits accruing during the year) plus a 7-year amortization
17 of any shortfall (i.e., the difference between plan assets and 100% of plan liabilities).
18 Absent any actuarial gains or losses, the result of making minimum required contributions
19 would be a plan that is 100% funded after 7 years. These amortization mechanisms further
20 make my point about the intergenerational shifting of costs by using 80% of ERISA
21 minimum funding requirements to set rates in this proceeding.

22 Security of pension benefits is in the best interest for all stakeholders (employees,
23 employers, investors, customers and government/society), and there were many aspects of

1 ERISA designed to help improve that benefit security, including the establishment of
2 minimum funding standards. While minimum funding standards have been updated and
3 revised over the years, in general, these requirements have a long-term goal of getting
4 pension plans to be funded at 100% of the plan's benefit liabilities.

5 However, because minimum funding requirements are established by Congress, they are
6 inherently political, and do not necessarily always reflect a strict actuarial approach to fully
7 funding pension plans. As a result, minimum funding rules include mechanisms for
8 deferral of funding for plan changes and adverse experience, allowance of usage of prior
9 years' funding to satisfy current year requirements (e.g., "credit balances"), interest rate
10 and other funding "relief" provisions, and even waivers of funding requirements for which
11 companies may apply. Spire believes, and I would agree, that tying pension funding to a
12 calculation so subject to political motivations is not in the best interest of any stakeholder.
13 In summary, the ERISA funding rules are no longer directly tied to the true cost of the
14 operation of the plan or the market value of the cost of providing the benefits, so Mr.
15 Giacone's reliance on the plans being adequately funded at the ERISA minimum target
16 level are misguided.

17 **Q. CAN YOU FURTHER EXPLAIN WHY FUNDING AT 100% IS THE BETTER**
18 **APPROACH?**

19 A. Yes. In addition, due to the vagaries of the minimum funding rules, required contribution
20 levels can change dramatically from one year to the next. To help smooth contribution
21 levels and provide funding flexibility to an organization, it is prudent to develop a funding
22 policy for making contributions to a defined benefit plan, such as Spire's pension plan.
23 Key objectives of such a funding policy typically include funding at a steady, predictable

1 level with a targeted funded percentage in the short-term based on an objective criteria
2 (such as the minimum funding determination without any relief, the PBGC obligation or
3 the cost of transferring the benefits to an insurer), to meet the organization’s objectives for
4 the plan.

5 Such funding policies are typically at a level higher than the statutory minimum
6 contribution required under ERISA (at least until both the funding policy contribution and
7 the statutory minimum are both \$0) but offer a variety of advantages in addition to stable,
8 predictable contribution levels. For example, funding policy contributions help position
9 the plan to be able to absorb adverse experience (e.g., the 2008 stock market crash) without
10 necessitating a significant change in annual funding. Funding policy contributions should
11 continually be assessed each year and should allow for variation when circumstances
12 dictate. This could include suspension of contributions if certain funding levels are
13 exceeded or additional contributions in connection with an organization’s overall business
14 plan (e.g., in order to manage company cash or overall tax deductions).

15 There are other benefits to implementing a funding policy to improve a pension plan’s
16 funded status. A well-funded plan increases benefit security for employees and has lower
17 expected future contribution levels, reducing the potential that future stakeholders will be
18 required to pay the current cost of benefits. It also results in reduced Pension Benefit
19 Guaranty Corporation (“PBGC”) premium requirements, avoidance of potential benefit
20 restriction or employee notice requirements, and reduced financial reporting expense,
21 which is why a policy of 100% funded on a PBGC basis is a reasonable policy as it avoids
22 any additional premiums that ultimately will be paid for by the rate payer.

1 Q. MR. GIACONE OPPOSES THE COMPANY'S POSITION TO INCREASE THE
2 TARGET CONTRIBUTION PERCENTAGE TO 100% OVER FIVE-YEARS. IN
3 HIS REBUTTAL TESTIMONY HE SAYS: "IT IS IMPORTANT TO NOTE THAT
4 THE TARGETED FUNDING PERCENTAGE CALCULATIONS TAKE INTO
5 ACCOUNT CURRENT AND FUTURE EMPLOYEE BENEFIT OBLIGATIONS.
6 THAT MEANS THE BENEFIT OBLIGATIONS OF EMPLOYEES WHO HAVE
7 NOT YET RETIRED ARE INCLUDED IN THE CALCULATION. THIS ALLOWS
8 TIME FOR PLAN ASSETS AND CONTRIBUTIONS TO GROW THE PENSION
9 FUND AND EARN A RETURN BEFORE THOSE CURRENT EMPLOYEES
10 RETIRE. INCREASING THE FUNDING TARGET PERCENTAGE ABOVE THE
11 FEDERAL STATUTORILY REQUIRED ERISA MINIMUM OF 80% WOULD
12 RAISE CUSTOMER RATES DISPROPORTIONATELY IN THE PRESENT CASE
13 COMPARED TO INCLUDING A MORE NORMALIZED LEVEL OF PENSION
14 EXPENSE OVER TIME BASED ON ERISA FUNDING GUIDELINES." (Giacone
15 Rebuttal, p. 6.) IS HE CORRECT?

