

Exhibit No. 203P

Exhibit No.:	_____
Issue(s)	Revenue Requirement/ Affiliate Transactions/Capitalized Overheads
Witness/Type of Exhibit:	Schallenberg/Direct
Sponsoring Party:	Public Counsel
Case No.:	GR-2021-0108

DIRECT TESTIMONY

OF

ROBERT E. SCHALLENBERG

Submitted on Behalf of the Office of the Public Counsel

SPIRE MISSOURI, INC.

CASE NO. GR-2021-0108

May 12, 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)	<u>Case No. GR-2021-0108</u>
Service Provided in the Company's)	
Missouri Service Areas)	

VERIFICATION OF ROBERT E. SCHALLENBERG

Robert E. Schallenberg, under penalty of perjury, states:

1. Attached hereto and made a part hereof for all purposes is my direct testimony in the above-captioned case.
2. My answer to each question in the attached direct testimony is true and correct to the best of my knowledge, information, and belief.

/s/Robert E. Schallenberg
Robert E. Schallenberg
Director of Policy
Office of the Public Counsel

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DIRECT TESTIMONY
OF
ROBERT E. SCHALLENBERG
SPIRE MISSOURI-INC.

CASE NO.: GR-2021-0108

1 **Q. PLEASE STATE YOUR NAME AND IDENTIFY ON WHO'S BEHALF YOU ARE**
2 **TESTIFYING.**

3 A. My name is Robert E. Schallenberg. I am testifying on behalf of the Office of the Public
4 Counsel ("OPC").

5 **Q. WHAT IS YOUR BUSINESS ADDRESS?**

6 A. Governor Office Building, Suite 650, 200 Madison Street, P.O. Box 2230, Jefferson City,
7 Missouri 65102.

8 **Q. WHAT IS YOUR PRESENT POSITION?**

9 A. My current title is Director of Policy.

10 **Q. PLEASE STATE HOW LONG YOU HAVE HELD YOUR CURRENT POSITION.**

11 A. I have held this position since I joined OPC on May 16, 2018.

12 **Q. WHAT IS YOUR EXPERIENCE IN UTILITY REGULATION MATTERS?**

13 A. I began my employment with the Missouri Public Service Commission ("MoPSC") as a
14 Public Utility Accountant in November 1976. I remained on the Staff of the MoPSC until
15 May 1978, when I accepted the position of Senior Regulatory Auditor with the Kansas
16 State Corporation Commission ("KCC"). In October 1978, I returned to the Staff of the
17 MoPSC. Thereafter, I held auditor and management positions with the Staff of the MoPSC
18 ("Staff") through May 2018 when I accepted my current position with OPC. Details of my
19 regulatory experience are provided in Schedule RES-D-1.

20 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

21 A. My testimony is to provide my opinion and OPC's direct position addressing three areas. First,
22 I will provide OPC's current revenue requirement position for this case and the basis for its
23 development. Second, I will address a significant portion of Spire Missouri's revenue

1 requirement: affiliate transactions and its nonregulated in house activities. I will identify the
2 impact of affiliate transactions and non-regulated activities on Spire Missouri Inc.'s cost to
3 provide gas and related distribution service to its Missouri service territory. Third, my
4 testimony will address Spire Missouri's capitalization of overheads as it impacts the costs of
5 the utility's construction projects including its Infrastructure System Replacement Surcharge
6 (ISRS) programs.

7 **SPIRE MISSOURI'S REVENUE REQUIREMENT**

8 **Q. WHAT IS THE DEFINITION OF REVENUE REQUIREMENT THAT YOU USE IN**
9 **THIS CASE?**

10 A. Revenue requirement is the total amount of prudent cost a utility is required to incur to provide
11 safe and adequate service to its Missouri retail service territory. Revenue requirement would
12 consist of operation and maintenance costs; customer account, information, and service costs;
13 administrative and general costs; non-income taxes; interest expense; profit; and income
14 taxes. Revenue requirement is the base upon which one can determine the just and reasonable
15 level of revenues that the utility should be allowed to collect from its ratepayer for safe and
16 adequate service. Schedule RES-D-2 reflects the dollar amount for each component of the
17 Spire Missouri's current revenue requirement position. RES-D-2 shows the profit component
18 to be the largest element of what Spire Missouri's asserts is its costs to serve its customers.
19 OPC's position is that a much smaller amount of profit is needed to establish "just and
20 reasonable" base rates for Spire Missouri customers.

21 **Q. IS REVENUE REQUIREMENT THE MOST IMPORTANT FACTOR IN**
22 **ESTABLISHING CUSTOMER RATES?**

23 A. No. Billing determinants is an equally important factor in the establishment of just and
24 reasonable customer rates. OPC will not have a position in its direct testimony regarding
25 billing determinants, but may address this in later testimony.

26 **Q. WHAT WAS THE REVENUE REQUIREMENT SPIRE MISSOURI REQUESTED**
27 **IN THIS CASE?**

1 A. Spire Missouri requested a cost of service of \$682 million.¹ The test year requested in this
2 case is year ending September 30, 2020, adjusted for known and measurable changes. Spire
3 Missouri is requesting the test year be updated or trued-up through May 31, 2021.² The
4 largest component of the revenue requirement is \$149 million for profit to deliver to its
5 parent/holding company, Spire Inc. Depreciation and Administrative & General Expenses'
6 categories are the two other areas of Spire Missouri's revenue requirement exceeding \$100
7 million; \$120.7 and \$108 million respectively.³ These three areas represent over half of the
8 total costs Spire Missouri asserts it needs to serve its customers. Schedule RES-D-2
9 provides the breakdown of the \$682 million for the cost elements that make up its \$682
10 million overall revenue requirement.

11 **Q. WHAT IS THE OPC'S REVENUE REQUIREMENT POSITION AT THE TIME OF**
12 **THE FILING OF THIS TESTIMONY/**

13 A. Given the evidence so far presented, OPC does not support the premise that a base rate
14 increase to customers is appropriate at this time, especially at the level requested. OPC's
15 difference with Spire's proposed revenue requirement, at this time, exceeds the \$111.5 million
16 rate increase Spire Missouri has requested. At this time, OPC supports the proposition that
17 \$121,642,288.34 of profit, \$52,211,758.47 of interest expense, and \$22,235,140.29 of related
18 income tax expenses are the appropriate amounts for these revenue requirement components.⁴
19 One key factor is Spire Missouri inclusion of Spire Inc. costs in its revenue requirement.
20 OPC's position is that an adjustment of \$84 million is necessary to remove general costs
21 related to the Spire Missouri's service company non-regulated line of business costs incurred
22 to provide goods and services to its parent, Spire, Inc., and its non-regulated affiliates, which
23 Spire Missouri currently proposes to pass along to its ratepayers.

24 OPC's Mr. John Riley examined a concern that Spire Missouri is over-collecting gross
25 receipts taxes from its customers. Our current estimate is Spire Missouri's ratepayers have

¹ See Response to OPC Date Request No. 1004 and Wesley E. Selinger direct testimony d Schedule WES-I SCH-A page 1 of 45 \$111,475,389 line 1 added to \$570,537,909 page 2 of 45, line 1.

² Wesley E. Selinger direct testimony page 6, lines 1 through 9.

³ Schallenberg Schedule RES-D-2.

⁴ This does not include adjustments related to issues that have not yet been addressed or for which calculations are currently unfeasible.

1 been over-charged approximately \$7 million over the last three years. OPC's direct testimony
2 includes three other adjustments regarding two (2) cash working capital reductions and the
3 non-cash asset non-inclusion in rate base. These three direct rate base adjustments are
4 estimated to be a \$6 million dollar revenue requirement difference. OPC's Mr. John Robinette
5 recommends that Spire Missouri revenue requirement be increased by approximately \$25
6 million subject to the corresponding increase in its authorized depreciation rates being
7 recorded to its books and account. OPC's Mr. Dave Murray will provide the realistic profit,
8 interest expense, and income tax expense that should be considered in the development of
9 Spire Missouri's actual revenue requirement that should be used to establish new rates in this
10 case. Ms. Amanda Conner provides OPC's position regarding rate case expense, management
11 expenses, credit card processing fees, and severance which will reduce the rates charged to
12 customers if adopted.

13 OPC's Dr. Geoff Marke is also investigating the costs of Spire Missouri's publically
14 recognized litigation of discrimination in its work environment. OPC's position is that no
15 costs related to this incident is "just and reasonable" and should not be recovered from Spire
16 Missouri's customers. Dr. Marke proposes adjustments to ensure that Spire Missouri's
17 customers no costs related to this matter.

18 Schedule RES-D-5 shows the revenue requirement position of each of OPC's witnesses
19 addressing revenue requirement or over charging customer issues.

20 **Q. WILL OPC's REVENUE REQUIREMENT CHANGE?**

21 A. Yes. This case includes an update and a true-up where new information will be substituted for
22 the test year data used to determine OPC's current revenue requirement. OPC will not
23 consider any revenue requirement changes that cannot be verified by identification of the
24 cause of the change and related amount. If these elements cannot be determined, then OPC
25 will oppose the revenue requirement change.

