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Witness: Kimberly K. Bolin
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MISSOURI PUBLIC SERVICE COMMISSION
FINANCIAL AND BUSINESS ANALYSIS DIVISION
AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY
OF
KIMBERLY K. BOLIN

SPIRE MISSOURI INC., d/b/a SPIRE
SPIRE EAST and SPIRE WEST
GENERAL RATE CASE

CASE NO. GR-2021-0108

Jefferson City, Missouri
July 2021

Surrebuttal Testimony of
Kimberly K. Bolin

1 A. The term “tracker” refers to a rate mechanism under which the amount of a
2 particular cost of service item actually incurred by a utility is “tracked” and compared to the
3 amount of that item currently included in a utility’s rate levels. Any over-recovery or
4 under-recovery of the item in rates compared to the actual expenditures made by the utility is
5 then booked to a regulatory asset or regulatory liability account, and would be eligible to
6 be included in the utility’s rates set in its next general rate proceeding through an amortization
7 to expense.

8 Q. Should use of trackers be a common occurrence in Missouri rate regulation
9 of utilities?

10 A. No. Rates are normally set in Missouri to allow a utility an opportunity to
11 recover its cost of service, measured as a whole, on an ongoing basis from the utility’s
12 customers. However, under this approach, with rare exceptions, neither utilities nor utility
13 customers are allowed to be reimbursed through the rate case process for any prior under or
14 over-recovery of costs experienced by the utility in rates, either measured for its cost of service
15 as a whole or for individual cost of service components. For this reason, use of trackers in order
16 to provide reimbursement in rates to utilities or customers of any over or under-recovery of
17 individual rate component items is rare and should be dependent on unique and unusual
18 circumstances.

19 Q. Under what criteria might Staff consider the use of trackers is justified?

20 A. Use of trackers may be justified under the following circumstances: (1) when
21 the applicable costs demonstrate significant fluctuation and up-and-down volatility over time,
22 and for which accurate estimation is difficult; (2) new costs for which there is little or
23 no historical experience, and for which accurate estimation is accordingly difficult; and

1 (3) costs imposed upon utilities by newly promulgated Commission rules. In addition, the costs
2 should be material in nature.

3 Q. Why are trackers sometimes justified by significantly fluctuating and
4 volatile costs?

5 A. If a utility's cost levels for a particular rate item over time demonstrate
6 significant up-and-down volatility, it can be appropriate to implement a tracker mechanism for
7 this type of item to reduce the amount of risk associated with a material inaccuracy in estimating
8 the particular cost for purposes of setting the utility's rates.

9 Q. What is an example the Commission authorizing a tracker for a volatile cost in
10 the past?

11 A. All major utilities operating in Missouri, including Spire, have tracker
12 mechanisms in place for their pension and other post-employment benefit (OPEB) expenses.
13 Annual pension and OPEB expense amounts have at times in the past had significant annual
14 volatility, primarily because pension and OPEB funding amounts are impacted by investment
15 outcomes in equity and debt markets, which, of course, can swing upward or downward based
16 upon trends in the general economy.

17 Q. Are there other unusual aspects to pension and OPEB expense that justify using
18 a tracker mechanism?

19 A. Yes. In Missouri, utilities place amounts intended for later payment to retired
20 employees for pension and OPEBs into external trust funds to help ensure that such funds are
21 available when due to utility employees. Staff believes it is good policy for utilities to keep as
22 current as possible on funding of pension and OPEB amounts. In this request, Staff believes
23 that authorizing tracker mechanisms for these expense items encourages utilities to stay current

1 on pension and OPEB expense allowances currently included in their rate levels. Of course if
2 pension or funding amounts turn out to be less than the amounts for these items currently
3 included in a utility's rate level, use of trackers also ensure that the funding/rate differential
4 would ultimately be flowed back to its customers.

5 Q. Does Staff continue to recommend that the Commission authorize
6 Spire's pension and OPEB trackers?

7 A. Yes. Continued authorization of these trackers remains appropriate for Spire
8 and other utilities that offer pension and OPEB benefits to their employees.

9 Q. Are there other instances where trackers may be justified?

10 A. In rare circumstances, utilities will incur significant new expense for which they
11 have little or no history to aid in determining an appropriate ongoing level for those expenses
12 for setting rates. In those circumstances, it may be appropriate to authorize a tracker to protect
13 both the utility and its customers from over-or-under-recovery in rates of these expenses due to
14 erroneous estimates.

