Exhibit No.:	
Issue(s):	*Customer Convenience Fees Overhead Study Fees, Payroll, Payroll Taxes, Employee Benefits, 401(k) Match Expenses, Pensions, OPEBs, SERP, Rate Case Expense*
Witness:	*Jane C. Dhority*
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 & BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

DIRECT TESTIMONY
Revenue Requirement

OF

JANE C. DHORITY

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

CASE NO. GR-2022-0179

Jefferson City, Missouri
August 2022

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DIRECT TESTIMONY

OF

JANE C. DHORITY

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DIRECT TESTIMONY

OF

JANE C. DHORITY

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

CASE NO. GR-2022-0179

Q. Please state your name and business address.

A. My name is Jane C. Dhority and my business address is 111 North 7th Street, Suite 105, St. Louis, MO 63101.

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

A. I am employed by the Missouri Public Service Commission as a Utility Regulatory Auditor.

Q. Have you previously filed testimony before this Commission?

A. Yes. Please refer to Schedule JCD-d1, attached to this direct testimony, for a list of cases for which I have filed testimony.

EXECUTIVE SUMMARY

Q. What is the purpose of your direct testimony?

A. The purpose of this testimony is to discuss Staff's position in this case regarding the following issues: customer convenience fees, overhead external audit study fees, payroll, payroll taxes, employee benefits, qualified and non-qualified pension expense, OPEBs, and rate case expense.

CUSTOMER CONVENIENCE FEES

Q. What are customer convenience fees?

A. Both Spire East and Spire West incur costs from various credit card companies and third party vendors that charge a fee to process credit card payments made by customers paying their utility bill. In the Partial Stipulation and Agreement filed in Case No. GR-2009-0355, the parties agreed that Spire West (formerly Missouri Gas Energy (MGE)) was allowed to recover the per-transaction cost associated with processing customer credit card payments[1]. This agreement was approved by the Commission. Prior to the aforementioned case, customers were responsible for the transaction fees associated with paying their bill by credit card. In Case No. GR-2017-0215, Spire East sought similar treatment to that which was approved by the Commission for Spire West's customer convenience fees. This treatment was approved by the Commission in Case No. GR-2017-0215[2].

In Spire Missouri's last general rate Case No. GR-2021-0108, Staff included an annualized amount of customer convenience fees in its cost of service calculations as was agreed upon in Case Nos. GR-2009-0335 and GR-2017-0215.

Q How did Staff determine its adjustment for credit card fees in this case?

A. Staff reviewed the credit card processing fees incurred between June 1, 2021 and May 31, 2022 and determined the appropriate amount of costs to include in rates in this case. Staff included an amount of customer convenience fees in the cost of service based on the amount of expense recorded in Spire Missouri's general ledger FERC account 903 for the 12 months ending May 31, 2022.

Q. Will Staff be addressing customer convenience fees as part of its true-up calculations?

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[1] *Partial Stipulation and Agreement*, Case No. GR-2009-0355, page 5.
[2] *Amended Report and Order*, Case No. GR-2017-0215, pages 68 – 72.

A. Yes. Staff will review these fees through the true-up cutoff, September 30, 2022.

OVERHEAD EXTERNAL AUDIT STUDY FEES

Q. Please explain the overhead external audit study fees.

A. In Case No. GR-2021-0108, the Commission determined that Spire Missouri was not following the guidance of the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USOA) in its capitalization of certain costs. As part of its Report and Order in Case No. GR-2021-0108, the Commission ordered Spire Missouri to cease capitalizing non-operational overhead costs, going forward, until Spire Missouri's compliance with the FERC was shown[3]. In order to be able to resume capitalization of these overhead costs, Spire Missouri hired an external party to conduct an overhead capitalization study in order for Staff to determine the Company's compliance with the USOA Plant Instructions' overhead requirements.

Q. What is Staff's recommendation for treatment of these costs?

A. Because this overhead study was responsive to an order of the Commission, Staff recommends full recovery of the costs, however Staff recommends recovery over a three-year period.

PAYROLL AND PAYROLL TAXES

Q. What adjustments did Staff propose for payroll expense in this case?

A. Staff proposes adjustments to annualize payroll, and payroll taxes in the cost of service for this case. Staff utilized the same methodology that was applied by Staff in the prior Case No. GR-2021-0108.

[3] *Report and Order*, Case No. GR-2021-0108, page 75.