1 **Q. HAVE YOU IDENTIFIED THE FACTORS DRIVING THIS RATE INCREASE?**

2 A. No. Despite the OPC's data request, Spire Missouri did not provide copies of the
3 documentation upon which the Company relied when it decided to file this case and/or
4 determine the amount requested.⁵ Spire Missouri instead referred OPC to only material
5 created after the decision to file this case was made.⁶ Despite this, I have determined that one
6 factor for filing this case appears to be the statutory ISRS requirements that mandate Spire
7 must file a rate case within three years from the date of its first outstanding ISRS or its
8 surcharges will expire. Under this statute, the \$47 million of ISRS revenue⁷ cash flow will
9 expire in the near future if Spire Missouri did not file this rate case. I therefore concluded that
10 the apparent reason for this case is to prevent the \$47 million of Spire Missouri ISRS revenue
11 from expiring before Spire Missouri can roll the \$47 million into its base rates. If Spire
12 Missouri cannot achieve this result, its cash flow will be reduced by \$47 million or some
13 portion thereof.

14 The statutory language that limits Spire from maintaining its ISRS without having a full rate
15 case is important in that the surcharge is not determined in the manner consistent with the
16 revenue requirement methodology used to establish base rates. ISRS surcharges are designed
17 by statute with a prescribed methodology inconsistent with the project's actual impact on the
18 gas utility's revenue requirement. The ISRS can only be a rate increase, even if Spire
19 Missouri's revenue requirement may have declined, because the surcharge ignores such
20 important factors as expense savings created by the new plant and the fact that rate base used
21 to establish base rates is providing the funding for an increasing portion of the construction
22 projects despite the continual decline of that rate base. In the following rate case, all these
23 factors are considered, which causes the actual revenue requirement of the ISRS projects to
24 be less than the revenue being charged to the utilities' customers through the ISRS. Thus, the
25 hypothesis that simply rolling the surcharges into base rates is neutral to utility customers is
26 invalid as the rate case is a correction to bring the surcharge to a just and reasonable rate which
27 may be lower than what customers are currently paying.

⁵ See response to OPC data request 1001.

⁶ *Id.*

⁷ See Direct Testimony Mr. Scott Carter page 17, line 15-17.

1 **Q. HAVE YOU BEEN ABLE TO IDENTIFY THE FACTORS SPIRE MISSOURI**
2 **ACTUALLY UTILIZED TO DETERMINE ITS REVENUE REQUIREMENT**
3 **REQUESTED IN THIS CASE?**

4 A. No. Spire Missouri would not provide this information because they objected that the
5 requested documentation is not relevant to matters in this case.⁸ The Company filed testimony
6 as to why its rate case is necessary,⁹ but withheld the information actually used to decide to
7 file this case and what issues the Company wanted to raise. OPC's direct position is created
8 from our position on certain areas to such extent as we can determine whether the filed rate
9 case is justified.

10 It is my position that the Spire Missouri rate of return be based on the capital structure and
11 cost of capital recommended by Mr. David Murray. This alone will cause OPC's proposed
12 revenue requirement to be significantly less than the revenue requirement requested in this
13 case by Spire. OPC has also found that Spire Missouri's revenue requirement is inflated with
14 expenses incurred on behalf of the Company's owner, Spire Inc., which were not ultimately
15 charged to Spire Inc.

16 OPC's analysis was limited by Spire Missouri's refusal to provide the actual documentation
17 supporting the decision to file this case.¹⁰ In my rebuttal and surrebuttal testimonies on this
18 topic, I will provide OPC's revenue requirement in contrast to the MoPSC staff's revenue
19 requirement. Staff's revenue requirement will be reconciled to the Company's position at this
20 point in time in the case.

⁸ See response and objection to OPC's data request 1001.

⁹ See Direct Testimony of Scott Carter pages 15 through 21.

¹⁰ See response to OPC data request 1001.

1 **SPIRE MISSOURI'S AFFILIATE TRANSACTIONS AND NON-**
2 **REGULATED ACTIVITIES**

3 **Q. PLEASE EXPLAIN WHY YOU CHOSE TO FOCUS ON SPIRE MISSOURI INC.'S**
4 **AFFILIATION TRANSACTION ACTIVITY AND ITS IMPACT ON SPIRE**
5 **MISSOURI INC.'S COST TO PROVIDE GAS DISTRIBUTION SERVICE TO ITS**
6 **MISSOURI SERVICE TERRITORY?**

7 A. There are several reasons why I am examining affiliate transactions in this case. First, affiliate
8 transactions are important whenever the utility is involved in tens of millions dollars for the
9 non-regulated production of goods and services for its affiliates. Second, affiliate transactions
10 cannot be assumed prudent.¹¹ These transactions are not arm's length transactions where Spire
11 Missouri Inc. is independently attempting to buy or sell goods and services on terms most
12 beneficial to Spire Missouri's operations and its customers.

13 **Q. DOES SPIRE MISSOURI GAS UTILITY ENGAGE IN A NON-REGULATED LINE**
14 **OF BUSINESS PROMOTING ANY AFFILILATE TRANSACTIONS?**

15 A. Yes. Spire Missouri indicated that it incurred \$221,088,881.11 during the test year for the
16 production of shared services for itself and its affiliates.¹² Spire Missouri reported that \$52,
17 321,863.38 of the \$221 million was charged to affiliates.¹³ The residual amount after recovery
18 from charges to affiliates is Spire Missouri's cost to be recorded in either a capital or expense
19 account on the Utility's books and records.

20 **Q. DOES SPIRE MISSOURI GAS UTILIY'S REGULATED LINE OF BUSINESS**
21 **PURCHASE GOODS AND SERVICES FROM ITS AFFILIATES?**

22 A. Yes. Spire Missouri reported test year purchases from three affiliates. Spire Missouri
23 purchased natural gas supply and transportation services from Spire Marketing Inc. in the test
24 year. Spire Missouri was charged \$56,920,280.05 for these services costing \$53,639,143.49.
25 Spire Missouri purchased propane sales and transportation services from Spire NGL Inc. in
26 the test year. Spire Missouri was charged \$1,038,000 for these services costing \$868,229.33

¹¹ *Office of the Pub. Counsel v. Mo. PSC*, 409 S.W.3d 371 (Mo. 2013).

¹² Spire Missouri Affiliate Transaction CAM for the fiscal year ending 9/30/2020 page 39.

¹³ *Id.*

1 Spire Missouri purchased natural gas supply and transportation services from Spire STL
2 Pipeline LLC in the test year. Spire Missouri was charged \$27,852,533.77 for these services
3 costing \$8,910,730.74.¹⁴

4 **Q. HOW ARE NATURAL GAS COST AFFILIATE TRANSACTIONS ADDRESSED IN**
5 **SPIRE MISSOURI'S BASE RATE CASE?**

6 A, Most of the cost of the natural gas and transportation of the natural gas to Spire Missouri's
7 system for delivery to their customer homes and businesses are addressed in the
8 Commission's Purchase Gas Adjustment (PGA) and Actual Cost Adjustment (ACA)
9 reflected on customer bills as a separate charge or credit and are not considered in a base rate
10 change case. The cost of the employees that make the natural gas purchase and transportation
11 arrangements is included in the base rates at issue in this case. There have been two separate
12 Staff efforts to address their affiliate transaction rule compliance concerns regarding Spire
13 Missouri (FKA Laclede Gas Company). The first effort resulted in a complaint case that was
14 resolved in part by the creation of Spire Missouri's approved CAM, which was designed to
15 outline how the Company would operate in the future.¹⁵ After Spire Missouri had a
16 Commission approved CAM, a second compliance concern developed and resulted in an
17 investigatory docket. This investigatory docket was closed when the Commission established
18 the current working case in Spire Missouri's rate case order.¹⁶

19 **Q. WHAT IS THE BACKGROUND FOR SPIRE MISSOURI INC.'S APPROVED**
20 **CAM?**

21 A. The Commission Staff filed a complaint against Spire Missouri, formerly named Laclede Gas
22 Company, on October 6, 2010. The complaint, GC-2011-0098, asserted that Laclede Gas
23 Company failed to comply with the Commission's Affiliate Transaction Rules in its dealing
24 with its gas marketing affiliate Laclede Energy Resources (LER) in transactions pricing. The

¹⁴ *Id.* Page 40

¹⁵ See MoPSC Case GC-2011-0098 and Staff response to OPC data request 0387.

¹⁶ Commission Amended Report & Order in GR-2017-0215 Decision starting on page 59 that states: "The Commission finds that Spire Missouri's CAM should be rewritten, and the best way to accomplish that rewrite is to authorize a working group, comprised of Spire Missouri, Staff, Public Counsel, and any other interested stakeholders, to draft a proposed CAM for the Commission's approval. That working group will be established by the Commission in a separate order. The Commission will not delay the working group by ordering the independent audit proposed by Public Counsel. The need for an independent audit will be addressed later in this order."

