

Exhibit No. 801

Exhibit No.:
Issues: Revenue Requirement
Witness: Greg R. Meyer
Type of Exhibit: Rebuttal Testimony
Sponsoring Parties: MIEC and Vicinity
Case No.: GR-2021-0108
Date Testimony Prepared: June 17, 2021

**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**

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)
) **Case No. GR-2021-0108**
)
)

Rebuttal Testimony of

Greg R. Meyer

On behalf of

**Missouri Industrial Energy Consumers
and Vicinity Energy Kansas City, Inc.**

June 17, 2021



Project 11068

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Case No. GR-2021-0108

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS)

SS

Affidavit of Greg R. Meyer

Greg R. Meyer, being first duly sworn, on his oath states:

1. My name is Greg R. Meyer. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers and Vicinity Energy Kansas City, Inc. in this proceeding on their behalf.

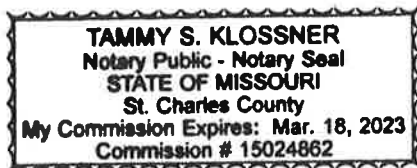
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. GR-2021-0108.

3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things it purports to show.



Greg R. Meyer

Subscribed and sworn to before me this 16th day of June, 2021.





Notary Public

1 “public utility” as those terms are defined in Section 386.020(20) and 386.020(43).
2 Vicinity, therefore, is not only a customer of Spire, but also a competitor with Spire.
3 Vicinity is one of the largest users and transporters of natural gas on the Spire
4 system.

5 **Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

6 A My rebuttal testimony will discuss my review of the Staff’s Revenue Requirement
7 Report (“Report”). I will note the issues that I support from the Report as well as
8 discuss issues I disagree with. In addition, I will discuss an issue proposed by the
9 Office of Public Counsel (“OPC”) and how that adjustment impacts my proposed
10 adjustment. To the extent I do not address specific issues raised by Spire, the
11 Commission Staff or the OPC, my silence should not be construed as a rejection or
12 acceptance of that position. During case negotiations, I reserve the right to support
13 other issues presented by the Staff and OPC.

14 **I. INJURIES AND DAMAGES EXPENSES**

15 **Q PLEASE DESCRIBE THE INJURIES AND DAMAGES (“I&D”) ISSUE.**

16 A Spire requested to increase I&D expenses for increased insurance premiums that
17 Spire projected beyond the test year in this rate case. Spire also requested a
18 three-year average of I&D claims settlement payments.

19

20 **Q PLEASE BRIEFLY DISCUSS YOUR POSITION WITH THE I&D EXPENSE
21 RECOVERY REQUESTED BY SPIRE?**

22 A In my direct testimony, I recommended that the current insurance premiums be
23 included in cost of service. I concluded that it was inappropriate to reach beyond the

1 test year in this case and to disrupt the matching of revenues, investments and costs
2 for the inclusion of insurance premiums. That said, however, I proposed that if new
3 premiums were effective before the expiration of the true-up period, then those new
4 premiums should be reviewed for inclusion in cost of service.

5 I also recommended that the test year level of workers compensation and auto
6 claims paid and a three-year average of excess liability claims paid be included in
7 cost of service. I proposed that the level of claims paid through the true-up period
8 should be reviewed for possible adjustment to the levels I had proposed.

9 **Q DO YOU STILL SUPPORT THE POSITION YOU FILED IN DIRECT TESTIMONY?**

10 **A** Yes. However, I need to condition my position based on the testimony of OPC
11 witness Geoff Marke. In Dr. Marke's direct testimony, he discusses a lawsuit against
12 Spire for race discrimination. A St. Louis jury has awarded a St. Joseph woman \$8.5
13 million for alleged race discrimination. I would recommend that any costs associated
14 with this lawsuit be excluded from the Insurance/Injuries & Damages worksheets
15 prepared by Spire. Those costs should be excluded from cost of service and should
16 not be reflected in the multi-year claims adjustment proposed by Spire. Spire should
17 be required to show that it is not seeking any recovery of the costs associated with
18 this lawsuit. That would also include any contracts for outside services including
19 outside legal assistance.

1 **II. INCENTIVE COMPENSATION**

2 **Q DOES SPIRE PAY INCENTIVE COMPENSATION TO ITS EMPLOYEES AND, IF**
3 **SO, PLEASE DESCRIBE THE DIFFERENT FORMS OF INCENTIVE**
4 **COMPENSATION?**

5 A Spire does indeed pay incentive compensation to its employees. Spire has a
6 short-term (Missouri's Annual Incentive Plan – AIP) as well as a long-term incentive
7 plan (Equity Incentive Plan).