Q. How did Staff propose annualizing payroll expense?

A. Staff reviewed all wages and salaries of all union and non-union regular full and part time employees, and the allocation of payroll costs to each Spire entity and rate district. An allocation of costs is necessary to assign a proper amount of payroll costs, therefore Staff also reviewed the allocation of actual assigned payroll costs for each to each entity and rate district. Staff then calculated base payroll for each employee as of May 31, 2022, utilizing the latest non-union salary increases as of November 2021. Union employee's contracts will be renegotiated with union salary increases occurring in August 2022. Staff will include these union payroll changes as part of its true-up audit through September 30, 2022.

Staff distributed its payroll adjustment to the FERC Uniform System of Accounts ("USOA") based on the test year distribution Staff calculated in Case No. GR-2021-0108. In that case, the percent of total payroll expense to be distributed to each account was based on the amount of adjustment to each account over the total payroll adjustment for each rate district. The total sum of the payroll amounts (excluding incentive compensation and employee bonuses) for each account was then used to calculate a percentage of payroll contained in each account. The percentage for each account was calculated by taking each payroll account balance and dividing it by the total sum of the payroll amounts for all accounts.

Q. Did Staff propose inclusion of overtime costs in its payroll calculation?

A. Yes. Staff's payroll adjustment takes overtime into consideration. Staff applied an overtime percentage proposed by Spire Missouri and accepted by Staff in Case No. GR-2021-0108 to total annualized payroll to arrive at an amount of overtime expense to be included in this case.

Q. Why did Staff continue to use the same overtime percentage as in the prior case?

A. In Case No. GR-2017-0215, Staff submitted a data request asking that the Company provide the overtime hours and related dollars identified between associated payroll expense and any amount capitalized for construction, by month, for the test year and update period, broken out by union and non-union employee groups. Spire Missouri's response stated that its system-of-record was such that it would be impossible to provide the information requested broken into the categories requested by Staff[4].

In Spire Missouri's subsequent rate Case No. GR-2021-0108, Staff submitted a data request for the same information, and again, Spire Missouri did not provide the data requested by Staff separated into the specific categories Staff asked for. Spire Missouri's reply stated that the Company does not distribute regular and overtime hours separately, but instead uses a weighted average basis[5].

Finally, in this instant case, Staff issued Data Request 0141 requesting the same overtime information, broken out into the same categories as it had requested in the two previous cases. And again in this case, Spire Missouri failed to provide the data in the manner Staff has asked for. Spire Missouri's reply to the data request in this case is identical to the response to Data Request 0347 in Case No. GR-2021-0108[6].

Staff has asked Spire Missouri repeatedly over the past several cases, and now in this instant case, to provide information relating to overtime with certain details that Staff finds necessary to calculate an appropriate and more accurate amount of overtime. Spire Missouri has consistently failed to provide the requested information. Therefore, Staff used the same

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[4] Case No. GR-2017-0215, Staff Data Request 0149.
[5] Case No. GR-2021-0108, Staff Data Request 0347.
[6] Case No. GR-2022-0179, Staff Data Request 0141.

overtime percentage provided by Spire Missouri in the last case as it is the only information available to make its adjustment.

Q. Does Staff have further recommendations with regards to the overtime portion of payroll?

A. Yes. To address the problem facing Staff with regards to calculating overtime, Staff recommends the Commission order Spire Missouri to maintain an ongoing record of overtime hours. The overtime hours should be separated by month, by type of pay (management, union), and by rate (time and a half, double time, etc.). The information should also be separated into capital versus expense and by rate district (Spire East and Spire West). Staff is willing to work with Spire Missouri on the deliverables.

Q. How did Staff approach its adjustment for payroll taxes?

A. Payroll taxes were annualized by applying the current payroll tax rates to each employee’s annual level of payroll. An aggregate tax rate was used to calculate payroll taxes for overtime. Staff calculated payroll taxes based on the wage levels and current tax rates through the update period ending May 31, 2022. This includes amounts pursuant to the Federal Unemployment Taxes Act (“FUTA”), social security and Medicare taxes, and Federal Insurance Contributions Act (“FICA”) taxes.

Q. Did Staff make adjustments to payroll for O&M in this case?

A. Yes. Total annualized payroll must be separated between amounts charged to expense and amounts charged to capital and below the line accounts. The ratio between these two amounts is referred to as an Operations and Maintenance (“O&M”) ratio. The establishment of an appropriate O&M ratio is important as this ratio directly affects the amount of payroll charged to expense as well as determining the expense level for payroll-related benefits. Staff applied the O&M ratio provided by Staff witness Matthew R. Young for the period ending May 31, 2022 to separate payroll into amounts to be capitalized and those amounts to be expensed.