1 complaint was resolved by a stipulation and agreement that included a proposed Cost
2 Allocation Manual (CAM) be approved regarding the process the Company would use to
3 conduct its affiliate transactions. The Commission approved this Agreement with its proposed
4 CAM by its August 14, 2013 order, effective date August 24, 2013. Laclede Gas Company
5 would submit this approved CAM with its annual affiliate transaction report beginning with
6 fiscal year 2013 submitted on December 20, 2013. The approved CAM material was basically
7 submitted with the Company's fiscal years 2014 and 2015 affiliate transaction submittals.

8 At the end of fiscal year 2016, Spire Missouri significantly altered its Commission approved
9 CAM to the point where the CAM nearly doubled in size. On September 12th or September
10 14th 2016, Spire Missouri employees acting on behalf of Spire Inc. signed sixteen (16)
11 Services and Facilities Agreements either adopting or affirming Terms and Conditions of
12 Services and Facilities Agreement. These Spire Inc. agreements with its nonutility affiliates
13 specifically note that "such agreement extends only to transactions between the affiliate and
14 Laclede Gas Company"¹⁷

15 Laclede Gas Company is now Spire Missouri. The new agreements raise the concerns that,
16 because of the interjection of Spire Services Inc. (FKA Shared Services Corporation),¹⁸ an
17 unregulated service company formed July 7, 2015, between Spire Missouri's goods and
18 services and the Spire affiliates receiving the good or service, now transactions between Spire
19 Services and non-Spire Missouri affiliates no longer must satisfy the requirements of Spire
20 Missouri's approved CAM.

21 **Q. PLEASE ELABORATE.**

22 A. Spire Missouri is no longer operating as just a Missouri natural gas utility. Spire Missouri
23 is now also the primary support service provider to non-regulated affiliates and the holding
24 company, as well as other gas utilities that are owned by Spire Inc. The scope of Spire
25 Missouri support services to nonregulated affiliates requires thirty pages to list and describe
26 all of the Company's functions that provide support to nonregulated affiliates and the

¹⁷ See worksheet of analysis of all SFA created 9/12/2016 and 9/14/2016 and copies of related SFA.

¹⁸ ARTICLES OF INCORPORATION OF SHARED SERVICES CORPORATION and related certificate on file with the Missouri Secretary of State. ARTICLES indicate SHARED SERVICES CORPORATION is a "For Profit" corporation.

1 holding company.¹⁹ The current Spire Inc. enterprise is quite different than the organization
2 that was represented to occur from the GM-2001-342 restructuring approved by the
3 Commission on August 24, 2001.²⁰

4 **Q. WHAT WAS THE PURPOSE OF THE GM-2001-342 RESTRUCTURING?**

5 A. Laclede Gas Company, now Spire Missouri, represented that the primary purpose of the
6 restructuring was to establish an optimal corporate structure that will permit Laclede Gas
7 Company to more effectively pursue both its regulated utility obligations as well as the
8 unregulated business opportunities afforded by increased competition in the energy industry
9 and other developments.

10 By creating a corporate structure that more clearly provides for separation of traditional utility
11 functions from unregulated business activities going forward, the proposed restructuring was
12 designed to reinforce the financial strength of the regulated utility by ensuring that the
13 business risk of the unregulated operation of the new holding company and its subsidiaries
14 will not be transferred to the gas utility operations.

15 A structure that provides future separation between regulated and unregulated activities would
16 also serve to allay further concern by the Commission that assets and operations of the
17 regulated distribution company not be used to subsidize the operations of any unregulated
18 businesses.²¹

19 **Q. DID THE PRE-RESTRUCTURING ORGANIZATION CONTAIN A SERVICE**
20 **COMPANY?**

21 A. No.²²

22 **Q. DID THE GM-2001-342 RESTRUCTURING CONTAIN A SERVICE COMPANY?**

23 A. No.²³

¹⁹ Spire Missouri's 12/15/20 affiliate transaction report for year ending 9/30/20, page 2, Table of Contents.

²⁰ Order Approving Stipulation and Agreement and Approving Plan to Restructure in Case No. GM-2001-342.

²¹ Verified Application GM-2001-342, pages 5-6, paragraphs 13 and 14.

²² *Id.* Page 6, paragraph 6.

²³ *Id.* Pages 3-4, paragraph 7.

1 **Q. WHEN WAS THE SERVICE COMPANY FORMED?**

2 A. The service company was originally named “Shared Services Corporation” and received its
3 CERTIFICATE OF INCORPORATION from the Missouri Secretary of State on July 15,
4 2015.²⁴ On April 10, 2017, the organization’s name was changed to Spire Services Inc. by its
5 shareholders. The new name was recognized by the Missouri Secretary of State on June 22,
6 2017.²⁵

7 **Q. WHY IS SPIRE MISSOURI INVOLVED WITH SPIRE SERVICE COMPANY?**

8 A. I don’t know. Spire Missouri refused to provide its policies, procedures, and practices
9 effective during the test year in this case.²⁶ This information would provide an analysis of
10 Spire Missouri work activities and cost centers related to its utility and service company line
11 of businesses. This would help identify what work is being done in the major work centers to
12 test whether cost assignment is consistent with work being done and charged.

13 Spire Missouri did not produce any documentation regarding its thinking as to why the service
14 company was formed. Spire Missouri must have had a purpose proposal supporting approval
15 requests & justification documentation for Spire Inc. Board and executive officers to form a
16 new Spire Inc. subsidiary.²⁷ No such documentation was produced.

17 Spire Missouri cites the direct testimony and schedules of Thomas J. Flaherty in case no. GR-
18 2017-0215 as their response to OPC’s data request for all documentation presented to Spire
19 Inc. and/or Spire Missouri officers board of directors regarding the formation and operation
20 of Spire Services.²⁸ The Service Company was formed July 15, 2015. Mr. Flaherty’s direct
21 testimony was filed April 2017 and did not include any of the requested material.

22 Spire Missouri’s FY 2020 CAM does not address or discuss any affiliate transactions
23 relationship with Spire Services. The CAM notes Spire Services is an affiliate and is a member

²⁴ ARTICLES OF INCORPORATION OF SHARED SERVICES CORPORATION and related certificate on file with the Missouri Secretary of State. ARTICLES indicate SHARED SERVICES CORPORATION is a “For Profit” corporation.

²⁵ Missouri Secretary of State files on Spire Services Inc. Amendment of Articles of Incorporation regarding name change.

²⁶ See objection to OPC data request 1002.

²⁷ See response to OPC data request 1013.2.

²⁸ See response to OPC data request 1027.

1 of the Spire Enterprise²⁹ as well as being identified in Appendix A, which provides Spire
2 Services allocation factors to various Spire entity acronyms, without a glossary identifying
3 the Spire entity. The CAM lacks any discussion regarding the policies or procedures used to
4 measure and assign costs to nonregulated affiliates and the holding company for each
5 function.³⁰ Spire Services has no employees.³¹ Spire Missouri provides all the goods and
6 services to operate Spire Services. Spire Missouri produced literally tens of thousands of
7 invoices to affiliates that receive Spire Missouri goods and services during the period October
8 1, 2019 through the most current available.³² The costs to produce and process tens of
9 thousands of invoices to affiliates to recover Spire Missouri cost of production is a costs that
10 Spire Missouri needs to recover as well. Spire Missouri does not charge Spire Services for the
11 goods and services it renders to operate the service company. While Spire Services is hailed
12 as a huge cost savings to all Spire affiliates, the cost to operate Spire Services is totally not
13 identified and remains with Spire Missouri customers to pay. I estimate that a million dollars
14 be credited to Spire Missouri for its operation of Spire Services. My estimate considers the
15 market values Spire Missouri creates when it produces all these alleged good and services
16 savings. The stated savings show market price is above costs and provided to other Spire
17 Missouri affiliates without paying the costs to produce these savings.

18 **Q. DID THE COMMISSION APPROVE THE FORMATION OF A SERVICE**
19 **COMPANY?**

20 A. I know of no such case. I have a data request pending to verify whether my opinion is accurate
21 from the Company's view.

22 **Q. ARE THERE ANY OTHER PROBLEMS RELATED TO SPIRE'S UNILATERAL**
23 **DECISION TO MODIFY ITS CAM?**

24 A. The bulk of the modifications to the Commission approved CAM is the inclusion of Spire
25 Inc.'s September 12 & 14, 2016 adoption and affirmation agreements with its affiliates. Some
26 of these agreements contained a special provision that signing affiliate agree to accept all the

²⁹ See Spire Missouri's 2020 CAM submittal Page 44

³⁰ *Id.* Page 33 and Appendix A pages 47 thru 53

³¹ See response to OPC data requests 1013.

³² See response to OPC data request 1013.1.

