

TABLE OF CONTENTS

Testimony	Page
Introduction	1
Incentive Compensation	2

DIRECT TESTIMONY

OF

CASSIDY WEATHERS

SPIRE MISSOURI, INC.

CASE NO. GR-2022-0179

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. Cassidy Weathers, PO Box 2230, Jefferson City, Missouri 65102.

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

5 A. I am employed by the Missouri Office of the Public Counsel (“OPC”) as a Utility Regulatory
6 Auditor.

7 **Q. On whose behalf are you testifying?**

8 A. I am testifying on behalf of the OPC.

9 **Q. What is the nature of your duties at the OPC?**

10 A. My duties include performing audits and examinations of the books and records of public
11 utilities operating within the state of Missouri.

12 **Q. Please describe your educational background.**

13 A. I graduated from Missouri Southern State University with a Bachelor’s of Science in Business
14 Administration with an emphasis in Accounting and a certificate in Crime Scene Investigation
15 in May of 2021.

1 **Q. Have you received specialized training related to public utility accounting and**
2 **ratemaking?**

3 A. Yes. I received and continue to receive regulatory and ratemaking training as an employee of
4 the OPC. In March 2022, I attended the online Institute of Public Utilities Accounting and
5 Ratemaking Course sponsored by Michigan State University. In addition, I attended the
6 NARUC Utility Rate School also sponsored by Michigan State University in May of 2022.

7 **Q. Have you previously testified before the Missouri Public Service Commission**
8 **(“Commission”)?**

9 A. Yes. I have prepared pre-filed testimony in Case Nos. ER-2022-0129 and ER-2022-0130, but
10 have not yet been called to testify before the Commission.

11 **Q. What is the purpose of this direct testimony?**

12 A. The purpose of my direct testimony is to address incentive compensation.

13 **II. INCENTIVE COMPENSATION**

14 **Q. What is incentive compensation?**

15 A. An incentive compensation focused website, Anaplan.com provides a definition, “incentive
16 compensation is a form of variable compensation in which a salesperson’s (or other
17 employee’s) earnings are directly tied to the amount of product they sell, the success of their
18 team, or the organization’s success. Incentives can be structured in multiple ways, including
19 straight commissions, bonuses, prizes, ‘spiffs,’ awards, and recognition. A company’s

1 incentive compensation plans must align to corporate goals...”¹ In other terms, incentive
2 compensation is a reward for creating efficiencies within the workplace.

3 **Q. What is your position regarding incentive compensation?**

4 A. Ratepayers should not pay for additional reimbursement of incentive compensation in their
5 rates. I explain how Spire is receiving more recovery than necessary for incentive
6 compensation below.

7 **Q. Does Spire Missouri, Inc. (“Spire”) have any short term incentive compensation plans?**

8 A. Yes.

9 **Q. Can you name these short term incentive compensation plans?**

10 A. Yes. Spire responded to Public Service Commission Staff’s (“Staff”) data request (“DR”)
11 0059 and DR 0059.1 that the annual incentive compensation plan is the only incentive
12 compensation that is provided and all employees are eligible to participate in that plan.

13 **Q. Does Spire have any long term incentive compensation plans?**

14 A. No, or at least Spire is not seeking recovery.

15 **Q. Can you elaborate further on that statement?**

16 A. Yes. In Staff DR 0063, Spire responds that **_____

17 _____

18 _____

¹ <https://www.anaplan.com/blog/complete-introduction-incentive-compensation-sales/>

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Q. What amount of incentive compensation is currently included in Spire’s case?

A. I am not certain at the time of this filing. I have looked into multiple Staff DR’s and Spire workpapers and I am unsure what amount of incentive compensation Spire seeks to recover. Incentive compensation is subject to adjustments as the case continues, so the recovery amount will update in later filings.

Q. You mentioned earlier that Spire is receiving more recovery than necessary for incentive compensation. What do you mean?

A. Spire is already recovering the cost of its incentive compensation payments in between rate cases. Therefore, the benefits (increased revenue or decreased costs) that the Company is achieving are not reflected in rates. This means regulatory lag allows Spire to keep those benefits for itself.