<u>EMPLOYEE BENEFITS</u>

Employee Insurance

Q. How did Staff determine the amount of employee life insurance, accidental death and dismemberment (AD&D) insurance and long-term disability insurance expense to include in the cost of service in this case?

A. The amounts included in the cost of service were calculated based upon the most current rates applied to the actual employee wage and salary levels as of the update period of May 31, 2022.

401(K)

Q. How did Staff determine Spire Missouri's 401(k) match expense for this case?

A. Staff calculated Spire Missouri's 401(k) match expense by applying the rate used in the Company's rate case model to the actual employee wage and salary levels as of the update period of May 31, 2022.

Q. Will payroll, payroll taxes, benefits, and 401(k) match expenses be subject to true-up?

A. Yes. Staff will update its adjustments to include costs through the true-up cutoff date of September 30, 2022.

continued on next page

PENSIONS AND OTHER POST EMPLOYMENT BENEFITS (OPEBS)

Pensions

Q. Please describe the pension plans offered by Spire Missouri.

A. Spire offers a cash based defined benefit pension plan (Spire Missouri Employees' Retirement Plan) to all of its current employees. Spire also has a legacy pension plan (Spire Missouri West Retirement Income Plan), which was a former Missouri Gas Energy ("MGE") pension plan that covered union and non-union MGE employees. Although active employees covered under the legacy MGE plan were transitioned to the Spire Missouri Employee's Retirement Plan on January 1, 2021, the legacy plan still covers all Spire (legacy MGE) employees who retired prior to the transition, and will continue until all of the benefit obligations owed to those retired employees has been met.

Q. What is Staff's recommended treatment for Spire East and Spire West's qualified pension costs?

A. Staff recommends that the ratemaking methodology for Spire East and Spire West's pension expense continue in a manner similar to that originally agreed to in the Stipulation and Agreement (the "2014 Spire West Stipulation") from Spire West's rate Case No. GR-2014-0007. In that case, Spire West and Staff agreed to several ratemaking methodologies governing the recognition of pension expense in Spire West's cost of service and the use of a tracking mechanism. In Spire East's Case No. GR-2013-0171, a Stipulation and Agreement ("2013 Spire East Stipulation") was filed, outlining a ratemaking methodology similar to the 2014 Spire West Stipulation. Staff continued to use this methodology in Spire Missouri's most recent Case No. GR-2021-0108. In that case, Staff recommended continuation of the tracker mechanisms, and the baseline funding scenario (80%) for cash contributions calculated by Spire Missouri's actuary, Willis Towers Watson, in their Cash Forecast Report dated October 30, 2020[7]. The issue of pensions and OPEBs in that case was ultimately settled in a partial stipulation in which the Signatories agreed that the appropriate amount of pension contributions to include in rates is an amount sufficient to achieve an 80% funding status and minimum required contribution amounts, as required by the federal ERISA legislation. The parties also agreed to continue Spire East and Spire West's tracking mechanisms for both pensions and OPEBs[8].

Q. What is a tracker?

A. A tracker is a unique regulatory tool used to ensure that actual expenditures for a particular cost are recovered over time. Tracking mechanisms compare ongoing amounts of cash expense actually incurred by a utility to the amount of the same costs in the utility's rates, and then provides rate recovery over time of the difference in amounts. Generally, tracker mechanisms should only be used for certain expenses incurred by utilities that have unusual characteristics or have been incurred under extraordinary circumstances.

The Commission allows the use of trackers to account for the difference between the cash collected in rates and the cash expended for both pension and other post-employment benefit ("OPEB") funding, where the unamortized balance is included in rate base as well as the amortization in expense. This is an exception to normal ratemaking adjustments due to the significant possible cash flow implications if the utility's pension or OPEB funding requirements are materially different from the recovery levels of those costs in rates. Both Spire East and Spire West are required to fund pensions at a certain level per the Employment Income

[7] Case No. GR-2021-0108, Staff Data Request 0359.
[8] *Partial Stipulation and Agreement,* Case No. GR-2021-0108, page 3.

Security Act ("ERISA") of 1974 as well as the Pension Protection Act ("PPA") of 2006, and ongoing tracking mechanisms capture both under and over recovery of an expense to be either returned to or recovered from ratepayers.

