

*Exhibit No.:*  
*Issue(s):* *PSC Assessment, Rate Case  
Expense, Non Labor  
Distribution Maintenance,  
Missouri and Kansas  
Property Taxes*  
*Witness:* *Sydney Ferguson*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Direct Testimony*  
*Case No.:* *GR-2025-0107*  
*Date Testimony Prepared:* *April 23, 2025*

# **MISSOURI PUBLIC SERVICE COMMISSION**

## **FINANCIAL AND BUSINESS ANALYSIS DIVISION**

### **AUDITING DEPARTMENT**

#### **DIRECT TESTIMONY**

#### **OF**

#### **SYDNEY FERGUSON**

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

**CASE NO. GR-2025-0107**

*Jefferson City, Missouri  
April 2025*

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**SYDNEY FERGUSON**  
**SPIRE MISSOURI INC.,**  
**d/b/a Spire**  
**CASE NO. GR-2025-0107**

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1           A.     The purpose of my direct testimony is to discuss Staff's positions in this case  
2 regarding: PSC assessment, rate case expense, non-labor distribution maintenance, Missouri  
3 property taxes, and Kansas property taxes.

4     **PSC ASSESSMENT**

5           Q.     What is the PSC assessment?

6           A.     The PSC assessment is an amount billed to all regulated utilities operating under  
7 the jurisdiction of the Commission. The assessment for each utility is re-evaluated each year,  
8 and a new assessment amount is billed to each regulated utility on July 1.

9           Q.     What is Staff's recommendation for the PSC assessment?

10          A.     Staff included the most current assessment value for Spire Missouri Inc., d/b/a  
11 Spire ("Spire Missouri", "Spire East" or "Spire West") for fiscal year 2025 in the revenue  
12 requirement, based on the information available from the Commission's records. Staff's  
13 adjustment represents the difference between the PSC assessment booked in Spire East and  
14 Spire West's test year and the most recent PSC assessment that is now in effect for Spire East  
15 and Spire West for the fiscal year 2025 starting July 1, 2024.

16     **RATE CASE EXPENSE**

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

18          A.     Staff recommends using the same treatment of rate case expense as in Spire  
19 Missouri's prior rate case, Case No. GR-2022-0179, which is to include a 50% share of the  
20 average incremental external rate case expense from the two most recent Spire Missouri rate  
21 cases and normalizing that cost level over a three-year period. Staff's recommendation is also  
22 consistent with the Commission's most recent guidance concerning the sharing of rate case

1 expense in Spire Missouri Case Nos. GR-2017-0215 and GR-2017-0216, which was upheld by  
2 the Missouri Supreme Court.<sup>1</sup> By using a two case average, these amounts will not be subject  
3 to true-up for actual expense incurred, or any over or under-recovery recognized. Staff also  
4 recommends including a normalized amount of customer notice costs. Customer notice costs  
5 will not be subject to the same 50/50 sharing as the incremental external rate case expenses.  
6 The total amount of customer notice costs has not yet been incurred; therefore, Staff will update  
7 this amount as information becomes available.

8 Q. What are rate case expenses?

9 A. Rate case expenses are the costs incurred by a utility in the preparation and filing  
10 of a rate case. In the instant case, Spire Missouri has incurred expenses in conjunction with  
11 legal counsel and outside consultants, as well as costs associated with customer notices.  
12 Normally, these applications are initiated by a utility filing; however, rate case expense can also  
13 be incurred as a result of an earnings complaint case filed by another party. While rate case  
14 expenses do include costs for document preparation and filing, the majority of the costs incurred  
15 during a rate case are typically for external legal counsel, consultants, and outside expert  
16 witnesses contracted by the utility.