1 terms and conditions of the SFA approved by the Commission as set forth in the new
2 agreements.

3 Spire Missouri agreed to terms obligating it to reallocate the parent's (Spire Inc.) non-
4 regulated expenses to itself and other affiliate utilities. The Commission approved CAM had
5 provisions for employing different allocation or pricing methodologies from those included
6 in the Commission approved CAM including its SFA. This provision states:

7 XII. EXCEPTIONS TO APPLICATION OF METHODOLOGIES Laclede
8 Gas Company may employ a different allocation or pricing methodology
9 than those described herein in the event it determines to its best knowledge
10 and belief that application of the methodologies or costing principles
11 described herein would not be in the best interests of its customers receiving
12 regulated utility service, provided that Laclede Gas Company shall maintain
13 information sufficient to show how costs would have been allocated to such
14 services pursuant to the methodologies set forth in this CAM, and provided
15 further that such alternative methodology will be subject to review and
16 adjustment in any subsequent Commission case proceeding. In the event
17 Laclede Gas Company enters into a non-complying affiliate transaction, it
18 shall document such transaction and file a notice of that transaction to the
19 Commission and Public Counsel within 10 days of doing so as required by
20 4 CSR 240-40.015 (10)(A)2 and 4 CSR 240- 40.016 (11)(A)2 for variances
21 from the Affiliate Transaction Rule.³³

22 Spire Missouri did not follow this procedure or comply with its approved CAM. It did not file
23 notice to Staff or OPC of its non-complying affiliate transactions using this allocation or
24 pricing methodology. OPC has a data request outstanding regarding how costs would have
25 been allocated if Spire Inc. costs were not reallocated to its utility subsidiaries. This practice
26 results in Spire Missouri providing a financial advantage to its parent company, Spire Inc. as
27 Spire Missouri is not charging its non-regulated parent the higher of fully distributed costs or
28 fair market value.³⁴ Further, Spire Missouri is prohibited from engaging in such
29 transactions.³⁵

30 **Q. HOW MUCH IS SPIRE INC. CURRENTLY ALLOCATING TO SPIRE MISSOURI?**

31 A. In the test year in this case Spire Missouri incurred \$221,088,881.11 from providing goods
32 and services to the Spire Inc. enterprise with \$52,321,863.38 of these costs charged to other

³³ See Laclede Gas Company's CAM for 9/30/2013 submitted 12/20/2013 paragraph XII, page 20.

³⁴ See 20 CSR 4240-40.015(2)(A)(2).

³⁵ See 20 CSR 4240-40.015(2)(D).

1 non-Spire Missouri affiliates. Spire Missouri retains the cost not recovered from the ultimate
2 affiliate charges or \$170 million in the test year.³⁶ A significant factor in Spire Missouri's test
3 year service company residual cost (*i.e.* Spire Missouri good/service costs minus ultimate
4 affiliate charges) of \$170 million is the fact Spire Inc. does not pay for most of the goods and
5 services Spire Missouri produces on its behalf. For example, Spire Inc. is only charged
6 \$355,610.87 for Personal Costs incurred in the test year,³⁷ but Spire Missouri does not charge
7 Spire Inc, for Directors & Officers – (Insurance) (\$782,226.50),³⁸ Corporate Costs –
8 (Directors Fees/Expenses, Directors Stock Based Comp) (\$1,810,168.80), Outside Audit
9 (\$2,191,036.32), Depreciation Furniture & Fixtures (\$168,371.02), General &
10 Administrative Expense (\$24,919,408.96), Property & Liability Insurance
11 (\$23,309,309,161.04), Rent (\$5,246,904.66), and EDP System Expense (\$15,398,354.42).
12 Spire Inc. should bear a portion of all of these costs.

13 I take issue with the Company's position that Spire Inc. was only charged \$355,610.87 from
14 the Personnel Cost category, Personnel Costs (Wages & Salaries, Payroll & Taxes, Pensions
15 & Benefits, Other Employee Benefits) (\$147,183,603.40), because Spire Inc. officers
16 individually make more than \$355,610.87. I thus conclude that Spire Missouri under-charged
17 Spire Inc. for Spire Missouri's good and services provided to its parent company. Spire
18 Missouri provided many goods and services to Spire Inc. for which the Company received no
19 compensation to recover their costs, and Spire Missouri is now seeking recovery of these
20 undercharges from its customers. I therefore propose my best estimate of the costs that should
21 be charged to Spire Inc., which is \$84,027,898.01, be removed from Spire Missouri's revenue
22 requirement. This adjustment is premised on my opinion that Spire Missouri should not
23 include, as regulatory costs, its non-regulated costs that were not charged to its affiliates for
24 goods and services these affiliates receive from Spire Missouri but did not pay for. This
25 adjustment limits the loss absorbed by Spire Missouri to no more than fifty percent of the
26 current residual loss in the Spire shared services model. Spire Missouri will be paying no more
27 than Spire Inc. from the Spire Missouri's non-regulated service company line of business.

³⁶ See Spire Missouri 2020 CAM, page 39.

³⁷ See OPC data request 1020.

³⁸ Amounts in parentheses indicate the level of costs Spire Missouri incurred for this area in the test year. Data is from Spire Missouri CAM's 12/15/2020 submittal for fiscal year 9/30/20 on pages 36 through 39.

1 **Q. DID YOU INQUIRE REGARDING SPIRE MISSOURI'S RATIONALE FOR NOT**
2 **CHARGING ITS HOLDING COMPANY THE FULL COST OF THE GOODS AND**
3 **SERVICES BEING PROVIDED BY SPIRE MISSOURI?**

4 A. Yes. The Company stated that its charging methodology is premised on the assertion that the
5 holding company exists only for the benefit of its affiliates and is only allocated certain costs
6 that do not directly or indirectly benefit its affiliates. The majority of the \$355,610.87 of
7 personnel costs allocated to Spire Inc. in 2020 were associated with certain non-utility
8 activities in the areas of Legal and Information Technology that were expensed at Spire Inc.
9 and not reallocated to an affiliate.³⁹

10 **Q. DO YOU AGREE WITH SPIRE MISSOURI'S PREMISE JUSTIFICATION FOR**
11 **THE UTILITY'S CUSTOMERS PAYING FOR SPIRE INC COSTS?**

12 A. No. Spire Inc. was not formed for the benefit of Spire Missouri. Spire Inc. was formed to
13 separate non-utility activities from Spire Missouri's (FKA Laclede Gas Company) regulated
14 activities into a newly formed holding company, now known as Spire Inc. The prior situation
15 was the Spire Missouri utility was also the holding company and service company for its
16 subsidiaries.⁴⁰ Spire Inc. exists to provide benefits to its shareholders; it exists to generate
17 more income for its ultimate owners through non-regulated endeavors.

18 Further Spire Missouri is operating contrary to the Commission's affiliate transaction rule⁴¹
19 because Spire Missouri reallocates Spire Inc.'s expenses back to itself and other affiliate
20 utilities.⁴² Spire Missouri modified its Commission approved CAM Service and Facilities
21 Agreement (SFA) to justify its actions without required notice to Commission Staff and OPC.
22 Spire Missouri did not and could not meet the requirement that this non-compliance with the
23 rule was "in the best interests of its regulated customers."⁴³ Spire Missouri was providing
24 goods and services to Spire Inc. below the higher of fair market price or its fully distributed
25 cost for the goods and services Spire Missouri produced. In fact, Spire Missouri is providing

³⁹ See response to OPC data request 1026.

⁴⁰ See Company's Verified Application in GM-2001-342, page 3.

⁴¹ 40 CSR 4240-40.015(2)(A)(2)(B).

⁴² See response to OPC data request 1026.

⁴³ 40 CSR 4240-40.015(10)(A)(2).

1 practically all its Spire Inc.'s goods and services at no costs after Spire Missouri reallocates
2 Spire Inc. expenses to the Spire Inc. utility affiliates.

3 **Q. CAN YOU PROVIDE SOME EXAMPLES OF THE SPIRE MISSOURI GOODS AND**
4 **SERVICES PROVIDED TO SPIRE INC. FOR FREE?**

5 A. The following matrix will identify some Spire Missouri test year work products that Spire Inc.
6 received at no costs:

Goods or Services provided to Spire Inc.	Costs Charged and Retained at Spire Inc.
Spire Inc. 2019 Proxy Statement – Notice of Annual Meeting of Shareholders. January 30, 2020. Spire Missouri does not prepare an annual report to shareholders ⁴⁴	No Cost
U.S. Corporation Income Tax Declaration for an IRS e-file Return for tax year beginning 10/01/2018 and ending 9/30/2019 filed 7/8/2020 on behalf of Spire Inc. & Subs	No Costs
United States Securities and Exchange Commission (SEC) Form 10-K for fiscal year ending September 30, 2019. Large accelerated filer Spire Inc. Non-accelerated filers Spire Missouri Inc. & Spire Alabama Inc. Spire Missouri does not prepare a standalone 10-K ⁴⁵	No Costs

⁴⁴ See response to Staff data request 0013.