8 **Q HAVE YOU REVIEWED THE STAFF'S POSITION RELATING TO INCENTIVE**
9 **COMPENSATION?**

10 A Yes, I have.

11 **Q DO YOU AGREE WITH THE STAFF'S ADJUSTMENTS?**

12 A I support the Staff's adjustment to disallow recovery from ratepayers for incentive
13 compensation payments that are related to the financial performance of Spire. In this
14 case, the Staff has disallowed the entire long-term incentive expense as it is earnings
15 based. Under this plan, employees are awarded shares of Spire stock. I support the
16 adjustment proposed by the Staff.

17 The short-term incentive plan has three components: (1) corporate
18 performance; (2) business unit performance; and (3) individual performance
19 components. Here, the Staff again disallowed the portion related to the corporate
20 performance as it is dependent on the earnings of Spire.

21 The corporate performance component measures Net Economic Earnings per
22 Share ("NEEPS"). The Staff disallowed this portion of the incentive payments as they
23 relate to the financial performance of Spire. I support this disallowance.

1 In its Report, however, the Staff notes that in the Fall of 2018, Spire developed
2 two new metrics for the assessment of the business unit performance component.
3 The two metrics are Utility Contribution Margin and Utility Adjusted O&M per
4 Customer.¹ The Staff allowed these new components for recovery of incentive
5 compensation payments.

6 **Q DO YOU HAVE CONCERNS REGARDING THE INCLUSION OF THE NEW**
7 **COMPONENTS IN RATEPAYER RATES?**

8 A Yes. I want to see how these new components are reflected in Spire's cost of
9 service. The new components should be equal to or better than the results included
10 within Spire's rate case filing. In other words, simply maintaining currently available
11 levels for those components should not form the basis for an allowable incentive
12 award, as awards should only be granted cost recovery when supportive of
13 attainment of enhanced goals and objectives that otherwise would not be met.

14 If these components are not closely tied to the cost of service being proposed,
15 then the new metrics simply appear like an automatic payout of incentive
16 compensation. In order to be included in rates, incentive compensation should
17 reward employees for performance above normal expectations. If these new metrics
18 do not require an above average level of performance, then the incentive
19 compensation payouts are not driven by increased performance. In such a case,
20 management is obviously free to provide this incentive compensation to employees,
21 but it should not be included in rates unless it provides ratepayer benefits. I have
22 submitted discovery on the new components and will review those responses to

¹Utility Contribution Margin - Utility Gross Revenues - Gas Costs - Gross Receipts Tax (Net Operating Revenue)
Utility Adjusted O&M per Customer - (Utility Operating and Maintenance Expense + Property Taxes) /
12-Month Average Number of Customers.

1 determine if the incentive compensation payments included by the Staff in cost of
2 service should be allowed.

3 **Q DO YOU AGREE WITH THE STAFF INCLUSION OF INDIVIDUAL EMPLOYEE**
4 **INCENTIVE PAYMENTS?**

5 A At this time, I am not in a position to challenge the Staff's analysis in this area.

6 **III. COVID AAO COST RECOVERY**

7 **Q HAVE YOU REVIEWED THE STAFF'S REPORT ON THE COVID AAO?**

8 A Yes, I have.

9 **Q DO YOU AGREE WITH THE AMOUNT OF COVID RECOVERY INCLUDED BY THE**
10 **STAFF?**

11 A Yes.

12 **Q DO YOU AGREE WITH THE AMORTIZATION PERIOD PROSED BY THE STAFF?**

13 A Yes. I believe a five-year amortization period for this extraordinary event is
14 reasonable.

15 **Q DO YOU AGREE WITH THE STAFF'S PROPOSAL TO EXCLUDE THE**
16 **REGULATORY ASSETS FROM RATE BASE?**

17 A Yes. It is important to recognize the distinction between a cost and an investment.
18 While costs are recovered in rates, an investment is included in rate base and
19 permitted to earn a return (profit). I have no problems with the recovery of the COVID
20 costs. That said, however, I disagree that the unamortized portion should be included

1 in rate base and allowed to earn a profit for Spire. The pandemic was an
2 extraordinary event and Spire shareholders should not be enriched with profits from
3 an extraordinary event.

4 **IV. CALL CENTER STAFFING**

5 **Q HAVE YOU REVIEWED THE STAFF'S REPORT ON THE CALL CENTER**
6 **STAFFING ISSUE?**

7 A Yes, I have. Spire is not satisfied with the use of third-party call center operations.
8 Spire would prefer to move more call center operations in-house. As a result of the
9 pandemic, Spire was delayed in transitioning to more in-house call center operations.
10 Spire is now proposing to transform to more in-house call center operations during the
11 true-up period in this rate case.

