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SERP
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MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL & ANALYSIS DIVISION

AUDITING DEPARTMENT

DIRECT TESTIMONY

OF

MELANIE MAREK

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

CASE NO. GR-2025-0107

*Jefferson City, Missouri
April 2025*

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TABLE OF CONTENTS OF
DIRECT TESTIMONY OF
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INTRODUCTION1

EXECUTIVE SUMMARY1

PENSIONS, OPEBs, and SERP2

Pensions 2

OPEBs 8

Supplemental Employee Retirement Plan (SERP) 9

CONCLUSION10

1

2

3

4

5

6

7

8

9

1

2

5

6

7

8

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PENSIONS, OPEBs, and SERP

Pensions

Q. Please describe the pension plans offered by Spire Missouri Inc., d/b/a Spire (“Spire Missouri” or “Spire East” or “Spire West”).

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

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

A. Staff recommends the ratemaking methodology for Spire East and Spire West’s pension expense continue in a manner similar to that originally agreed to in the Stipulation and Agreement (the “2013 Spire East Stipulation”) from Spire East’s Case No. GR-2013-0171.¹ In that case, the parties filed a Stipulation and Agreement outlining several ratemaking methodologies governing the recognition of pension expense in Spire East’s cost of service and the use of a tracking mechanism. In Spire West’s Case No. GR-2014-0007,² the parties filed a

¹ Paragraphs 6-13

² Pages 6-13

1 Stipulation and Agreement (“2014 Spire West Stipulation”) outlining a ratemaking
2 methodology similar to the 2013 Spire East Stipulation. Staff continued to use this methodology
3 in Spire Missouri’s most recent rate case, Case No. GR-2022-0179 (“2022 rate case”).
4 In that case, Staff recommended continuation of the tracker mechanisms and the baseline
5 funding scenario (80%) for cash contributions calculated by Spire Missouri’s actuary,
6 Willis Towers Watson, in their Cash Forecast Report dated October 30, 2020.³ The issue of
7 pensions and OPEBs in that case was ultimately settled in a partial stipulation in which the
8 Signatories agreed that the appropriate amount of pension contributions to include in rates was
9 an amount sufficient to achieve an 80% funding status and minimum required contribution
10 amounts, as required by the federal Employment Income Security Act (“ERISA”) legislation.
11 The parties also agreed to continue Spire East and Spire West’s tracking mechanisms for both
12 pensions and OPEBs.⁴

13 In the current rate case, Staff reflected the amortization and tracker balances as of
14 December 31, 2024. Staff recommends continuation of the regulatory tracking mechanisms for
15 both pensions and OPEBs. Staff also recommends maintaining the current funding amount.
16 Though Spire Missouri initially projected reduced funding, it was not reflected in
17 direct testimony. Staff will reflect an amortization of a combined tracker in true-up.

18 Q. What is a tracker?

19 A. A tracker is a unique regulatory tool used to ensure that actual expenditures for
20 a particular cost are recovered over time. Tracking mechanisms compare ongoing amounts of
21 cash expense actually incurred by a utility to the amount of the same costs in the utility’s rates,

³ Case No. GR-2022-0179, Staff Data Request 0293.

⁴ *Full Unanimous Stipulation and Agreement*, Case No. GR-2022-0179, item 14.

1 and then provide rate recovery over time of the difference in amounts.
2 Generally, tracker mechanisms should only be used for certain expenses incurred by utilities
3 that have unusual characteristics or have been incurred under extraordinary circumstances.

4 The Commission allows the use of trackers to account for the difference between the
5 cash collected in rates and the cash expended for both pension and OPEB funding, where the
6 unamortized balance is included in rate base as well as the amortization in expense. This is an
7 exception to normal ratemaking adjustments due to the significant possible cash flow
8 implications if the utility's pension or OPEB funding requirements are materially different from
9 the recovery levels of those costs included in rates. Both Spire East and Spire West are required
10 to fund pensions at a certain level per the ERISA of 1974 as well as the Pension Protection Act
11 ("PPA") of 2006, and ongoing tracking mechanisms capture both under and over recovery of
12 an expense to be either returned to or recovered from ratepayers.