⁴⁵ See response to Staff data request 0013

Headquarters at 700 Market St. Louis Missouri, Lease is with Spire Inc. (f k a The Laclede Group, LLC). ⁴⁶	No Costs
30 Story Business Building 800 Market St. Louis Missouri under lease to Spire Inc. ⁴⁷	No Costs
Eight (8) Outside Directors on Spire, Inc.'s Board's with total compensation shown to be \$2,111,397 without retirement cost consideration	No Costs
Five (5) Spire Inc. executive officers receiving total compensation of \$8,625,046	No Costs
Cash Management Function	No Costs
Financing decisions and execution	No Costs
Accounting Services for itself and on a consolidated basis	No Costs
Risk analysis and related response	No Costs
Initial Audit	No Costs
Acquisition analysis	No Costs
Governance	No Costs
Strategic planning	No Costs

1 **Q. DOES PROVIDING THESE SERVICES AT LITTLE TO NO COST PROVIDE**
 2 **SPIRE AFFILIATES A FINICAL ADVANTAGE?**

3 A. Yes.

⁴⁶ See Staff data request 0019.

⁴⁷ *Id.*

1 **Q. Can you provide a simple example of Spire Missouri providing a financial advantage**
2 **to Spire Inc.?**

3 A. Yes. The Spire principle place of business for Spire entities can provide such an example.

4 **Q. WHERE IS SPIRE SERVICES INC.'S PRINCIPLE PLACE OF BUSINESS?**

5 A. 700 Market Street, St. Louis, Missouri 63101-1829, United States.⁴⁸

6 **Q. WHERE IS THE SPIRE INC.'S PRINCIPLE PLACE OF BUSINESS?**

7 A. 700 Market Street, St. Louis, Missouri 63101-1829, United States.⁴⁹

8 **Q. WHERE IS THE SPIRE MISSOURI'S PRINCIPLE PLACE OF BUSINESS?**

9 A. 700 Market Street, St. Louis, Missouri 63101-1829, United States⁵⁰

10 **Q. IS 700 MARKET, ST. LOUIS, MISSOURI BEING LEASED OR OWNED BY A**
11 **SPIRE INC. ENTERPRISE ENTITY?**

12 A. This location is being leased by The Laclede Group, Inc.

13 **Q. WHO PAYS THE COSTS RELATED TO THE OPERATION OF 700 MARKET**
14 **STREET, SAINT LOUIS MISSOURI 63101?**

15 A. Spire Missouri.

16 **Q. DOES SPIRE MISSOURI CHARGE ANY OF THESE COSTS TO SPIRE, INC.?**

17 A. No.

18 **Q. DOES SPIRE MISSOURI CHARGE ANY OF THESE 700 MARKET COSTS TO**
19 **SPIRE SERVICES, INC.?**

20 A. No.

⁴⁸ Missouri Secretary of State Spire Services Inc.'s 2020 Annual Registration Report affirmed 10/29/2020.

⁴⁹ *Id.*

⁵⁰ See Spire Missouri East & West Annual Reports filed with MoPSC.

1 **Q. IS IT A FINANCIAL ADVANTAGE TO LEASE YOUR HEADQUARTERS FOR**
2 **NO COSTS TO AN AFFILIATE?**

3 A. Yes.

4 **Q. WHAT DOES SPIRE MISSOURI CHARGE SPIRE INC. OR SPIRE SERVICES**
5 **FOR USING 700 MARKET AS THEIR HEADQUARTERS?**

6 A. Nothing.⁵¹

7 **Q. IS THIS PRACTICE COMPLIANT WITH THE COMMISSION'S AFFILIATE**
8 **TRANSACTION RULE?**

9 A. No. Spire Missouri is prohibited from providing good and services to affiliates at no costs.
10 Free rent would be such a prohibited affiliate transaction if Spire Missouri provides such a
11 good or service to an affiliate such as Spire Inc. or Spire Services.

12 **Q. ARE THERE ANY OTHER AFFILIATE TRANSACTIONS ISSUES TO DISCUSS?**

13 A. Yes. Two.

14 **Q. WHAT IS THE FIRST?**

15 A. Spire Missouri's regulated utility line of business does engage in significant non-regulated
16 activities with non-affiliated third party customers. Spire Missouri reports that these
17 transactions cannot be reasonably considered a component of its regulated utility business.
18 Spire Missouri reports two separate such business lines. The first line is Customer Service
19 (HVAC, Home Sale Inspections, etc.) which is described as repair and maintenance of HVAC
20 systems and performance of home sale inspections. The second business line is Propane
21 Storage and Exchange which is described as the provision of propane storage and exchange
22 services.⁵² The Customer Service Non-Regulated Activity reported revenues \$1,556,665 and
23 expenses of \$2,707,649.⁵³ Spire Missouri did not report this information for its Propane
24 Storage and Exchange test year non-regulated activities. OPC has removed this \$1,150,984
25 loss amount from Spire Missouri revenue requirement until the Company shows the loss is

⁵¹ *Id.*

⁵² *Id.* Page 41.

⁵³ *Id.* Page 42.

1 not included in its cost of service accounts. The information is being sought through an OPC
2 data request to supplement Spire Missouri's current affiliate transaction reporting.

3 **Q. WHAT IS THE SECOND ISSUED THAT YOU WOULD LIKE TO DISCUSS?**

4 A. The removal of incentive plan costs as they reward Spire Missouri employees to further the
5 economic interests of Spire Inc. at their customers' expense. These performance pay programs
6 provide the incentive for Spire Missouri employees to get paid to further the interests of Spire
7 Inc. in lieu of the best interests of the utility. Performance pay programs are structured such
8 that their costs are recovered in the productivity they generate not in the price of their products.
9 The Spire enterprise plans are not utility based and are designed to promote the practice of
10 delaying productivity gains from being used to reduce the utility's rates for its customers.
11 These plans are operated from Spire Missouri's affiliate service line of business and their costs
12 should be paid through the productivity produced not by increasing the cost of gas utility
13 service. The annual productivity produced by such plans pays the costs of the plan. The plans
14 have a Spire Inc. trigger threshold that, when not met, do not cause incentive pay to be
15 incurred.⁵⁴ The plan can be discontinued at any time. The savings produced in the incentive
16 plan year offset the costs of the incentive as regulatory lag would not include these savings
17 until the next rate case. Simply put, the incentive plan must produce savings (earnings targets)
18 that exceed the payout costs or there is no payout. The regulatory lag of a Missouri utility rate
19 change will allow the incentive plan to offset costs against actual savings that will not be
20 reflect in rates until a future period. These triggers of earnings per share are Spire enterprise
21 results not at the Spire Missouri level. These incentive plans therefore encourage Spire
22 Missouri employees to retain savings and not reduce customer rates while including the
23 incentive plan costs in base customer rates for double or more recovery.

24 **Q. WHY DO SPIRE MISSOURI EMPLOYEES SHOW FAVOR TO SPIRE INC AND**
25 **SPIRE SERVICES?**

26 A. Spire Missouri engages in two significant lines of business. The first line of business is its
27 Missouri regulated gas utility line of business. The second line of business is being the primary
28 service company provider for Spire Inc. and all its subsidiaries (Spire Inc. enterprise). Spire

⁵⁴ See response to OPC data request 1033

1 Missouri is actually the service company for Spire, Inc. enterprise.⁵⁵ Spire Missouri actually
2 operates its parent holding company (Spire Inc.) and the service company (Spire Services
3 Inc.).⁵⁶ Thus, Spire Missouri employees work on a significant amount of non-regulated
4 service company business. Neither Spire Inc. nor Spire Services is ultimately charged for all
5 Spire Missouri goods and services that are used to operate these entities. Instead, Spire
6 Missouri attempts to recover these costs from its ratepayers. Spire Inc.'s profits increase when
7 Spire Missouri's customers pay for the goods and service provided to Spire Inc. operating
8 expenses.

9 Spire incentive compensation programs provide Spire Missouri employees the incentive to
10 further Spire Inc.'s financial interests at the expense of the rates paid by the Utility's
11 customers. Spire Missouri's actions are directly counter to the purpose of the Commission's
12 Affiliate Transaction rules.⁵⁷ In addition, Spire's incentive compensation financial component
13 costs should continue to be excluded from Spire Missouri's revenue requirement as the
14 Commission noted in Spire Missouri's last rate case.⁵⁸

15 OPC expects the Staff will making an incentive compensation adjustment that OPC will
16 analyze to determine if all such costs are disallowed. If so, then this adjustment will be adopted
17 by OPC. If not, OPC will sponsor to remove all the incentive compensation Staff adjustment
18 includes in revenue requirement on the basis that all costs of incentive programs are recovered
19 through the productivity that occurs and is not considered in rates.