16 A. Again, his position does not consider several important factors. Spire has an obligation to
17 pay promised pension benefits to covered retirees. To assure that funds are available in the
18 pension trust to make such payments, the goal should be to make contributions to the
19 pension trust to achieve a long-term funded percentage of 100% on a basis that does not
20 consider any relief or other efforts Congress has implemented to reduce the cash
21 contribution requirements to pension plans. Not only does funding at this level increase
22 the likelihood that funds will be available to pay the promised benefits, but there are
23 additional benefits to such a strategy, as described below.

1 The use of a prudent funding policy to maintain a well-funded plan allows employers to
2 have more predictable and steady contribution levels. Plans that are not well-funded are not
3 positioned to absorb adverse experience (negative asset return, interest rate decreases, etc.),
4 and as a result minimum ERISA required contribution levels can fluctuate greatly from year
5 to year.

6 Having a well-funded plan also allows employers to adjust their investment strategies to
7 reduce risk in their portfolios such that they can be immunized (at least partially) to such
8 market events. Typically, employers will shift their investment mix to less risky
9 investments the more well-funded a plan is.

10 Contributions at this level also help reduce or eliminate PBGC variable rate premiums
11 which are additional premiums owed to the PBGC at a current rate of approximately 4.6%
12 of any unfunded obligations and helps the plan avoid benefit restrictions that may apply to
13 underfunded plans, thereby providing a greater guarantee of benefits to employees.

14 **Q. AS A FURTHER REASON NOT TO ADOPT SPIRE'S PROPOSED PENSION**
15 **CONTRIBUTION LEVEL, MR. GIACONE STATES: "INCREASING THE**
16 **FUNDING TARGET TO 100% WOULD RAISE RATES WITH NO GUARANTEE**
17 **THAT THE PLANS WOULD ACTUALLY ACHIEVE THE TARGET**
18 **PERCENTAGE DUE TO VARIATIONS IN THE ASSUMPTIONS**
19 **MENTIONED PREVIOUSLY IN THIS TESTIMONY. IT IS POSSIBLE THE**
20 **PLAN WOULD BE LESS THAN THE 100% FUNDING TARGET BUT IT IS ALSO**
21 **POSSIBLE THAT THE PLAN COULD EXCEED THE 100% FUNDING TARGET**
22 **WHICH WOULD INDICATE PENSION CONTRIBUTIONS AND THUS,**

1 **CUSTOMER RATES, WERE SET TOO HIGH.” (Giacone Rebuttal, pgs. 6-7.)**

2 **WHAT DO YOU SAY TO THIS ARGUMENT?**

3 A. I reiterate what was said in my Direct Testimony. Assets in the pension trust cannot be
4 removed for any purpose other than retiree pension payments. Amounts in the pension
5 fund can be invested in securities and other vehicles to earn a return, thus reducing the
6 amount that eventually needs to be contributed to the fund in order to have enough cash
7 accumulated to fund the retiree benefits once they begin. If, for example, \$50,000 was
8 needed to fund pension benefits for an employee that will retire in 10 years (the payments
9 beginning in year 11), it is possible to contribute less than \$50,000 to the pension trust as
10 long as the earnings on the amounts invested produce the required \$50,000 at the retirement
11 date. Further, the sooner that contribution is made, the longer that contribution is available
12 to earn within the plan, again requiring less than what would be needed if the contribution
13 is delayed. The sooner and greater the contribution, the less the company will be required
14 to contribute over time to be able to make the pension payments.

15 Additionally, because the plan provides for additional future benefit accruals, the plan
16 would not be at risk of becoming significantly overfunded. As with any prudent funding
17 policy, the annual contribution amounts would be reassessed each year to consider
18 changing conditions and be adjusted as necessary based on the organization’s objectives
19 (i.e., a long-term funded percentage of 100%).