Q. Can you provide an example?

Sure. Let’s walk through a hypothetical example with assumed future incentive compensation payouts and operations and maintenance (“O&M”) savings. Let’s consider a utility named ABC Utility Company. Years prior to a rate case filed in 2022, ABC Utility Company devised a plan to improve operational efficiencies. The Company then developed strategies to identify inefficiencies and solutions for improvement. A corresponding incentive compensation plan to reward employees for achieving these new efficiency goals was also implemented. As a result, ABC Utility Company paid out \$5,000,000 in incentive compensation to reward a team of employees for achieving \$20,000,000 in operational savings. It is important to note that the Company saved more than what it paid to its employees in incentive compensation because

1 there is no reason a company will pay its employees a bonus larger than the savings the
2 employee generated.

3 To further explain, ABC Utility Company collects \$20,000,000 from ratepayers because this
4 \$20,000,000 in operational savings cannot be currently reflected onto ABC Utility Company's
5 rates as a reduction. This is because rates cannot be changed outside of a rate case. Due to the
6 reduction in its operations and maintenance by \$20,000,000, the Company just gets to keep
7 the extra money it is saving as profit. Even if you subtract the \$5,000,000 ABC Utility
8 Company paid out in incentive compensation, the Company is still earning \$15,000,000 in
9 bonus profit because of operational savings, proving it to be unnecessary for ratepayers to pay
10 the \$5,000,000.

11 **Q. However, wouldn't the savings that come from the reduction in O&M ultimately go into**
12 **rates?**

13 A. Yes, but by the time those reduced O&M savings are included in rates, the Company has
14 already collected as a profit more than it has spent on incentive compensation payments. That
15 is the result of the effect better known as regulatory lag.

16 **Q. What happens if the Commission continues to allow Spire to collect incentive**
17 **compensation from customers?**

18 A. Spire will continue to be paid twice. Once from the operational savings or revenue increases
19 that triggered the incentive compensation payments and then again from the ratepayers.

20 **Q. Is there any point in time when Spire would not be paid twice?**

21 A. Only during the rate case. That is the one time that operational savings or increased revenue
22 are able to be included in the Company's rates. Under the matching principle, it makes sense
23 for Spire to recover the cost of incentive compensation payments made to achieve the
24 operational savings or increased revenues that occur during the test year.

1 **Q. Should those incentive compensation payments be included entirely in rates?**

2 A. No. Those incentive compensation payments are only paid out once during the test year. It is
3 inappropriate to include those incentive compensation payments in its entirety into rates
4 because then the company will collect those costs for multiple years in a row despite only
5 making the actual incentive compensation payments once.

6 **Q. How do you solve this dilemma?**

7 A. The Commission should normalize² the incentive compensation payments over the expected
8 duration of the rates set in this case. Spire currently has an infrastructure system replacement
9 surcharge (“ISRS”). As I understand, under Missouri law, Spire must initiate a new general
10 rate case every three years to maintain its ISRS. It is therefore reasonable to assume that Spire
11 will initiate a new rate case within three years. The expected duration of the rates set in this
12 case should therefore be three years. This means that the incentive compensation payments
13 made to achieve operational savings or increased revenue during the test year should be
14 normalized over three years. In the example I previously discussed, ABC Utility Company
15 had incentive compensation payments of \$5,000,000 divided by three years. This will equal
16 \$1,666,667 built into the revenue requirement. Therefore, ratepayers will be charged
17 \$1,666,667 for each of the three years for the one-time payment of \$5,000,000, instead of
18 charging ratepayers \$5,000,000 annually for this one-time incentive compensation payouts.
19 This would save ratepayers millions, and the utility will still receive the \$5,000,000 it paid for
20 incentive compensation for operational savings or increased revenues achieved during the test
21 year.

² Adjustment to spread the non-recurring expenses or revenues over a specified period.

1 **Q. What is your overall recommendation to the Commission?**

2 A. The Commission should recognize that incentive compensation plans are designed to pay
3 for themselves through efficiencies and cost savings. Ratepayers should not be expected to
4 pay for efficiencies where they do not receive a direct benefit. Any new incentive
5 compensation in between rate cases should be self-funding and not a responsibility of the
6 ratepayer. The amount of incentive compensation Spire paid to employees for operational
7 savings or increased revenues achieved during the test year in this case should be
8 normalized for three years. A normalized amount would satisfy the utility's commitment
9 to the incentive compensation payment it incurred in the test year.

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

11 A. Yes.