13 The overall goal of a tracker mechanism, when properly executed, is to provide the
14 utility with dollar for dollar recovery of reasonable and prudently incurred cash expenses but
15 no more and no less than dollar for dollar recovery. For ratemaking purposes, Staff tracks the
16 difference between cash paid by a company for pension contributions and cash received from
17 customers through rates. However, Spire Missouri reports pension expense under the
18 Accounting Standard Codification 715, which has historically been referred to as
19 Financial Accounting Standards ("FAS") 87 and FAS 88. The Financial Accounting Standards
20 Board (FASB) issued FAS 87 to give publicly traded companies guidance on accounting for
21 pension expense and to increase comparability between companies' reported costs. The pension
22 expense reported by companies under the FAS 87 guidance is based on the estimated pension
23 obligation a company incurs during the service of its employees. Furthermore, the FAS 87

1 expense calculation is not directly affected by the company's cash flow. Since a tracker
2 mechanism has been agreed to, cash flow is fundamental in tracking the actual cash outlay
3 incurred by a company in order to provide the utility recovery of the difference in their actual
4 cash outlay and the amounts that have been included in rates. Because the FAS 87 expense
5 calculated by Spire Missouri's actuary, Willis Towers Watson, does not capture the cash flow
6 implications, FAS 87 expense is not an appropriate ratemaking methodology for Spire Missouri.

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

8 A. In accordance with the Partial Stipulation and Agreement in
9 Case No. GR-2021-0108 ("2021 rate case"), Spire East and Spire West began tracking pension
10 asset/liability in layers. The purpose of tracking in layers is to provide more visibility into
11 unamortized balances that were accumulated in previous years versus current and future
12 activity. According to the Stipulation and Agreement, balances prior to May 31, 2021,
13 are tracked as a layer, "Pre GR-2021-0108", and balances that occur from contribution levels
14 starting on June 1, 2021, are tracked as a layer, "Post GR-2021-0108".⁵ In the past,
15 Spire Missouri has had an accumulating tracker rather than a multi-layered tracker.
16 An accumulated tracker will "reset" the unamortized balance when the utility comes in for a
17 rate case. This means that any unamortized balance that remains when the pension base expense
18 is reset will be added to that new pension balance at a certain date. Between rate cases or after
19 that base is reset, the balance will amortize down until it is reset again in another rate case.
20 A layered tracker means that each rate case will have a new base expense and its own
21 amortization and past rate case trackers will amortize down to zero and be removed from the
22 books. This creates a cycle where each new tracker is established on the books and each old

⁵ *Partial Stipulation and Agreement*, Case No. GR-2021-0108, page 4

1 tracker drops off when fully amortized. Since the Commission ordered in the last case to split
2 the tracker into a different layer as of the last rate case, this will allow Spire East's large
3 pre-paid pension asset to reduce over time without adding to the asset. The new rebased pension
4 expense discussed below will be included in this rate case and added to the new layer that was
5 created in the last case. After discussions with Spire Missouri regarding its intentions for the
6 new layer in GR-2022-0179, Staff had the understanding that Spire Missouri made the new
7 "Post GR-2021-0108" tracking layer an accumulated tracker, similar to the
8 "Pre GR-2021-0108" tracker.

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

10 A. This tracker balance includes the difference between Spire Missouri's pension
11 expense and what is included in rates for all rebased expense balances and amortization that
12 occurred prior to May 31, 2021. This tracker also includes an adjustment to reinstate a portion
13 of pension expense that had previously been disallowed by the Commission as part of
14 Case No. GR-2017-0215, after the Commission's decision was overturned by the
15 Missouri Supreme Court.⁶ The "Pre GR-2021-0108" tracker balance includes the stipulated
16 pension expense balance as of May 31, 2021, and the amortization of this balance is
17 over eight years.