20 **IV. INCLUSION OF NOL ADIT IN RATE BASE**

21 **Q. TURNING TO THE ISSUE OF INCLUDING THE NOL ADIT ASSET IN RATE**
22 **BASE, MR. RILEY PROPOSES TO EXCLUDE THE NOL ADIT ASSET FROM**
23 **RATE BASE BECAUSE, “IN HIS BOOK” FREE CASH IS GENERATED BY**

1 **INCLUDING INCOME TAX EXPENSE IN THE REVENUE REQUIREMENT**
2 **CALCULATION WHEN, BECAUSE OF THE NOL, INCOME TAXES ARE NOT**
3 **BEING PAID TO THE TAXING AUTHORITIES. DO YOU AGREE WITH THIS**
4 **CHARACTERIZATION?**

5 A. No. Mr. Riley does not understand that the revenue requirement is based on accrual, not
6 cash-basis accounting. Further, he does not appreciate the relationship of current income
7 tax expense and deferred income tax expense. As I stated in my Direct Testimony, the
8 Internal Revenue Code (“IRC”) permits, among other things, a company to use an
9 accelerated method of depreciation when determining its income tax liability for any year.
10 By claiming tax return deductions that are greater than book expense, the Company defers
11 the payment of current income taxes. In a typical situation, current income tax expense is
12 reduced and deferred income tax expense is increased. Dollar for dollar. In my book,
13 when one expense is increased by the same amount another expense is reduced, there is no
14 net cash realized. The total income tax expense is based on book income—including items
15 of revenue, income and expense, determined on an accrual accounting basis, that are
16 subject to review and approval by the Missouri Public Service Commission
17 (“Commission”). Once the Commission determines the appropriate pre-tax cost of service,
18 income taxes are calculated on that pre-tax amount. For every dollar of deferred income
19 tax there is an equal and offsetting reduction in current income tax. The customer is whole.
20 In my Direct Testimony, I discussed that an ADIT Liability represents an interest free loan
21 from the Federal Treasury. I also agreed that this ADIT Liability should be used to reduce
22 rate base. But, when there is an NOL, it means that a portion of the interest free loan from
23 the Federal Treasury (the ADIT Liability) has not been realized. There is no loan. Thus,

1 it is appropriate to include the NOL ADIT Asset in rate base to offset the ADIT Liability
2 that has not been realized due to the excess of tax depreciation over book depreciation. The
3 net of these two ADIT balances represents the realized portion of the interest free loan
4 which is an appropriate (required by normalization provisions of the IRC) rate base
5 reduction.

6 **Q. BUT DOESN'T THE REVENUE REQUIREMENT INCLUDE AN INCOME TAX**
7 **PROVISION THAT DOESN'T RESULT IN THE PAYMENT OF CURRENT**
8 **INCOME TAXES?**

9 A. Yes. The revenue requirement is determined on an accrual accounting basis, not a cash
10 basis. So Mr. Riley's statement that customers are paying for non-cash expenses is true,
11 but that applies to all items of revenue, income and expense, not just income taxes.
12 Deferred income tax is an accrual accounting concept, required under Generally Accepted
13 Accounting Principles, by the Federal Energy Regulatory Commission and the IRC.
14 What is different here is that a portion of the ADIT Liabilities have not been realized
15 (the Company has not received the interest free loan) and it is not equitable to reduce rate
16 base for ADIT that has not been monetized. The solution is either to eliminate the
17 relevant portion of the ADIT Liability rate base reduction or to include the NOL ADIT
18 Asset in rate base. Either approach will work to eliminate the ADIT Liability for the
19 unrealized interest free loan.

20 **Q. WHAT OTHER REASONS CAN YOU CITE TO ADDRESS MR. RILEY'S**
21 **POSITION?**

22 A. A very important reason to support including the NOL ADIT Asset in rate base as proposed
23 by Spire and Staff is that this approach is required by the normalization provisions of the

1 IRC and adopting Mr. Riley’s position to exclude the NOL ADIT Asset from rate base
2 would likely result in a normalization violation. The IRC is clear that the NOL ADIT Asset
3 must be included in rate base to offset the ADIT Liability recorded for the book-tax
4 depreciation difference. A normalization violation would result in denying Spire the ability
5 to claim accelerated depreciation, thus losing significant rate base reducing ADIT to the
6 detriment of Spire’s customers.