17 Utility management typically has a high degree of control over rate case expense.  
18 Attorneys, consultants, and other services used during a rate case can be provided by existing  
19 utility personnel or sourced from an outside party. Some Missouri utilities employ in-house  
20 counsel and primarily utilize internal labor to process rate filings; thus, it is not always  
21 necessary to contract with outside attorneys and consultants in rate proceedings. The  
22 incremental rate case expenses included in the sharing mechanism proposed by Staff in this

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<sup>1</sup> *Spire Mo., Inc. v. Pub. Serv. Comm'n*, 607 S.W.3d 759, No. SC97834, Slip Op. at 13-14 (Mo. banc 2021).

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 costs incurred by the Office of the Public Counsel,
- 3) The costs incurred by interveners 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. 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 regulate 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 in 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 currently sourced from general revenue paid by Missouri taxpayers.

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

8           Category 4 are the costs incurred by the utility itself during the regulatory and rate  
9           setting process. In prior rate cases, utilities were allowed to pass through the full amount of  
10          normalized and prudently incurred rate case expense and regulatory expenses to the ratepayer  
11          through rates, which was problematic.

12          Q.     Why is it problematic for utilities to be allowed full recovery of rate case  
13          expenses?

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

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

20          A.     Not necessarily. There are other discretionary utility expenses that are not  
21          recovered by the utility during the rate setting process. Charitable contributions, which are  
22          discretionary amounts paid to individuals or organizations for charitable reasons that have no  
23          direct business benefit, are examples of costs that have not historically been included as an

1 expense in the cost of service calculations. While the utility may believe it has the responsibility  
2 to be a “good corporate citizen”, these donations would represent an involuntary contribution  
3 by the ratepayer if they were to be included in rates. Other costs that are routinely disallowed  
4 by Staff are expenses for a utility’s political activities (“lobbying”). Lobbying and charitable  
5 contributions represent costs which are not necessary for the provision of safe and adequate  
6 service, and not recovered through rates. The lack of recovery of those costs has not dissuaded  
7 utilities from engaging in these activities. Similarly, while any form of sharing of rate case  
8 expense may act as an incentive to control these costs, Staff has not identified significant  
9 curtailment of incremental rate case expenses by utilities affected by the 50/50 sharing  
10 mechanism.

11 Q. What is the Commission’s historical position with regard to the sharing of rate  
12 case expense?

13 In 2011, the Commission established Case No. AW-2011-0330 to investigate current  
14 rules and practices regarding the recovery of rate case expense by Missouri utility companies.  
15 The Staff report included a discussion of both sharing rate case expense 50/50, as well as sharing  
16 based upon Commission ordered rate increases versus company requested rate increases.<sup>2</sup>

17 In Kansas City Power and Light (“KCPL”)’s, now known as Evergy Metro, Inc., Case  
18 No. ER-2014-0370, the Commission ordered sharing of KCPL’s rate case expenses:

19 The Commission finds that in order to set just and reasonable rates under  
20 the facts of this case, the Commission will require KCPL shareholders to  
21 cover a portion of KCPL’s rate case expense. One method to encourage  
22 KCPL to limit its rate case expenditures would be to link KCPL’s  
23 percentage recovery of rate case expense to the percentage of its rate  
24 increase request the Commission finds just and reasonable. The  
25 Commission determines that this approach would directly link KCPL’s

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<sup>2</sup> Staff’s Investigative Report on Rate Case Expense, Case No. AW-2011-0330 pages 15-16.



1 recovery of rate case expense to both the reasonableness of its issue  
2 positions and the dollar value sought from customers in this rate case.