15 Q. Has Staff agreed to the use of a tracker for this reason?

16 A. Yes, in several electric utility rate cases when a new generating unit goes into
17 service, Staff has agreed to a tracker applicable to the O&M expenses associated with the plant,
18 given the lack of history for these expenses. However, after several years of operation, Staff
19 recommends discontinuation of the tracker when adequate history of these expenses is known.

20 Q. Are there any other instances where the Commission has used trackers?

21 A. In some circumstances, the Commission has established, within the rules it
22 promulgates, provisions for tracking and recovery of incremental costs caused by utility
23 compliance with new rules. This was the case with the Commission rules requiring electric

1 utilities to take certain actions regarding vegetation management and infrastructure inspection
2 activities, which became effective in 2008.

3 Q. Are cost deferrals resulting from use of trackers any different from cost deferrals
4 resulting from an accounting authority order (AAO)?

5 A. Yes. In Missouri, when someone refers to an AAO, it is understood that person
6 is referring to a Commission order that allows a utility to defer certain costs on its balance sheet
7 for potential recovery of the deferred costs in rates through amortizations to expense in a general
8 rate proceeding. This is similar to how deferrals resulting from trackers may be treated in
9 general rate proceedings. However, the nature of the costs to which AAOs are normally granted,
10 and the nature of the costs to which tracking treatment is normally granted, are quite different.

11 Q. Would you explain the major differences in how AAOs and trackers have been
12 used in Missouri?

13 A. Typically, AAOs have been used to allow utilities to capture certain
14 unanticipated and “extraordinary” costs that are not included in their ongoing rate levels.
15 The term “extraordinary costs” are defined as costs associated with an event that is unusual,
16 unique and non-recurring in nature. The classic example of an extraordinary event is the
17 occurrence of a natural disaster, such as a wind or ice storm, or major flood that affects a
18 utility’s service territory.

19 In contrast, trackers have been used in Missouri to track certain costs that are
20 ongoing to a utility and for which some allowance has been built into the company’s existing
21 rate levels. For this reason, while costs subject to trackers exhibit some highly usual or unique
22 attributes which justify the use of a tracker, these costs are not “extraordinary” in the sense that
23 this term is commonly applied to costs covered by AAOs.

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1 Q. If the use of trackers has not been limited to truly extraordinary costs, then why
2 not track all or most costs?

3 A. There are at least two reasons. First, excessive use of trackers would tend to
4 skew ratemaking results either in favor of the utility or in favor of its customers. Secondly,
5 broad use of trackers would not provide the incentives a utility has to operate as efficiently and
6 productively under the rate regulation approach used in Missouri.

7 Q. Why would the widespread use of trackers tend to skew the ratemaking results
8 for a utility?

9 A. With certain exceptions, the policy in Missouri has been to set a utility's rates
10 based upon measurement of "all relevant factors," taking into account levels of revenues,
11 expenses, rate base and rate of return that are calculated at or approximately at the same point in
12 time. Use of an "all relevant factors" approach is necessary to ensure that a utility's rate levels
13 are based upon an accurate measurement of its cost of service at a particular point in time.

14 When using trackers as part of setting rates, certain cost factors inevitably
15 receive different and inconsistent treatment compared to other cost factors. For example, if a
16 utility tracks expenses that tend to increase in amount over time, but does not track cost of
17 service factors that may reduce its cost of service (factors such as revenue growth, or increases
18 in rate base offsets for accumulated depreciation or deferred taxes), the utility will have the
19 potential of receiving retroactive dollar-for-dollar recovery of certain cost increases in its
20 customer rates through the operation of its trackers, while pocketing for itself any beneficial
21 changes in other cost of service components that occur over the same period. In this manner,
22 inappropriate use of trackers can lead to skewed and unfair ratemaking results.

23 Q. How do trackers affect a utility's incentive to operate efficiently?

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1 A. An inevitable byproduct of the Missouri ratemaking approach is
2 “regulatory lag.” “Regulatory lag” is simply the passage of time between when a utility
3 experiences a change in the cost of service, and the reflection of that change in its rate levels.
4 While regulatory lag is often portrayed by utilities as a phenomenon that is entirely negative or
5 harmful, the existence of regulatory lag does provide utilities with incentive to be as efficient
6 and cost-effective over time as they can. Excessive use of trackers can serve to eliminate or
7 weaken these beneficial incentives.