7 **Q. WHY DO YOU BELIEVE THAT A NORMALIZATION VIOLATON WOULD**
8 **LIKELY RESULT FROM ADOPTING MR. RILEY’S RECOMMENDATION TO**
9 **EXCLUDE THE NOL ADIT ASSET FROM RATE BASE?**

10 A. In a series of private letter rulings (“PLRs”), discussed in Mr. Kuper’s Surrebuttal
11 Testimony, the IRS has ruled that the NOL ADIT Asset must be included in rate base to
12 offset the ADIT Liability recorded for the book-tax difference related to depreciation
13 (straight line depreciation for books, accelerated depreciation for tax) in order to avoid a
14 normalization violation. Although PLRs only apply to the taxpayer requesting it, PLRs
15 clearly show the thinking of the IRS with respect to interpreting the IRC and the related
16 regulations. In addition, the IRS strives to achieve consistency in its interpretations of the
17 tax statute and regulations. Given the consistency of all but one of the PLRs on this issue,
18 it is highly probable that a similar request on a similar issue by another taxpayer will likely
19 result in a similar ruling. The one conflicting PLR is dated and contained a different fact
20 pattern that is not present in this case.

21 All PLRs are published and made available to tax professionals and the taxpaying public.
22 The process of publishing the rulings assists other taxpayers with similar fact patterns,
23 avoids the requirement to prepare a ruling request and avoids the need for additional effort
24 by the IRS to respond to such requests when there is a clear interpretation of the IRS

1 position expressed in the PLRs.

2 The fact that a PLR is binding only on the taxpayer requesting it does not mean that the
3 IRS does not use a reasoned and consistent approach to support its decision. Because the
4 IRS is the administrative agency that interprets the tax rules, published PLRs clearly reveal
5 the agency's interpretation of the tax rules. As such, PLRs can be instructive to other
6 taxpayers, such as the case here.

7 **Q. CAN YOU PROVIDE A SIMPLE EXAMPLE TO ILLUSTRATE THE ISSUE?**

8 A. Yes. Assume a company has pre-tax book income of \$1,000, which includes \$300 of book
9 depreciation expense. Now assume that, for income tax purposes, the company can claim
10 \$1,500 of tax depreciation on its tax return. So, there is a \$1,200 book-tax difference. Also
11 assume the income tax rate is 21%.

12 The calculation of current and deferred income tax expense is as follows.

	<u>Book</u>	<u>Tax</u> <u>Return</u>	<u>Book-Tax</u> <u>Difference</u>
13 Pre-tax book income:	\$1,000	\$1,000	0
14 Additional tax depreciation		<u>(1,200)</u>	<u>1,200</u>
15 Subtotal	\$1,000	(200)	1,200
16 Tax Rate	21%	21%	21%
17 Current Tax Expense (Benefit)	(42)	<u>(42)</u>	
18 Deferred Tax Expense (\$1,200 X 21%)	<u>252</u>		<u>252</u>
19 Total Tax Expense	\$210		
20 Net	\$790		
21 In this situation, the Company would record:			
22 Current Taxes Payable/Receivable	\$42		
23 Current Tax Expense (Benefit)	\$42		
24 Deferred Tax Expense	\$252		
25 ADIT Liability	\$252		

1 The current tax benefit is a result of a NOL and no amount of cash is received from the
2 IRS. Instead, this benefit can be carried forward to reduce future income taxes. If it is
3 likely that the company will have sufficient future income to utilize the NOL, the following
4 journal entry is recorded:

5	NOL ADIT Asset	\$42
6	Current Taxes Payable/Receivable	\$42

7 This entry reflects the fact that cash is not received, but rather an asset is generated that
8 will be used to reduce taxes paid in the future.

9 **Q. WHAT OBSERVATIONS CAN BE MADE WITH THE ABOVE EXAMPLE?**

10 A. This is a simplified example of Spire's situation. In this example, the total tax expense is
11 \$210, based on amounts recorded on the books (the components of pre-tax book income).
12 The NOL is recorded as an NOL ADIT Asset of \$42. Spire also has an ADIT Liability of
13 \$252 reflecting the amount of income taxes that will become payable in the future when
14 book depreciation exceeds tax depreciation (depreciation is a timing/temporary difference
15 so that in early years, tax depreciation exceeds book depreciation but, over time, the
16 timing/temporary difference will reverse because total book and tax depreciation will be
17 the same.) As a result, the NOL and ADIT Liability must be netted in rate base to reflect
18 the true interest free loan of \$210 (\$252-\$42).

19 **Q. WHAT IS THE SOURCE OF THE ADIT?**

20 A. The source of the ADIT is the U.S. Treasury by permitting the company to claim
21 accelerated depreciation. The Congressional intent in permitting accelerated depreciation
22 is to provide an incentive for businesses to invest in capital projects knowing that by being
23 able to claim accelerated depreciation for tax purposes on that capital investment, taxable

1 income will be reduced, in turn reducing current income taxes otherwise payable. The IRC
2 normalization provisions ensure that Congressional intent is followed by rate-regulated
3 utilities by requiring deferred income tax expense to be an allowable expense in rate cases
4 with the related ADIT reducing rate base. Again, in an NOL situation, the interest free
5 loan has not been realized and rate base should not be reduced.