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

19 A. The "Post GR-2021-0108" tracker consists of the difference between the
20 ongoing pension expense that was included in rates in the last rate case and the amount already
21 in rates. This amount consists of the old amortization, until the effective date of rates in
22 December 2021, through the true up period, September 30, 2022.

⁶ Case No. SC97834

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

3 A. Staff recommends setting ongoing pension expense based on Spire East and
4 Spire West's minimum required contributions for fiscal year 2025 as calculated by
5 Spire Missouri's actuary in its Actuarial Valuation Report provided in response to
6 Staff Data Request 0225.

7 Q. Did Staff include the post-2021 tracker amortization in the cost of service?

8 A. Yes. Staff has included this amortization over a three-year period rather than
9 leaving it to accumulate. Staff's inclusion of the amortization is consistent with how Staff has
10 handled over and under recovered amounts related to tracked pension and OPEB costs in rate
11 cases since the inception of the trackers. Rate cases are milestones in the trackers that are
12 memorialized at the conclusion of a case. If all amounts are included in the cost of service at a
13 certain date, this gives a firm cut-off and guidance for a future rate case audit.

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

16 A. Staff recommends continued inclusion of the "Pre GR-2021-0108" tracker
17 balance as of May 31, 2021, amortized over eight years. Staff also recommends including the
18 "Post GR-2021-0108" tracker balance as of December 31, 2024, amortized over a three-year
19 period as this is consistent with the approximate timeframe between Spire Missouri's filing of
20 general rate cases.

OPEBs

Q. What are OPEBs?

A. OPEBs are postretirement benefits. The primary benefit is medical insurance, but also included are life, dental, and vision insurance benefits. These are costs Spire East and Spire West incur to provide certain benefits to retired employees.

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

Q. What is Staff's adjustment to OPEBs in this case?

A. The *Full Unanimous Stipulation and Agreement* in Case No. GR-2022-0179 describes the continuing use of trackers for OPEBs. The amounts tracked are the differences between the current ongoing level of cash contributions made to fund the OPEB trust accounts and the dollar amount of OPEB expense reflected in rates between each case. The OPEB tracking mechanisms are functionally the same as the pension tracking mechanisms. Spire Missouri also uses an accumulating tracker for its OPEB costs and no additional layer was created for OPEBs as there was for pensions in the last rate case. In response to Staff Data Request 0100, Spire Missouri has indicated that there are no planned

1 OPEB contributions, and Spire Missouri has not included any OPEB contribution expense in
2 its rate request for this case. Because Spire East and Spire West have been receiving amounts
3 for OPEB expense in rates and there have been no contributions to OPEBs, Spire Missouri's
4 OPEB tracker balance has accrued from a regulatory asset to a regulatory liability.

5 The Spire East OPEB tracker follows the methodology ordered by the Commission
6 pursuant to the 2013 Spire East Stipulation, as implemented by Staff in the 2021 and
7 the 2022 rate case, and now updated through December 31, 2024. Staff has included the
8 cumulative difference between the amount in rates and the resulting balance and amortization
9 since the 2022 rate case in rates. Staff also recommends amortization of the cumulative tracker
10 balance at December 31, 2024, over a period of eight years, and inclusion of the cumulative
11 tracker balance as a net rate base reduction in the cost of service.

12 **Supplemental Employee Retirement Plan (SERP)**

13 Q. What is non-qualified pension expense or SERP?

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

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

21 A. The Commission has traditionally included a reasonable amount of
22 SERP expenses in customer rates. Staff is proposing to include a three-year average of annuity

1 and lump-sum payments for SERP. This is consistent with Staff's position in the previous
2 rate case.