⁵⁵ See Spire Missouri recent Cost Allocation Manual annual report for fiscal year 9/30/2020. In particular, note the Business & Economic Development/Workload Planning Core Services for their customers the "Spire Utilities" page 3 & 4, 31 and the multiple services provided to the customers labeled "Spire Inc. and all its subsidiaries". These multiple services are Business Support, Claims, Communication & Marketing, Continuous Improvement, Corporate Development, Corporate Secretary, Crisis Management, Customer Experience, External Affairs, Finance, Gas Control, Gas Operations, Gas Supply, Human Resources, Information Technology Services (ITS), Innovation, Advanced Analytics & Continuous Improvement, Insurance Programs, Internal Audit & Enterprise Risk, Legal, Measurement, Operational and Financial Support, Operations Services, Project Management Office (PMO), Real Estate and Facilities, Records Information Management (RIM), Security, Supply Chain/Accounts Payable (AP), Transportation, and Workers' Compensation pages 4 through 31.

⁵⁶ See response to OPC's data request 1008 and 1008.1.

⁵⁷ See 20 CSR 4240-40.015 Purpose statement.

⁵⁸ See Commission Order in GR-2017-0215, pages 118-125.

1 The USOA defines overheads as:

2 4. Overhead construction costs.

3 A. All overhead construction costs, such as engineering, supervision,
4 general office salaries and expenses, construction engineering and supervision by
5 others than the accounting utility, law expenses, insurance, injuries and damages,
6 relief and pensions, taxes and interest, shall be charged to particular jobs or units
7 on the basis of the amounts of such overheads reasonably applicable thereto, to the
8 end that each job or unit shall bear its equitable proportion of such costs and that
9 the entire cost of the unit, both direct and overhead, shall be deducted from the
10 plant accounts at the time the property is retired.

11 B. As far as practicable, the determination of pay roll charges includible
12 in construction overheads shall be based on time card distributions thereof. Where
13 this procedure is impractical, special studies shall be made periodically of the time
14 of supervisory employees devoted to construction activities to the end that only
15 such overhead costs as have a definite relation to construction shall be capitalized.
16 **The addition to direct construction costs of arbitrary percentages or amounts**
17 **to cover assumed overhead costs is not permitted. (Emphasis added)**

18 C. The record supporting the entries for overhead construction costs shall
19 be so kept as to show the total amount of each overhead for each year, the nature
20 and amount of each overhead expenditure charged to each construction work order
21 and to each utility plant account, and the bases of distribution of such costs.

22 (emphasis added).

23 **Q. WHAT COSTS DOES SPIRE MISSOURI INCLUDE IN ITS OVERHEAD**
24 **DISCUSSION THAT ARE ADDRESSED IN THE USOA’S SECTION REGARDING**
25 **THE “COMPONENTS OF CONSTRUCTION COSTS”?**

26 A. Spire Missouri recognizes ten (10) types of overheads. These are New Growth Support,
27 Engineering Design Capitalized Portion, Operations Departmental Clearings, Supervision,
28 Operations Support, Construction Misc., Transportation and Equipment.

29 **Q. WHAT IS THE CONCERN REGARDING OVERHEAD CHARGES TO SPIRE**
30 **MISSOURI CONSTRUCTION PROJECTS?**

31 A. There are concerns that the Company would capitalize more overhead than the methodology
32 adopted to establish base rates and that the Company would use a methodology prohibited by
33 the USOA as noted above. The Company has the incentive to maximize charges for its
34 construction projects eligible for increased revenues from its Infrastructure System
35 Replacement Surcharge (ISRS). Prior ISRS proceeding orders have indicated that these ISRS
36 overhead concerns are to be addressed in this rate case and not in the filed ISRS cases.

1 **Q. DID YOU ACQUIRE AND EXAMINE SPIRE MISSOURI POLICIES AND**
2 **PROCEDURES RELATED TO THE TREATMENT TO BE AFFORDED TO**
3 **CAPITALIZED COSTS?**

4 A. No. Spire Missouri refused to provide its policies and procedures to allow a review of what
5 processes the Company has determined that are important enough to have a defined policy
6 and prescribed procedures regarding how these important processes are to function.⁶² Thus
7 there are no policies and procedures to show how Spire Missouri operates in a manner that
8 ensures they are not capitalizing overheads that do not have a definite relation to
9 construction. As a result, it appears that Spire has resorted to utilizing arbitrary percentages
10 because no definite relationship to construction exists and the cost relationship is assumed
11 due to the lack of specific facts showing the relationship exists.

12 **Q. WHAT WERE YOUR CONCLUSIONS REGARDING SPIRE MISSOURI'S**
13 **OVERHEAD CHARGES TO ITS CONSTRUCTION PROJECTS?**

14 A. Spire Missouri is not capitalizing overhead to its construction projects consistent with the
15 USOA requirements of specific time reporting or cost studies. Spire Missouri did not produce
16 specific time reporting or cost studies supporting its capitalized overhead. Spire Missouri
17 cannot show that it is using an overhead policy and procedure that requires overhead to have
18 a definite relationship to construction as shown by time sheets or special costs studies before
19 it is eligible to be capitalize.

20 **Q. AREN'T YOUR DECISIONS COUNTER TO THE COMMISSION'S PRIOR SPIRE**
21 **MISSOURI'S ISRS ORDERS?**

22 A. No. The Commission found that these issues should be addressed in a rate case not in an ISRS
23 case and the Commission relied on Staff and Company opinions that Spire Missouri was
24 capitalizing overheads based on specific time reporting or cost studies as required by the
25 Commission's rules. To date, OPC data requests have not produced one policy and procedure
26 or real example of a showing of general overhead that has an actual defined relation to

⁶² See response to OPC data request 1002. This response raises a concern regarding the efficiency of Spire Missouri operations as it does not maintain its policies and procedures in centralized locations and their content is not easily accessible as the Company would want this information available to its employees so the daily operations are consistent with these policies and procedures.

1 construction as required by Commission rule. No such information was available in the ISRS
2 cases in question.

3 **Q. HOW DO THESE CONCLUSIONS IMPACT SPIRE MISSOURI POST-ISRS**
4 **FILINGS?**

5 A. Spire Missouri is over charging its projects by capitalizing overhead in excess of the amount
6 allowed to be recorded as plant investment as specified by the Commission rules approved
7 for the USOA. Spire Missouri is not capitalizing all its overhead based on specific time reports
8 or cost studies required for such accounting. Spire Missouri will need to construct more
9 projects to obtain the same level of ISRS revenues that the Company is receiving because of
10 the excess overhead recorded and being ISRS recorded.

11 **Q. WHAT AMOUNT OF MONEY ARE WE TALKING ABOUT?**

12 A. Spire Missouri charged \$172,799,199.64 of overheads to its test year construction
13 expenditures. \$39,023,977.34 of this amount is the capitalization of general overheads. The
14 transfer of general overheads to construction is the second highest level of overheads charged
15 to test year construction costs.⁶³ Schedule RES-D-4 is the tabulation of these overhead
16 amounts.

17 **Q. WHAT IS YOUR PROPOSAL TO ADDRESS THE CAPITALIZED OVERHEAD**
18 **ISSUE?**

19 A. I propose a tracker be authorized to ensure that Spire Missouri's general overhead is not
20 allowed to be over-recovered by transferring overheads to construction by an amount causing
21 overhead expense to be less than the amount included in base rates in this case.

22 I further propose that Spire Missouri be ordered to create policies and procedures that track in
23 the greatest detail the Company's practice for selection of overheads for capitalization, the
24 criteria needed to prove a definite relationship, and why the basis of the relationship is not
25 being used to assign costs. These policies and procedures will examine cost assignment based
26 on hours worked vs salary/wages costs that support the use of the method utilized.

⁶³ See Schedule RES-D-4 and response to OPC data request.

1 I further propose Spire Missouri report quarterly information regarding overhead
2 capitalization to allow monitoring of the dollar impact of Spire Missouri's practices.

3 Finally, I propose that Spire Missouri report each fiscal year the amount of overhead
4 capitalization that the Company cannot show the definitive relationship to construction and
5 will not be included in any future ISRS.

6 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

7 A. Yes.

8

Exhibit No:

Issue(s): Revenue Requirement,
Affiliate Transactions,
Capitalized Overheads

Witness/Type of Exhibit Schallenberg/Direct

Sponsoring Party: Public Counsel

Case No. GR-2021-0108

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11 DIRECT TESTIMONY
12 OF
13 ROBERT E. SCHALLENBERG

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15 Submitted on Behalf of the Office of the Public Counsel
16
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19 SPIRE MISSOURI INC.