3  
4 The Commission concludes that KCPL should receive rate recovery of  
5 its rate case expenses in proportion to the amount of revenue requirement  
6 it is granted as a result of this Report and Order, compared to the amount  
7 of its revenue requirement rate increase originally requested. This  
8 amount should be normalized over three years. The Commission also  
9 finds that it is appropriate to require a full disclosure to ratepayers of the  
10 expenses for KCPL's depreciation study, recovered over five years,  
11 because this study is required under Commission rules to be conducted  
12 every five years.<sup>3</sup>  
13

14 The Commission provided further clarification for its conclusions regarding the  
15 recovery of rate case expenses:

16 It is understood that some of the issues litigated in this case do not  
17 directly affect the overall revenue requirement granted by the  
18 Commission; but it is also clear that the vast majority of litigated issues  
19 do have a direct or indirect impact on the revenue requirement.  
20 Accordingly, percentage sharing is a reasonable approach to correlating  
21 recovery of rate case expense to the relationship between the amount of  
22 litigation that benefited both ratepayers and shareholders and that which  
23 benefited only shareholders.<sup>4</sup>  
24

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

27 Therefore, it is just and reasonable that the shareholders and the  
28 ratepayers, who both benefited from the rate case, share in the rate case  
29 expense. The Commission finds that in order to set just and reasonable  
30 rates under the specific facts in this case, the Commission will require  
31 Spire Missouri shareholders to cover half of the rate case expense and  
32 the ratepayers to cover half with the exception of the cost of customer  
33 notices and the depreciation study.<sup>5</sup>  
34

35 Q. How did Staff approach its adjustment to rate case expense in the current  
36 proceeding?

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<sup>3</sup> *Report and Order*, Case No. ER-2014-0370 page 72.

<sup>4</sup> *Report and Order*, Case No. ER-2014-0370, page 72, Footnote 251.

<sup>5</sup> *Amended Report and Order*, Case Nos. GR-2017-0215 and GR-2017-0216, page 54.

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

4           Staff recommends a three-year normalization of rate case expense due to the historical  
5 frequency of Spire Missouri rate case filings. Staff will also include customer notice costs and  
6 depreciation study expenses with no sharing, normalized over three years to correspond with  
7 the frequency of Spire Missouri's rate cases. Customer notice costs have not yet been incurred,  
8 so this issue will be true upped once data is available.

9     **NON LABOR DISTRIBUTION MAINTENANCE**

10          Q.     What is non labor distribution maintenance?

11          A.     Non labor distribution maintenance is expenses incurred by Spire Missouri to  
12 maintain their distribution system.

13          Q.     What did Staff analyze to determine an appropriate level of distribution  
14 maintenance?

15          A.     Staff reviewed historical non labor distribution expense for the period of Spire  
16 Missouri's fiscal years 2018 to current. All labor distribution expense is addressed by Staff  
17 witness Nathan Bailey.

18          Q.     What is Staff's recommended adjustment to non-labor expense?

19          A.     Yes. Staff has included a three-year average of non-labor maintenance expense  
20 in the cost of service for both Spire East and Spire West. This three-year average includes fiscal  
21 years 2024, 2023, and 2022. A three year average was used since the non-labor distribution  
22 maintenance expense fluctuated from year to year.

**MISSOURI AND KANSAS PROPERTY TAXES**

Q. What is the background for property tax trackers for Spire Missouri?

A. In Case Nos. GR-2017-0215 and GR-2017-0216, the Commission ordered the establishment of a tracker for Spire Missouri's property tax expenses. Beginning on page 117 of its Amended Report and Order, the Commission stated:

Finally, one of Spire Missouri's arguments against including the effects of the TCJA<sup>6</sup> in the present case was that it was unfair to the company to not also include certain property taxes that also fall outside of the test year. Having considered these arguments the Commission agrees that actual property tax expense paid in 2017 is now known and measurable even though it falls outside the test year. And, coupled with the extraordinary event of decreased income tax expense it would not be just to exclude these known and measurable taxes (estimated at hearing as approximately \$1.4 million) from increasing property tax expense. Therefore, as an offset to the reduction in current income tax expense, the Commission will include the actual 2017 property taxes as an expense for the new rates. However, as 2018 property taxes are still not known and measurable, the Commission will also establish a tracker to account for any amounts of property tax expense over or under the amounts set out in rates for possible inclusion in Spire Missouri's next rate proceeding.<sup>7</sup>

Q. Was the Missouri property tax tracker established in the 2017 rate cases discontinued?

A. Yes. In Case No. GR-2021-0108, the Commission approved a Stipulation and Agreement discontinuing the existing Missouri property tax tracker as of December 31, 2021.<sup>8</sup> I will refer to the discontinued tracker as the Legacy Missouri Property Tax Tracker for the rest of my testimony. This Legacy Missouri Property Tax Tracker is currently a regulatory liability.