8 Q. Does regulatory lag affect the earnings of a utility between general rate
9 proceedings?

10 A. Yes. The operation of regulatory lag as part of the normal ratemaking process
11 exposes a utility to the prospect of lower earnings if its cost of service increases between general
12 rate proceedings. However, it also allows the utility to experience higher earnings if the utility
13 is able to reduce its cost of service that was established in the most current rate proceeding. This
14 “penalty/reward” aspect of current Missouri ratemaking policy would be damaged by use of
15 trackers if applied to normal cost of service items. A company that experiences an increase in
16 an expense that is being tracked will experience no reduction in earnings related to that
17 increased costs (because the cost increase will be captured on its balance sheet and not on its
18 income statement) and, therefore, the utility will have less incentive to attempt to minimize any
19 such cost increase. On the other hand, a utility that experiences a reduction in an expense that
20 is being tracked will experience no increase to its ongoing earnings level as a result of the
21 decreased costs (again, because the cost decrease will be captured on its balance sheet and not
22 on its income statement) and, therefore, would have less incentive to produce the lower cost
23 levels in the first place.

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1 Q. What cost of service items is Spire seeking to track?

2 A. Spire is seeking authority to continue tracking Kansas property taxes and is
3 seeking to implement a tracker for the PSC Assessment.

4 Q. Is it generally appropriate to track property taxes?

5 A. No. Property taxes are an ongoing cost of service item that is incurred on a
6 routine annual basis by all major utilities. They have been a component of utility cost of service
7 in all general rate cases I have been involved with for over 25 years. These costs are incurred
8 according to a regular schedule and a set process with which utilities are familiar.

9 Q. In the past has Staff supported a tracker for the Kansas property tax?

10 A. Yes. In Case No. GR-2014-0007, Staff recommended to continue the Kansas
11 property tax tracker due to the pending court challenges surrounding the property taxes at that
12 time. Since that case, a final decision has since been made and all appeals have been denied.

13 Q. What ratemaking treatment does Staff recommend for the Kansas property tax
14 expense?

15 A. Staff recommends normalizing the Kansas property tax expense. Staff used
16 12 years of historical data to develop a normalized level of Kansas property tax expense.
17 Normalization of a cost provides for fluctuations that may occur such as an increase in gas
18 prices. Staff witness Jeremy Juliette discusses Staff's normalization and the reasons supporting
19 Staff's normalization in his surrebuttal testimony.

20 Q. Should the PSC Assessment expense be tracked?

21 A. No. The PSC Assessment is very much routine and ongoing in nature and is
22 not associated with rare and unanticipated events. Just like other costs that are not tracked,
23 there is not a significant amount of volatility in the PSC Assessment charged to Spire.

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1 Staff witness Jared Giacone provides a table which compares Spire's PSC assessment for the
2 last four years in his surrebuttal testimony.

3 Q. What level of PSC Assessment expense does Staff recommend in this case?

4 A. Staff recommends a PSC Assessment expense level of \$3,627,843. This is
5 the Fiscal Year 2021 amount assessed to Spire. Staff witness Jared Giacone discusses
6 Staff's support for using the Fiscal Year 2021 Missouri PSC Assessment amount.

7 Q. Did the Commission previously deny Spire's request for an AAO for the
8 2019 Fiscal Year Missouri Public Service Commission Assessment?

9 A. Yes. In Case No. GU-2019-0011, the Commission denied Spire's application for
10 an AAO for the 2019 Fiscal Year Missouri PSC Assessment. The Commission concluded that
11 Spire had not met its burden of proof to demonstrate that the increased assessment cost was
12 extraordinary.¹

13 Q. In Case No. GU-2019-001, did the Commission state that Spire Missouri's
14 request in that case was more similar to a request for a tracker than a traditional AAO?

15 A. Yes. However, the Commission stated that it applied the same analysis to both
16 types of deferral mechanisms in making its decision.²

17 Q. Does this conclude your surrebuttal testimony?

18 A. Yes.

¹ Report and Order, Case No. GU-2019-0011, pg. 18.

² Report and Order, Case No. GU-2019-0011, pg. 15.

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)

Case No. GR-2021-0108

AFFIDAVIT OF KIMBERLY K. BOLIN

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

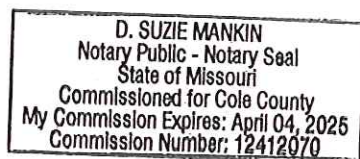
COMES NOW KIMBERLY K. BOLIN and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Surrebuttal Testimony of Kimberly K. Bolin*; and that the same is true and correct according to her best knowledge and belief.


Further the Affiant sayeth not.


KIMBERLY K. BOLIN

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 12th day of July 2021.




Notary Public