The overall goal of a tracker mechanism, when properly executed, is to provide the utility with dollar for dollar recovery of reasonable and prudently incurred cash expenses, but no more and no less than dollar for dollar recovery. For ratemaking purposes, Staff tracks the difference between cash paid by the Company for pension contributions and cash received from customers through rates. However, Spire reports pension expense under the Accounting Standard Codification 715, which has historically been referred to as FAS 87 and FAS 88. The Federal Accounting Standards Board (FASB) issued FAS 87 to give publicly traded companies guidance on accounting for pension expense and to increase comparability between companies' reported costs. The pension expense reported by companies under the FAS 87 guidance is based on the estimated pension obligation a company incurs during the service of its employees. Furthermore, the FAS 87 expense calculation is not directly affected by the company's cash flow. Since a tracker mechanism has been agreed to, cash flow is fundamental in tracking the actual cash outlay incurred by the Company in order to provide the utility recovery of the difference in their actual cash outlay and the amounts that have been included in rates. Because the FAS 87 expense calculated by Spire's actuary, Willis Towers Watson, does not capture the cash flow implications, FAS 87 expense is not an appropriate ratemaking methodology.

Q. How is Spire Missouri currently tracking its pension costs?

A. In accordance with the partial stipulation and agreement in Case No. GR-2021-0108, Spire East and Spire West began tracking the Company's pension asset/liability in layers. The purpose of tracking in layers is to provide more visibility into unamortized balances that were accumulated in previous years versus current and future activity. According to the stipulation and agreement, balances prior to May 31, 2021 are tracked as a layer, "Pre GR-2021-0108", and balances that occur from contribution levels starting on June 1, 2021 are tracked as a layer, "Post GR-2021-0108"[9]. In the past, Spire Missouri has had an accumulating tracker rather than a multi-layered tracker. An accumulated tracker will "reset" the unamortized balance when the utility comes in for a rate case. This means that any unamortized balance that remains when the pension base expense is reset will be added to that new pension balance at a certain date. Between rate cases or after that base is reset, the balance will amortize down until it is reset again in another rate case. A layered tracker means that each rate case will have a new base expense and its own amortization and past rate case trackers will amortize down to zero and be removed from the books. This creates a cycle where each new tracker is established on the books and each old tracker drops off when fully amortized. Since it was determined in the last case to split the tracker into a different layer as of the last rate case, this will allow Spire East's large pre-paid pension asset to reduce over time without adding to the asset. The new rebased pension expense discussed below will be included in this rate case and added to the new layer that was created in the last case. After discussions with Company regarding its intentions for the new layer, Staff has the understanding that Spire Missouri intends to make the new "Post GR-2021-0108" tracking layer a new accumulated tracker, like the "Pre GR-2021-0108" tracker.

Q. What amounts are included in the "Pre GR-2021-0108" pension tracker balance?

A. This tracker balance includes the difference between Spire Missouri's pension expense and what is included in rates for all rebased expense balances and amortization that

[9] *Partial Stipulation and Agreement,* Case No. GR-2021-0108, page 4

occurred prior to the May 31, 2021. This tracker also includes an adjustment to reinstate a portion of pension expense that had previously been disallowed by the Commission as part of Case No. GR-2017-0215, after the Commission's decision was overturned by the Missouri Supreme Court. The "Pre GR-2021-0108" tracker balance includes the stipulated pension expense balance as of May 31, 2021 and the amortization of this balance is over 8 years.

Q. What amounts are included in the post-2021 tracker balance?

A. The "Post GR-2021-0108" tracker consists of the difference between the ongoing pension expense that was included in rates in the last rate case and the amount already rates. This amount consists of the old amortization until the effective date of rates in December 2021 through the update period, May 31, 2022.

Q. What is Staff's recommended treatment for rebasing ongoing pension expense in this case?

A. Staff recommends setting ongoing pension expense based on Spire East and Spire West's minimum required contributions for fiscal year 2022 as calculated by Spire's actuary in its Cash Forecast Report provided in response to Staff Data Request 293.

Q. What is Spire Missouri's proposed treatment of the post-2021 tracker and did Staff include the post-2021 tracker amortization in the cost of service?

A. The Company is proposing not to amortize the balances accrued between June 1, 2021 and May 31, 2022, but rather to continue accumulation of these amounts until Spire Missouri's next general rate case as they are electing to continue accumulation rather than create additional layers. Staff has included this amortization over a three year period rather than leaving it to accumulate. Spire Missouri's proposed approach would be inconsistent with how Staff has handled over and under recovered amounts related to tracked pension and

OPEB costs in rate cases since the inception of the trackers. Rate cases are milestones in the trackers that are memorialized at the conclusion of a case. If all amounts are included in the cost of service at a certain date, this gives a firm cut-off and guidance for a future rate case audit.