Q. Please define a regulatory asset and regulatory liability.

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<sup>6</sup> Tax Cut and Job Act.

<sup>7</sup> Case Nos. GR-2017-0215 and GR-2017-0216, Commission Amended Report and Order, pages 117-118.

<sup>8</sup> Case No. GR-2021-0108, Partial Stipulation and Agreement, Approved by the Commission on September 15, 2021.

1           A.     When a utility is authorized to track costs, the actual cost incurred of a  
2 particular item that is being tracked is compared to the amount of that item currently included  
3 in the utility's base rates. Any over-recovery of these costs by the utility is included as a  
4 regulatory liability and returned to customers over an agreed upon period of time.  
5 Under-recovery of these costs by the utility is included as a regulatory asset and recovered by  
6 the utility over an agreed upon period of time.

7           Q.     Did Staff make an adjustment to the Legacy Missouri Property Tax Tracker?

8           A.     Yes. Staff determined that the liability balance for this tracker is  
9 \$3,095,644 for Spire East and \$2,960,296 for Spire West as of December 31, 2024. Staff  
10 recommends an amortization period of three years that results in an annual amortization  
11 expense of \$1,031,881 for Spire East and \$986,765 for Spire West.

12          Q.     What is Staff's recommendation for an annualized level of Missouri property  
13 taxes?

14          A.     Staff recommends an annualized level of Missouri property taxes for  
15 Spire East and Spire West based on actual property taxes paid in 2024. For Spire East, Staff's  
16 recommended level is \$27,606,038 and for Spire West, \$31,272,089. Q.    Was        another  
17 property tax tracker established in Spire Missouri's last rate case, Case No. GR-2022-0179?

18          A.     Yes. I will refer to this tracker as the Missouri Property Tax Tracker for the rest  
19 of this testimony.

20  
21          Q.     What is Staff's recommended rate base amount for the Missouri Property Tax  
22 Tracker?

1           A.     Staff recommends using December 31, 2024, amounts for rate base of  
2     \$8,972,251 for Spire East and \$17,901,525 for Spire West.

3           Q.     What is Staff's proposed annual amortization expense for the Missouri Property  
4     Tax Tracker asset balance?

5           A.     Staff proposes an amortization period of three years resulting in an annual  
6     amortization of \$8,129,486 for Spire East and \$12,390,837 for Spire West.

7           Q.     Is Spire West billed for Kansas property taxes?

8           A.     Yes. In 2009, the Kansas Legislature passed a law, Kansas House Substitute for  
9     Senate Bill No. 98, to allow for assessment of all gas being stored and held for resale in Kansas.  
10    During this time, Spire West, formerly Missouri Gas Energy, contested the legality of the tax  
11    in the Kansas state court. On December 6, 2013, the court issued an order holding Spire West  
12    responsible for Kansas property taxes. Spire West and other litigants filed a petition for a writ  
13    of certiorari of the Kansas Supreme Court's decision with the United States Supreme Court.  
14    On October 6, 2014, The United States Supreme Court denied the petition.

15           Beginning in Case No. GR-2014-0007, the Commission allowed Spire West to track  
16    Kansas property taxes.<sup>9</sup> A base level was established and included in base rates; and any  
17    changes that occur between the base level and the amount of actual Kansas property taxes  
18    incurred are recorded in a regulatory asset.