6 **Q. IS THAT JUST YOUR OPINION?**

7 A. No. The U.S. Treasury itself has said the same thing, as has the FERC.

8 **Q. WHERE HAVE THE TREASURY AND FERC SAID THIS?**

9 A. In a statement before the Oversight Subcommittee of the Committee on Ways and Means,
10 the Deputy Assistant Treasury Secretary stated (referring to accelerated depreciation and
11 investment tax credits):

12 “When tax depreciation rules permit write-offs at a faster rate than the actual
13 physical deterioration of capital assets, the economic effect is the deferral
14 of the tax liability. The result is the same as if the Treasury were to extend
15 a series of interest-free loans to the taxpayer during the early years of the
16 asset’s life, which are repayable in the later years.

17 ...

18 Thus, we are talking about two forms of Federal subsidies—interest-free
19 loans and cash grants—which are ‘cleared’ that is , paid and distributed—
20 through the Federal income tax system.” (Statement of Emil M. Sunley,
21 March 28, 1979).

1 The FERC studied this issue in RM 80-42 which resulted in Orders 144 and 144A. In those
2 Orders, FERC addressed cash basis arguments similar to the one that Mr. Riley includes in
3 his Rebuttal Testimony. In response, FERC concluded:

4 “The tax benefits, implied by these deferred taxes, arise from utility costs
5 that current customers are not being charged. The tax benefits arise solely
6 from the utility's ability to deduct a cost on its tax return prior to the
7 recognition and recovery of that cost in rates. Tax normalization results in
8 customers being charged the same rates as would occur absent the timing
9 difference transaction.

10 In addition, the rate treatment implied by the inclusion of a deferred tax
11 component in rates to reflect the collection in rates currently for taxes to be
12 paid some time in the future (or, at the least, recognized as a factor in
13 reducing the tax allowance in future rates) is not, in essence, different from
14 the rate treatment of other costs. Taxes are not the only cost component in
15 rates in which customers are required to pay for the cost prior to a utility's
16 actual expenditure of funds. Plant removal cost is an expense that is
17 recognized in rates prior to the utility's actual expenditure of funds. When
18 this expense is apportioned over the life of the plant (through the
19 depreciation allowance), it reflects the consideration that customers who
20 obtain the services from that plant should be responsible for the cost of
21 dismantling it. Just as the prepayment of plant removal costs over a plant's
22 operating life (rather than during the period of dismantlement when the
23 costs are incurred) does not constitute a loan from customers to the utility,

1 so, too, the prepayment of taxes (through deferred taxes) does not constitute
2 a loan from customers to the utility.”

3 Recognizing the U.S. Treasury as the source of the interest free loan characterized by
4 ADIT, it should be obvious that when a portion of the ADIT is not realized, the interest-
5 free loan from the U.S. Treasury does not exist and that portion of the ADIT Liability
6 should not be used to reduce rate base.

7 In short, the Commission got it right in their Report and Order of Case No. ER-2014-0258
8 with this quote cited by Mr. Riley:

9 “However, when bonus depreciation and other tax deductions grow so large
10 as to push the company’s taxable income into the negative, the available tax
11 deduction cannot offset any liability and no “free” cash is generated. In that
12 circumstance, the company must record an offsetting deferred tax asset for
13 Net Operating Loss Carryforward (NOLC). The NOLC offsets the ADIT,
14 which would decrease the company’s rate base, and therefore, the NOLC
15 has the effect of increasing the rate base.”

16 The Commission should not change their well-reasoned position in this case.

17 **V. CONCLUSION**

18 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

19 **A. Yes.**

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) **Case No. GR-2021-0108**
Rate Increase for Natural Gas Service Provided in)
the Company's Missouri Service Areas)

A F F I D A V I T

STATE OF ILLINOIS)
) SS.
COUNTY OF COOK)

Alan Felsenthal, of lawful age, being first duly sworn, deposes and states:

1. My name is Alan Felsenthal. I am a Managing Director at PricewaterhouseCoopers LLP ("PwC"). My business address is One North Wacker Drive, Chicago, Illinois, 60606.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony on behalf of Spire Missouri Inc.
3. Under penalty of perjury, I declare that my answers to the questions contained in the foregoing surrebuttal testimony are true and correct to the best of my knowledge and belief.



Alan Felsenthal

July 14, 2021

Date