3 Q. Is there a tracker for SERP?

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

6 Q. How did Staff approach this issue in Case No. GR-2022-0179?

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

10 **CONCLUSION**

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

12 A. Yes.

13 Q. Does this conclude your direct testimony?

14 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 MELANIE MAREK

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

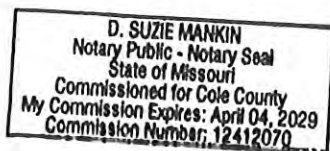
COMES NOW MELANIE MAREK and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct Testimony of Melanie Marek*; and that the same is true and correct according to her best knowledge and belief.

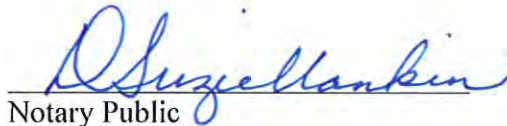
Further the Affiant sayeth not.


MELANIE MAREK

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 16th day of April 2025.




Notary Public

Melanie Marek

Present Position:

I am a Lead Senior Utility Regulatory Auditor, Auditing Department, Financial and Business Analysis Division of the Missouri Public Service Commission. I transferred from the Water, Sewer, Gas, and Steam Department in the Industry Analysis Division on August 1, 2024, which I started in October of 2022.

Educational Credentials and Work Experience:

I completed an Associate in Science in Business Administration from Columbia College in 2016. In April 2018, I earned my Bachelors of Science in Business Administration majoring in Accounting and Finance with a minor in Management from Columbia College. Finally in April 2020, I completed the MBA program with an emphasis in Accounting from Columbia College. I have worked in finance, auditing, and governmental accounting with over 15 years of experience.

Case Participation:

Case Number(s)	Company Name	Scope of Issues	Testified at Hearing
ER-2024-0261	The Empire District Electric Company	Incentive Compensation, Injuries and Damages and Workers' Compensation, Insurance Expense, PSC Assessment, Capitalized Depreciation (Depreciation Clearing), Bad Debt Expense, Miscellaneous Revenues	
GR-2025-0107	Spire Missouri Inc.	Pension Plan Trustee Fees, Pensions and OPEBs - Asset Balances, Amortizations, SERP Non-Qualified Pension Expense	
HO-2023-0357	Evergy Missouri West, Inc.	Case Manager, Lead Auditor	
HR-2023-0198	Vicinity Energy Kansas City, Inc.	Case Manager	
HR-2024-0370	Vicinity Energy Kansas City, Inc.	Case Manager, Lead Auditor	
HT-2023-0360	Evergy Missouri West, Inc.	Case Manager, Lead Auditor	

Case Number(s)	Company Name	Scope of Issues	Testified at Hearing
HT-2024-0222	Vicinity Energy Kansas City, Inc.	Case Manager, Lead Auditor	
HT-2024-0296	Evergy Missouri West, Inc.	Case Manager, Lead Auditor	
SC-2024-0228	Missouri-American Water Company	Case Manager	
SM-2025-0067	Confluence Rivers Utility Operating Company, Inc.	Auditor	
SR-2024-0206	United Services, Inc.	Rate Design	
SR-2024-0306	TBJ Sewer Systems	Plant-in-Service, Rate Design	
WA-2023-0345	Missouri-American Water Company	Case Manager	
WA-2023-0434	Missouri-American Water Company	Case Manager	
WA-2024-0325	Missouri-American Water Company	Case Manager, Lead Auditor	
WO-2023-0008	Missouri-American Water Company	WSIRA Expense	
WO-2023-0427	Missouri-American Water Company	Case Manager, Lead Auditor	
WO-2024-0195	Missouri-American Water Company	Case Manager, Lead Auditor	
WR-2023-0344	Raytown Water Company	Late Fees	Yes
WR-2024-0104	Liberty Utilities	Class Cost of Service study, Rate Design, Special Contracts, Miscellaneous Fees	
WR-2024-0320	Missouri-American Water Company	Class Cost of Service study, Rate Design, Special Contracts, Miscellaneous Fees	Yes