20 CASE GR-2021-0108

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22 MAY 21, 2021
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4. Overhead Capitalization

**CASE PROCEEDING PARTICIPATION
ROBERT E. SCHALLENBERG**

<u>COMPANY</u>	<u>CASE NO.</u>
Missouri American Water	WR-2020-0344
Summit Natural Gas of Missouri	GO-2012-0322
Spire Missouri, Inc.	GO-2019-0356 GO-2019-0357
Ameren Missouri	GR-2019-0077
Kansas City Power & Light Co.-Greater Missouri Operations	EC-2019-0200
Spire–Missouri Inc.	GO-2019-0115 GO-2019-0116
Kansas City Power & Light Co.	ER-2018-0145
Kansas City Power & Light Co.-Greater Missouri Operations	ER-2018-0146
Laclede Gas Company	GO-2016-0332 GO-2016-0333 GO 2017-0201 GO-2017-0202 GO-2018-0309 GO-2018-0310
Grain Belt Express Clean Line, LLC	EA-2016-0358
Spire, Inc. EnergySouth, Inc.	GM-2016-0342
Great Plains Energy, Inc. Westar Energy, Inc.	EM-2016-0324
Kansas City Power & Light Company	ER-2016-0285
The Empire District Electric Company, Liberty Utilities (Central) Co. and Liberty Sub Corp.	EM-2016-0213

**CASE PROCEEDING PARTICIPATION
ROBERT E. SCHALLENBERG**

Laclede Gas Company	GF-2015-0181
The Empire District Electric Company	AO-2012-0062
KCP&L Greater Missouri Operations Company	ER-2010-0356
Kansas City Power & Light Company	ER-2010-0355
Great Plains Energy Incorporated, Kansas City Power & Light Company	ER-2009-0090
Great Plains Energy Incorporated, Kansas City Power & Light Company	ER-2009-0089
Great Plains Energy Incorporated, Kansas City Power & Light Company, Aquila, Inc.	EM-2007-0374
Union Electric Company, d/b/a AmerenUE	ER-2007-0002
Missouri Pipeline Company	GC-2006-0491
Aquila, Inc.	ER-2005-0436
Union Electric Company, d/b/a AmerenUE	EA-2005-0180
Union Electric Company, d/b/a AmerenUE	EC-2002-1
Mississippi River Transmission	RP96-199-000
Williams Natural Gas Company	RP96-173-000
Williams Natural Gas Company	RP95-136-000
Williams Natural Gas Company	RP94-365-000
Laclede Gas Company	GR-94-220
Western Resources	GM-94-40
Western Resources	GR-93-240

**CASE PROCEEDING PARTICIPATION
ROBERT E. SCHALLENBERG**

COMPANY	CASE NO.
St. Joseph Light & Power Company	ER-93-41
St. Joseph Light & Power Company	EC-92-214
Kansas Power & Light Company	GR-91-291
Kansas Power & Light Company	EM-91-213
Arkansas Power & Light Company	EM-91-29
Missouri Public Service Company	ER-90-101
Southwestern Bell Telephone Company	TR-90-98
General Telephone	TR-89-182
Southwestern Bell Telephone Company	TO-89-56
Southwestern Bell Telephone Company	TC-89-14
Union Electric Company	EC-87-114
General Telephone	TC-87-57
General Telephone	TM-87-19
General Telephone	TR-86-148
Southwestern Bell Telephone Company	TR-86-84
Kansas City Power & Light Company	EO-85-185
Kansas City Power & Light Company	ER-85-128
Southwestern Bell Telephone Company	TR-83-253
Kansas City Power & Light Company	ER-83-49
Southwestern Bell Telephone Company	TR-82-199

**CASE PROCEEDING PARTICIPATION
ROBERT E. SCHALLENBERG**

<u>COMPANY</u>	CASE NO.
Kansas City Power & Light Company	HR-82-67
Kansas City Power & Light Company	ER-82-66
Southwestern Bell Telephone Company	TO-82-3
Southwestern Bell Telephone Company	TR-81-208
Kansas City Power & Light Company	ER-81-42
Southwestern Bell Telephone Company	TR-80-256
United Telephone Company of Missouri	TR-80-235
Kansas City Power & Light Company	ER-80-204
Kansas City Power & Light Company	ER-80-48
Kansas City Power & Light Company	ER-80-48
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Kansas City Power & Light Company	ER-78-252
Missouri Public Service Company	GR-78-30
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Gas Service Company	GR-78-70
Kansas City Power & Light Company	ER-77-118

**CASE SUMMARY OF INVOLVEMENT
OF
ROBERT E. SCHALLENBERG**

Missouri American Water Works
Case No. WR-2020-0344
Date: November 24, 2020; January 15, 2021
Area: AFUDC; Affiliate Transactions

Spire Missouri
Case No. GO-2019-0356 & GO-23019-0357
Date: September, 27, 2019
Area: Cost Recovery Mechanism

Summit Natural Gas of Missouri
Case No. GO-2012-0322
Date: August 5, 2019 & August 26, 2019
Area: Affiliate Transaction

Ameren Missouri Gas
Case No. GR-2019-0077
Date: June 7, 2019
Area: Affiliate Transaction/Capital Structure

Kansas City Power & Light Co.-Greater Missouri
Case No. EC-2019-0200
Date: April 23, 2019
Area: Accounting Order

Spire Missouri Inc.
Case No. GO-2019-0115 and GO-2019-0116
Date: March 29, 2019
Areas: Cost Recovery Mechanism

Kansas City Power & Light Co. and Kansas City Power & Light Co.-Greater Missouri
Operations
Case No. ER-2018-0145 and ER-2018-0146
Date: June 19, 2018 (Direct); July 27, 2018 (Rebuttal); and September 4, 2018 (Surrebuttal)
Areas: Policy, Productivity, Affiliate Transactions, Capital Structure

**CASE SUMMARY OF INVOLVEMENT
OF
ROBERT E. SCHALLENBERG**

Laclede Gas Company
Case Nos. GO-2016-0332; GO-2016-0333; GO-2017-0201; GO-2017-0202; GO-2018-0309;
GO-2018-0310
Date August 22, 2018
Areas: Cost Recovery Mechanism, Infrastructure System Replacement Surcharge (ISRS)

Grain Belt Express Clean Line, LLC
Case No. EA-2016-0358
Date: January 24, 2017 (Rebuttal Report)
Areas: Public Comments

Spire, Incorporated
EnergySouth, Inc.
Case No. GM-2016-0342
Date: September 1, 2016 (Investigation Report)
Areas: Affiliated Transactions

Great Plains Energy Incorporated
Westar Energy, Inc.
Case No. EM-2016-0324
Date: July 25, 2016 (Investigation Report)
Areas: Affiliated Transactions

Kansas City Power & Light Company
Case No. ER-2016-0285
Date: January 27, 2017 (Surrebuttal)
Areas: Affiliate Transactions

The Empire District Electric Company,
Liberty Utilities (Central) Co. and Liberty Sub Corp.
Case No. EM-2016-0213
Date: July 20, 2016 (Rebuttal)
Areas: Affiliated Transactions

Laclede Gas Company
Case No. GF-2015-0181
Date: June 18, 2015 (Affidavit)
Areas: Finance Authority

**CASE SUMMARY OF INVOLVEMENT
OF ROBERT E. SCHALLENBERG**

The Empire District Electric Company
Case No. AO-2012-0062
Date: September 9, 2016 (Direct)
Areas: Affiliated Transactions; Cost Allocation Manual

KCP&L Greater Missouri Operations Company
Case No. ER-2010-0356
Date: November 4, 2010 (Report)
Areas: Construction Audit and Prudence Review

Kansas City Power & Light Company
Case No. ER-2010-0355
Date: November 4, 2010 (Report)
Areas: Construction Audit and Prudence Review

Great Plains Energy Incorporated,
Kansas City Power & Light Company
Case No. ER-2009-0090
Date: April 9, 2009 (Surrebuttal)
Areas: Iatan Prudence Review

Great Plains Energy Incorporated,
Kansas City Power & Light Company
Case No. ER-2009-0089
Date: April 7, 2009 (Surrebuttal)
Areas: Iatan Prudence Review

Great Plains Energy Incorporated,
Kansas City Power & Light Company, Aquila, Inc.

Date: October 12, 2007 (Rebuttal and
Staff Report of Evaluation and Recommendations)
Areas: GPE Acquisition of Aquila

Union Electric Company, d/b/a AmerenUE
Case No. ER-2007-0002
Date: February 28, 2007 (Surrebuttal)
Areas: EEInc.
Date: January 31, 2007 (Rebuttal)
Areas: EEInc. and 4 CSR 240-10.020

**CASE SUMMARY OF INVOLVEMENT
OF
ROBERT E. SCHALLENBERG**

Missouri Pipeline Company

Case No. GC-2006-0491

Date: September 6, 2006 (Direct)

November 17, 2006 (Surrebuttal)

Areas: Affiliate Transactions, Tariff Violations and Associated Penalties;
Transportation Tariffs

Aquila, Inc.