12 **Q DO YOU HAVE ANY CONCERNS ABOUT THE TRANSITION TO MORE SPIRE**
13 **CALL CENTER OPERATORS?**

14 A Yes. Call center costs during this transition will be inflated and will not be indicative of
15 ongoing levels. During the transition, more employees will be on the payroll than the
16 number of employees that will be needed to operate the call center functions on an
17 ongoing basis after the transition. New Spire call center operators will be training
18 while current contract call center operators will continue to work for Spire. It is
19 unclear from the Staff's Report how much duplicative payroll or contractor costs may
20 be charged to operations during this call center transition period. It would not be fair
21 to include all call center operators (both Spire employees and contract employees) in
22 the labor annualization while Spire is training new call center operators. I propose
23 that Spire identify the payroll dollars associated with the overlap period for training

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1 new Spire call center operators while also maintaining the existing contractor call
2 center operators. Depending on the magnitude of the payroll overlap, an adjustment
3 may be necessary to ensure that the rates resulting from this case are limited to
4 ongoing and recurring cost levels.

5 **V. PROPERTY TAXES**

6 **Q PLEASE DESCRIBE THE LEVEL OF PROPERTY TAXES INCLUDED IN THE**
7 **STAFF'S COST OF SERVICE.**

8 A The Staff has included approximately \$41.2 million in property taxes for Spire East
9 and Spire West combined.² The level of property taxes included is a prediction of the
10 taxes that will be payable at December 31, 2021, a full seven months after the true-up
11 period in this case.

12 **Q. PLEASE EXPLAIN THE METHODOLOGY USED BY THE STAFF TO ANNUALIZE**
13 **PROPERTY TAXES.**

14 A The Staff created a property tax ratio based on actual 2020 property tax payments
15 and applied that ratio to the January 1, 2021 level of plant. The property tax ratio is
16 calculated by dividing the total amount of property tax paid by Spire East and Spire
17 West in 2020 by the total cost of the taxable property owned on January 1, 2020.³

18 **Q WHAT ARE YOUR CONCERNS WITH THE METHODOLOGY PROPOSED BY THE**
19 **STAFF?**

20 A First, the methodology proposed by the Staff does not conform to the known and
21 measurable standard. An event is known and measurable if it has occurred and can

²Spire East - \$22,411,521 and Spire West - \$18,873,482.

³Staff Report, page 84, lines 1-3.

1 be calculated with certainty. The Staff's methodology proposes a ratio of property
2 taxes paid to a new level of investment. The methodology does not rely on the actual
3 property tax rates to be assessed on property at the beginning of the year. Therefore,
4 it cannot be claimed to meet the known and measurable standard.

5 Second, the payment of property taxes occurs on December 31 of each
6 calendar year. The payment of property taxes in this instance would occur a full
7 seven months beyond the true-up period in this case. Essentially, the Staff has
8 moved the test year or true-up period for this item to December 31, 2021 without
9 looking at all relevant factors for other operations. For these reasons, the level of
10 property taxes proposed by the Staff should be rejected.

11 **Q WHAT LEVEL OF PROPERTY TAXES SHOULD BE INCLUDED IN COST OF**
12 **SERVICE?**

13 A I propose that the actual level of property taxes paid on December 2020 be included
14 in Spire's cost of service.

15 **Q WHAT IMPACT DOES THIS HAVE ON THE STAFF'S REVENUE REQUIREMENT?**

16 A It reduces the Staff's revenue requirement by approximately \$2 million.

17 **Q THE STAFF CITES CASES AS PRECEDENT FOR ITS APPROACH ON THIS**
18 **ISSUE. PLEASE COMMENT.**

19 A The cases the Staff cites are over 15 years old. I am aware from participation in
20 several cases since then that the Staff has relied on the last known level of property
21 taxes paid for determining the utility cost of service. The precedent the Staff tries to
22 establish is not consistent with other recent rate cases.

1 **Q DO YOU HAVE ANY FURTHER COMMENTS ON THIS SUBJECT?**

2 A Yes. In the Staff's Report, there is a discussion of numerous tax appeals filed by
3 Spire. Specifically, Spire East has filed tax appeals in St. Francois and St.
4 Genevieve. A hearing on those appeals is scheduled for June 2021. Spire West filed
5 appeals in Clay and Platte Counties, and those appeals are still open. Rightfully, the
6 Staff did not reflect any effect from these appeals as the outcomes are not known and
7 measurable. For the reasons described above, the 2021 property taxes are also not
8 known and measurable and should not be included for this rate case.

9 **Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

10 A Yes, it does.

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