Q. What is Staff's recommendation regarding Spire Missouri's pension tracker balances?

A. Staff recommends including the "PRE GR-2021-0108" tracker balance as of May 31, 2021, amortized over 8 years. Staff also recommends including the "POST GR-2021-0108" tracker balance as of May 31, 2022, amortized over a 3 year period as this is consistent with the timeframe between Spire Missouri's filing of general rate cases.

Other Post-Employment Benefits (OPEBs)

Q. What are OPEBs?

A. Other Post Employment Benefit Costs ("OPEBS" or "postretirement benefits") are costs Spire East and Spire West incur to provide certain benefits to retired employees. The primary benefit is medical insurance, but these costs also include life, dental, and vision insurance benefits.

OPEBs are actuarially calculated under the terms of Financial Accounting Standard 106 ("FAS 106"). FAS 106 is the FASB approved accrual accounting method used for financial statement recognition of the annual amount of OPEBs. The accounting of the cost of post-retirement benefits is not based on the actual dollars Spire Missouri pays for OPEBs to its retirees currently. Instead, under FAS 106, this measurement is accrual-based, in that it attempts to recognize financial effects of noncash transactions and events affecting future OPEB obligations as they occur. These noncash transactions and events are primarily current benefits earned by employees before retirement, but not paid until after retirement, as well as the interest cost arising from the passage of time until those benefits are paid.

Q. Please describe Staff's adjustment to OPEBs in this case?

A. The Partial Stipulation and Agreement in Case No. GR-2021-0108 describes the continuing use of trackers for OPEBs. The amounts tracked are the differences between the current ongoing level of cash contributions made to fund the OPEB trust accounts and the dollar amount of OPEB expense reflected in rates between each case. The OPEB tracking mechanisms are functionally the same as the pension tracking mechanisms. Spire Missouri also uses an accumulating tracker for its OPEB costs and no additional layer was created for OPEBs as there was for pensions in the last rate case. In response to Staff Data Request 0067, Spire Missouri has indicated that there were no planned OPEB contributions for the rest of 2021 nor in 2022, and the Company has not included any OPEB contribution expense in its rate request for this case. Because Spire East and Spire West have been receiving amounts for OPEB expense in rates and there have been no contributions to OPEBs, the Company's OPEB tracker balance has flipped from a regulatory asset to a regulatory liability.

The Spire East OPEB tracker follows the methodology ordered by the Commission pursuant to the 2013 Spire East Stipulation, as implemented by Staff in the 2021 Rate Case, and updated through May 31, 2022. Staff has included the cumulative difference between the amount in rates and the resulting balance and amortization since the 2021 Rate Case in rates. Staff also recommends amortization of the cumulative tracker balance at May 31, 2022 over a period of 8 (eight) years, and inclusion of the cumulative tracker balance as a net rate base reduction in the cost of service.

Supplemental Employee Retirement Plan (SERP)

Q. What is non-qualified pension expense or Supplemental Employee Retirement Plan ("SERP")?

A. SERP is an employee benefit fund offered by Spire Missouri for certain highly-compensated employees that allows for an annuity or lump sum payment upon retirement. SERP payments are non-qualified retirement plans for officers and executives, which provide the pension benefits these highly-compensated individuals would have received under other company retirement plans but for compensation and benefit limits imposed by the Internal Revenue Service ("IRS").

Q. What is Staff's recommended treatment of SERP?

A. The Commission has traditionally included a reasonable amount of SERP expenses in customer rates. Staff is proposing to include a three-year average of annuity and lump-sum payments for SERP. This is consistent with Staff's position in the previous rate case.

Q. Is there a tracker for SERP?

A. No. There is no tracker for SERP as this is an extra benefit only available to certain high-level executives in addition to the Company's pension plan.

Q. How did Staff approach this issue in the prior Case No. GR-2021-0108?

A. Staff included normalized levels of recurring SERP payments (annuities) and a normalization of any large lump-sum SERP payments Spire Missouri has made to its former executives and other-highly-compensated former employees.

Q. Will Staff be addressing pensions, OPEBs and SERP as part of its true-up audit?

A. Yes.

RATE CASE EXPENSE

Q. What is rate case expense?

A. Rate case expenses are the costs incurred by a utility in the preparation and filing of a rate case. In the instant case, Spire Missouri has incurred expenses in conjunction with legal counsel and outside consultants, as well as costs associated with customer notices.