19           Q.     Was the Kansas property tax tracker discontinued in Case No. GR-2021-0108?

20           A.     Yes. The Commission approved a Stipulation and Agreement that discontinued  
21    the Kansas property tax tracker ("Legacy Kansas Property Tax Tracker") as of December

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<sup>9</sup> Case No. GR-2014-0007, Stipulation and Agreement filed on April 2014, approved by the Commission on April 23, 2014.

Direct Testimony of  
Sydney Ferguson

1 Kansas property taxes are now included in the property tax tracker that became effective in  
2 August 2022.

3 Q. Was an adjustment made to the Legacy Kansas Property Tax Tracker?

4 A. Yes. Staff agrees with Spire's proposed adjustment to the remaining balance.  
5 Spire proposes an adjustment to the test year amortization expense of \$(176,995).

6 Q. Does this conclude your direct testimony?

7 A. Yes, it does.

**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-2025-0107

**AFFIDAVIT OF SYDNEY FERGUSON**

STATE OF MISSOURI     )  
COUNTY OF Jackson     )     ss.

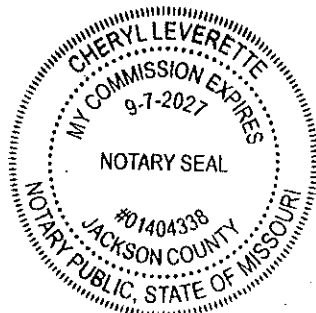
**COMES NOW SYDNEY FERGUSON** and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct Testimony of Sydney Ferguson*; and that the same is true and correct according to her best knowledge and belief.


Further the Affiant sayeth not.

  
SYDNEY FERGUSON

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 16<sup>th</sup> day of April 2025.



  
Notary Public

# Sydney Ferguson

## **Educational and Employment Background and Credentials**

I am currently employed as a Utility Regulatory Auditor for the Missouri Public Service Commission (PSC). I earned a Bachelor's of Arts in Business Administration with a focus in Management from Truman State University in May 2023. I am currently pursuing my Master of Business Administration at the University of Central Missouri. I have been employed by the PSC since June 2023.

As a Utility Regulatory Auditor, I perform rate audits and prepare miscellaneous filings for consideration by the Commission. I also review data related to assigned issues, develop adjustments, and issue positions that are supported by work papers and testimony. I am also responsible for preparing Staff Recommendations Memorandums.

Cases in which I have participated and the scope of my contributions are listed below:

<b>Case/Tracking Number</b>	<b>Company Name-Type of Case: Issues</b>
GO-2023-0432	<b>Spire Inc.</b> Infrastructure System Replacement Surcharge (ISRS)
WA-2023-0450	<b>Confluence Rivers Utility Operating Company Inc.</b> Application for Certificate
SA-2023-0451	<b>Confluence Rivers Utility Operating Company Inc.</b> Application for Certificate
SM-2024-0130	<b>Confluence Rivers Utility Operating Company Inc.</b>



Case/Tracking Number	Company Name-Type of Case: Issues
	Acquisition
GO-2024-0214	<b>Spire Inc.</b> Infrastructure System Replacement Surcharge (ISRS)
ER-2024-0189	<b>Evergy Missouri West</b> Customer advances, customer deposits, Economic Relief Pilot Program, lease expense, payroll and payroll taxes, payroll benefits, prepayments, and dues and donations.
GR-2025-0026	<b>Spire Inc.</b> Infrastructure System Replacement Surcharge (ISRS)
GR-2024-0369	<b>Ameren Missouri Gas</b> Materials and Supplies excluding fuel inventory, prepayments, customer deposits, and customer advances.
ER-2024-0261	<b>Empire Electric</b> Advertising expense, credit card fees, lease expense, low income pilot program, and critical medical needs program.
GR-2025-0107	<b>Spire Gas</b> PSC assessment, non-labor distribution maintenance, rate case expense, and property taxes/Kansas property taxes.