Case No. ER-2005-0436

Date: October, 14 2005 (Direct)

December 13, 2005 (Surrebuttal)

Areas: Unit Ownership Costs

Union Electric Company, d/b/a AmerenUE

Case No. EA-2005-0180

Date: October 15, 2005 (Rebuttal)

Areas: East Transfer

Union Electric Company d/b/a AmerenUE

Case No. EC-2002-1

Date: June 24, 2002 (Surrebuttal)

Area: Overview, 4 CSR 240-10.020, Alternative Regulation Plan

Laclede Gas Company

Case No. GR-94-220

Date: July 1, 1994 (Direct)

Areas: Property Taxes, Manufactured Gas Accruals, Deregulated Cost Assignments

Western Resources, Inc. (dba Gas Service, a Western Resources Company)

Case No. GM-94-40

Date: November 29, 1993 (Rebuttal)

Areas: Jurisdictional Consequences of the Sale of Missouri Gas Properties

Kansas Power & Light Company

Case No. EM-91-213

Date: April 15, 1991 (Rebuttal)

Areas: Purchase of Kansas Gas & Electric Company

**CASE SUMMARY OF INVOLVEMENT
OF
ROBERT E. SCHALLENBERG**

Arkansas Power & Light Company and Union Electric Company

Case No. EM-91-29

Date: 1990-1991

Areas: No pre-filed rebuttal testimony by Staff before non-unanimous stipulation and agreement reached.

General Telephone Company of the Midwest

Case No. TM-87-19

Date: December 17, 1986

Areas: Merger

Union Electric Company

Case No. EC-87-114

Date: September 9, 1987 (Surrebuttal)

Date: April 24, 1987 (Direct)

Areas: Elimination of Further Company Phase-In Increases, Write-Off of Callaway I to Company's Capital Structure

General Telephone Company of the Midwest

Case No. TC-87-57

Date: December 22, 1986

Areas: Background and Overview, GTE Service Corporation, Merger Adjustment, Adjustments to Income Statement

Southwestern Bell Telephone Company

Case No. TR-86-84

Date: 1986

No pre-filed direct testimony by Staff - case settled before Staff direct testimony filed.

Kansas City Power & Light Company

Case Nos. EO-85-185 and ER-85-128

Date: April 11, 1985

Areas: Phase I - Electric Jurisdictional Allocations

Date: June 21, 1985

Areas: Phase III - Deferred Taxes Offset to Rate Base

Date: July 3, 1985

Areas: Phase IV - 47% vs. 41.5% Ownership, Interest, Phase-In, Test Year/True-Up, Decision to Build Wolf Creek, Non-Wolf Creek Depreciation Rates, Depreciation Reserve

**CASE SUMMARY OF INVOLVEMENT
OF
ROBERT E. SCHALLENBERG**

Southwestern Bell Telephone Company

Case No. TR-83-253

Date: September 23, 1983

Areas: Cost of Divestiture Relating to AT&T Communications, Test Year, True-Up, Management Efficiency and Economy

Kansas City Power & Light Company

Case No. ER-83-49

Date: February 11, 1983

Areas: Test Year, Fuel Inventories, Other O&M Expense Adjustment, Attrition Adjustment, Fuel Expense-Forecasted Fuel Prices, Deferred Taxes Offset to Rate Base

Kansas City Power & Light Company

Case Nos. ER-82-66 and HR-82-67

Date: March 26, 1982

Areas: Indexing/Attrition, Normalization vs. Flow-Through, Deferred Taxes as an Offset to Rate Base, Annualization of Amortization of Deferred Income Taxes, Cost of Money/Rate of Return, Allocations, Fuel Inventories, Iatan AFDC Associated with AEC Sale, Forecasted Coal and Natural Gas Prices, Allowance for Known and Measurable Changes

Southwestern Bell Telephone Company

Case No. TR-82-199

Date: August 27, 1982

Areas: License Contract, Capitalized Property Taxes, Normalization vs. Flow-Through, Interest Expense, Separations, Consent Decree, Capital Structure Relationship

General Telecommunications

Straight Line Equal Life Group and Remaining Life Depreciation Methods

Case No. TO-82-3

Date: December 23, 1981

Areas: Depreciation

Southwestern Bell Telephone Company

Case No. TR-81-208

Date: August 6, 1981

Areas: License Contract, Flow-Through vs. Normalization

**CASE SUMMARY OF INVOLVEMENT
OF
ROBERT E. SCHALLENBERG**

Kansas City Power & Light Company

Case No. ER-81-42

Date: March 13, 1981

Areas: Iatan (AEC Sale), Normalization vs. Flow-Through, Allocations, Allowance for Known and Measurable Changes

Southwestern Bell Telephone Company

Case No. TR-80-256

Date: October 23, 1980

Areas: Flow-Through vs. Normalization

United Telephone Company of Missouri

Case No. TR-80-235

Date: December 1980

Areas: Rate of Return

Special Assignments & Achievements

- 1) Provided accounting and regulatory support to address organized crime involvement in the ownership and operation of two (2) Missouri regulated telephone companies, Cass County and New Florence Telephone companies. Resolution resulted in significant customer refunds and penalty payments to Missouri School Fund.
- 2) Initiated regulatory methodologies, such as signed data requests, update, true-ups, lead lag studies in lieu of the FERC 45 day cash working capital formula, and interest synchronization, still in use today.
- 3) Participated in the Commissioner comments provided to the Department of Justice when Missouri was selected as one of the commissions providing input regarding state commission perspective regarding the breakup of the AT&T (aka Bell) system.
- 4) Took several depositions of employees in a FERC rate case when the assigned Commission attorney fell sick during the deposition schedule. FERC rule allowed this practice.

Schedule RES-D-2

Spire Missouri- Revenue Requirement

Spire Missouri proposed rate base	\$2,777,221,195
Manufactured Gas Production Expense	0
Purchases Gas Expense	-\$4,811,810
Natural Gas Storage Expense	\$3,436,961
Distribution Operation Expense	\$55,497,045
Distribution Maintenance Expense	\$37,677,353
Customer Accounts Expense	\$45,649,895
Customer Service and Information Expense	\$11,573,430
Sales & Advertising Expense	\$3,151,415
Administrative & General Expense	\$108,017,349
Payroll Adjustment	\$5,162,990
Depreciation	\$120,736,534
Amortization	\$19,668,074
Interest on Customer Deposits	\$541,881
Taxes Other Than Income	\$48,138,064
Income Taxes	\$26,854,660
Interest Expense	\$50,823,148
Net Income (Profit)	<u>\$149,914,400</u>
Revenue Requirement	<u>\$682,031,389</u>
Current Revenues	<u>\$570,537,909</u>
Difference between Revenue Requirement and Spire Missouri position for current rate revenues	<u>\$111,493,480</u>
Spire Missouri rate increase requested	<u>\$111,475,389</u>
Check rate case test year income taxes NEEDED TO BE FOUND	<u>\$18,091</u>

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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Schedule RES-D-4

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Summary of OPC Direct Position in Case GR-2012-0108

<i>Sponsor</i>	<i>Issue Description</i>	<i>Revenue Requirement</i>	<i>Notes</i>
Amanda Conner	Position regarding amount of rate case expense that should be collected to customers	\$1,390,925.00	
	Inappropriate management expense	\$585,050.00	
	Credit Card Processing Fees	\$1,246,619.00	
	Non-recurring Severance Overcollection	\$464,488.00	
Lena Mantle	Weather Normalization Adjustment Rider		
Geoff Marke	Legal fees for racial discrimination lawsuit	\$300,000.00	
	Removal of \$11 million in meters from inclusion in rate base. Depreciation, Profit, Interest, & Income Taxes.	\$1,389,300.00	(C)
Dave Murray	Profit Recommendation of \$121,642,288.34	\$28,272,191.66	
	Interest Expense Recommendation of \$52,211,758.47	-\$1,388,610.47	
	Income Taxes Recommendation of \$22,235,140.29 with Profit Reduction based on % decline	\$4,619,519.71	
John Riley	Net Operating Loss in Rate Base	\$4,600,000.00	
	Inclusion of Cash Working Capital (CWC) Unpaid		
	Income taxes	\$1,162,105.00	
	Insufficient GRT refund to customers		(A)
	Overcharged GRT to customers		(B)
John Robinett	Higher Depreciation Rates Needed	-\$25,000,000.00	
Bob Schallenberg	Spire Inc. Goods and Services costs not paid		(D)
	Spire Services Goods and Services	\$1,000,000.00	
	Spire Inc. incentive compensation		(E)
	Spire Inc. General Overheads		(F)

Notes

GRT = Gross Receipts Tax

- (A) Insufficient \$15 million refund of overcollection of GRT. (\$750,000 - \$1 million) revenue requirement range
- (B) GRT overcharge of approximately \$7 million over 36 month period
- (C) $\$11 \text{ million} \times 7.63\% + 5\%$ depreciation
- (D) \$84,027,898.01 not identified by account need to be assessed by expense accounts & capitalization
- (E) Expect Staff adjustment in this area. Will need develop incremental difference when Staa Direct is available
- (F) Unaware of the amount of overheads that can be shown to comply with USOA