Q. What is Staff's recommended treatment of rate case expense in this case?

A. Staff recommends using the same treatment of rate case expense as in the prior Case No. GR-2021-0108, which is to include a 50% share of the average incremental external rate case expense from the two most recent Spire Missouri rate cases and normalizing that cost level over a three year period. This allocation is consistent with the Commission's most recent guidance concerning rate case expense in the Spire Missouri rate Case Nos. GR-2017-0215 and GR-2017-0216, which was recently upheld by the Missouri Supreme Court[10]. These amounts will not be subject to true-up for actual expense incurred, or any over or under-recovery recognized. Staff also recommends including a normalized amount of customer notice costs. Customer notice costs will not be subject to the same 50/50 sharing as the incremental external rate case expenses. The total amount of customer notice costs has not yet been incurred, therefore, Staff will update this amount as information becomes available. Finally, Staff recommends continuing amortization of the costs of the depreciation study submitted by Spire Missouri in the last case.

Q. What is the basis of Staff's recommendation to share rate case expenses?

[10] *Spire Mo., Inc. v. Pub. Serv. Comm'n*, 607 S.W.3d 759, No. SC97834, Slip Op. at 13-14 (Mo. banc 2021).

A. Staff's recommendation to share rate case expense is based upon the following:

> 1) Rate case expense sharing creates an incentive for the utility to control rate case expenses to a reasonable level, while eliminating the disincentive for the utility to control the rate case expenses;
>
> 2) Ratepayers and shareholders both benefit from the rate case process. While ratepayers receive safe and adequate service at just and reasonable rates, shareholders are afforded the opportunity to earn an adequate return on their investment;
>
> 3) Ratepayers will continue to pay for the majority of the rate case expenses regardless of any sharing mechanism when including the internal labor costs that are not included in the sharing mechanism, therefore it is fair and equitable to allocate a portion of the rate case expenses to the shareholders; and
>
> 4) It is highly probable that some recommendations advocated by the utility through the rate case process will ultimately be determined to be not in the public interest by the Commission.

Q. Please provide further detail regarding rate case expenses.

A. Rate case expenses are defined as all incremental costs incurred by a utility directly related to an application to change its general rates. Normally, these applications are initiated by a utility filing, however, rate case expense can also be incurred as a result of an earnings complaint case filed by another party. While rate case expenses do include costs for document preparation and filing, the majority of the costs are incurred during a rate case are typically for external legal, consultants, and outside expert witnesses contracted by the utility.

Utility management typically has a high degree of control over rate case expense. Attorneys, consultants, and other services used during a rate case can be provided by existing utility personnel or sourced from an outside party. Some Missouri utilities employ in-house counsel and primarily utilize internal labor to process rate filings; thus, it is not always necessary to contract with outside attorneys and consultants in rate proceedings. The incremental rate case expenses included in the sharing mechanism proposed by Staff in this case do not include the cost for internal labor as those costs are reflected in the annualized level of payroll included in Staff's revenue requirement. Those non-incremental costs are fully included in the cost of service calculation.

Q. What types of costs are incurred during a rate case?

A. There are four categories of costs that are incurred during a regulatory filing, and in particular, a rate case filing:

1) The costs incurred by the Commission for itself and Staff,
2) The cost incurred by the Office of the Public Counsel,
3) The cost incurred by Intervenors in Commission proceedings, and
4) The costs incurred by the utility itself during the regulatory process.

Category 1 are the costs incurred by the Commission, which includes all operating expenses, salaries, wages, and benefits of the Commission and its Staff. The Commission's operating expenses are limited to the amount the Missouri General Assembly appropriates for that purpose. On an annual basis, the Commission assesses each utility it regulates an amount of operating expenses, which are subsequently passed on to ratepayers through rates. The utility is not charged for the direct costs of processing its filings or Company-specific activities. Spire Missouri is charged based on an assignment of the Commission's budget to regulation of the natural gas industry, which is allocated based upon the percentage of Spire Missouri's regulated revenues compared to the total of natural gas regulated revenues of Missouri.

Category 2 are the costs incurred by the Office of Public Counsel ("OPC"). The OPC represents the public and the interests of the utility's customers in proceedings before the Commission. An amount for OPC's annual operating expenses is appropriated by the Missouri General Assembly, which is sourced from general revenue paid by Missouri taxpayers.

Category 3 are the costs incurred by intervenors to the Commission's proceedings. Intervenors may be involved in a Commission proceeding for various reasons, but rate design and revenue requirement are typical concerns brought up by intervenors in a general proceeding. Intervening parties can represent a large individual utility customer or a group of utility customers. In this case, there are several intervenors, some of which have retained their own experts and legal counsel to review Spire Missouri's proposed rate increase. The intervenors to a case are responsible for their own rate case expenses.

Category 4 are the costs incurred by the utility itself during the regulatory and rate setting process. In prior rate cases, utilities were allowed to pass through the full amount of normalized and prudently incurred rate case expense and regulatory expenses to the ratepayer through rates. If utilities are allowed to pass full rate case costs to ratepayers, the utilities are the only rate case participants who do not face an inherent limit in the amount of rate case expenses they choose to incur. The other participants in the rate case process are constrained by the amount of rate case expense they can incur by budgetary decisions of the Missouri General Assembly, or by the willingness of an intervening party to fund rate case activities. When allowed full recovery of rate case expenses, utilities are free to plan their rate case activities with the knowledge that the associated costs will be passed on to customers and recovered in rates.

Q. Please explain why it is problematic for utilities to be allowed full recovery of rate case expenses.

A. Allowing a utility to recover all, or almost all of its rate case expense creates an inherent disincentive for the utility to control rate case expenses. For every other participant in the rate case proceeding, their funds are ultimately limited by budgetary and financial constraints. The ability to pass through the entire amount of expense, along with significant financial resources, creates what can be viewed as an unfair advantage over the parties during a rate case proceeding.

Q. Will the sharing of rate case expenses impact a utility's spending?

A. Other discretionary utility expenses are not recovered by the utility during the rate setting process. Charitable contributions, which are discretionary amounts paid to individuals or organizations for charitable reasons that have no direct business benefit, are examples of costs that have not historically been included as an expense in the cost of service calculations. While the utility may believe it has the responsibility to be a "good corporate citizen", these donations would represent an involuntary contribution by the ratepayer if they were to be included in rates. Other costs that are routinely disallowed by Staff are expenses for a company's political activities ("lobbying"). Lobbying and charitable contributions represent costs which are not necessary for the provision of safe and adequate service, and not recovered through rates. The lack of recovery of those costs has not dissuaded utilities from engaging in these activities. Similarly, while any form of sharing of rate case expense may act as an incentive to control these costs, Staff has not identified significant curtailing of incremental rate case expenses by utilities affected by the 50/50 sharing mechanism.

Q. What is the Commission's position with regard to the sharing of rate case expense?

In 2011, the Commission established case No. AW-2011-0330 to investigate current rules and practices regarding the recovery of rate case expense by Missouri utility companies. The report included a discussion of both sharing rate case expense 50/50, as well as sharing based upon Commission ordered rate increases versus company requested rate increases.

In KCPL's rate Case No. ER-2014-0370, the Commission ordered sharing of KCPL's rate case expenses:

> The Commission finds that in order to set just and reasonable rates under the facts of this case, the Commission will require KCPL shareholders to cover a portion of KCPL's rate case expense. One method to encourage KCPL to limit its rate case expenditures would be to link KCPL's percentage recovery of rate case expense to the percentage of its rate increase request the Commission finds just and reasonable. The Commission determines that this approach would directly link KCPL's recovery of rate case expense to both the reasonableness of its issue positions and the dollar value sought from customers in this rate case.
>
> The Commission concludes that KCPL should receive rate recovery of its rate case expenses in proportion to the amount of revenue requirement it is granted as a result of this Report and Order, compared to the amount of its revenue requirement rate increase originally requested. This amount should be normalized over three years. The Commission also finds that it is appropriate to require a full disclosure to ratepayers of the expenses for KCPL's depreciation study, recovered over five years, because this study is required under Commission rules to be conducted every five years [Footnotes omitted][11].

The omitted footnote in the reference above provides further clarification for the Commission's conclusions regarding the recovery of rate case expenses:

> It is understood that some of the issues litigated in this case do not directly affect the overall revenue requirement granted by the Commission; but it is also clear that the vast majority of litigated issues do have a direct or indirect impact on the revenue requirement. Accordingly, percentage sharing is a reasonable approach to correlating recovery of rate case expense to the relationship between the amount of litigation that benefited both ratepayers and shareholders and that which benefited only shareholders[12].

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[11] *Report and Order*, Case No. ER-2014-0370 page 72.
[12] *Report and Order*, Case No. ER-2014-0370, page 72, Footnote 251.

In the more recent Spire Missouri rate Case Nos. GR-2017-0215 and GR-2017-0216, the Commission ordered a 50/50 sharing of rate case expense between ratepayers and shareholders:

> Therefore, it is just and reasonable that the shareholders and the ratepayers, who both benefited from the rate case, share in the rate case expense. The Commission finds that in order to set just and reasonable rates under the specific facts in this case, the Commission will require Spire Missouri shareholders to cover half of the rate case expense and the ratepayers to cover half with the exception of the cost of customer notices and the depreciation study[13].

Q. How did Staff approach its adjustment to rate case expense?

A. Staff examined the facts and circumstances in Spire Missouri's filing and recommends the Commission order a 50/50 sharing of rate case expense between the Company's shareholders and its ratepayers.

Staff divided rate case expense over the period of time it estimates will pass before the utility's next general rate case and included an annual amount in its revenue requirement calculation. Typically, this cost is not "amortized" for ratemaking purposes, and the utility's recovery of this expense in rates is not tracked against its actual rate case expense for consideration for over or under recovery. Staff recommends this cost be "normalized" by including an annual level in the cost of service. In the current case, Staff recommends a three-year normalization of rate case expense due to the historical frequency of Spire Missouri rate case filings. Staff has also included customer notice costs with no sharing, amortized over three years to correspond with the frequency of Spire Missouri's rate cases.

Q. How was this issue addressed by Staff in the previous case?

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[13] *Report and Order*, Case Nos. GR-2017-0215 and GR-2017-0216, page 52.

A. In GR-2021-0108, Staff followed the methodology ordered by the Commission in case Nos. GR-2017-0215 and GR-2017-0216. This included full recovery of depreciation study and customer notice expenses, and a 50/50 split of all other incremental rate case expenses. These amounts were not subject to true-up.

Q. Did Spire Missouri agree with Staff's adjustment for rate case expense in GR-2021-0108?

A. No. Spire Missouri argued that rate case expense should be included in Staff's true-up adjustments. Spire Missouri also took issue with Staff's recommendation to average external rate case expense from prior proceedings as it failed to recognize current known and measurable expense.

Q. What was the outcome of this issue in GR-2021-0108?

A. Rate case expense was combined with other issues and settled as an aggregate amount in a partial stipulation and agreement[14].

Q. Does Staff have further comments regarding Spire Missouri's treatment of rate case expense?

A. Yes. In their response to DR 109, Spire Missouri provided a 2021 rate case amortization schedule. To be clear, rate case expense (other than depreciation study costs) has never been amortized, but normalized. The recovery of rate case expense is not dollar for dollar. As discussed above, the adjustment for these costs has consistently been to include an annualized amount of rate case expense in its cost of service calculations.

Q. Does this conclude your direct testimony?

A. Yes it does.

[14] Case No. GR-2021-0108 *Partial Stipulation and Agreement*, page 3.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

AFFIDAVIT OF JANE C. DHORITY

STATE OF MISSOURI)
) ss.
COUNTY OF ST. LOUIS)

COMES NOW JANE C. DHORITY and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct Testimony of Jane C. Dhority*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

JANE C. DHORITY

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the City of St. Louis, State of Missouri, at my office in St. Louis, on this 30th day of August 2022.

LISA M. FERGUSON
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: June 23, 2024
Commission Number: 16631502

Lisa M. Ferguson
Notary Public

Jane Dhority

Present Position:

I am a Utility Regulatory Auditor, Auditing Department, Financial & Business Analysis Division of the Missouri Public Service Commission. As A Utility Regulatory Auditor, I assist in research and analysis of the financial aspects of public utility operations.

Educational Credentials and Work Experience:

I received a Bachelor of Science in Accounting from the University of Missouri - St. Louis in December 2018. I have been employed by the Missouri Public Service Commission since April 2019. Prior to joining the Commission, I worked in several positions for Jimmy's Café on the Park from 2011 to 2016. I was also employed by Hilton St. Louis Downtown as a bartender from 2009 to 2011. From 2007 to 2009 I was employed as a bartender and manager for Square One Brewery.

Past Rate Case Proceedings:

Company Name	**Case No.**	**Issue(s)**
Ameren UE (ELEC)	EO-2019-0391	Asset Sale
Ameren UE (ELEC)	ER-2019-0335	Plant in Service, Depreciation Reserve, Other Rate Base Items, Interest on Customer Deposits, Capitalized O&M Depreciation, PSC Assessment, Advertising
Ameren UE (ELEC)	ER-2021-0240	Advertising, Promotional Giveaways, Rents & Leases, Lobbying, Dues & Donations, Miscellaneous Expense, Expense Reports, Capitalized O&M Depreciation, Cash Working Capital, Board of Directors Fees, Customer Convenience Fees
Ameren UE (GAS)	GR-2021-0241	Advertising, Promotional Giveaways, Rents & Leases, Lobbying, Dues & Donations,

		Miscellaneous Expense, Expense Reports, Capitalized O&M Depreciation, Cash Working Capital, Board of Directors Fees, Customer Convenience Fees
Liberty MNG (Gas)	GT-2022-0118	ISRS Filing