Exhibit No.:	_______________
Issue(s):	Corporate Allocations/Incentive Compensation/Software
Witness/Type of Exhibit:	Schaben/Direct
Sponsoring Party:	Public Counsel
Case No.:	GR-2025-0107

DIRECT TESTIMONY

OF

ANGELA SCHABEN

Submitted on Behalf of the Office of the Public Counsel

SPIRE MISSOURI, INC.

FILE NO. GR-2025-0107

** ____ **
Denotes Confidential Information that has been redacted.

April 23, 2025

PUBLIC

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OF

ANGELA SCHABEN

SPIRE MISSOURI INC.

CASE NO. GR-2025-0107

INTRODUCTION

Q. Please state your name, title, and business address.

A. Angela Schaben, Utility Regulatory Auditor, Office of the Public Counsel ("OPC" or "Public Counsel"), P.O. Box 2230, Jefferson City, Missouri 65102.

Q. What are your qualifications and experience?

A. Please refer to the Schedule ADS-d1 attached hereto.

Q. Have you testified previously before the Missouri Public Service Commission?

A. Yes. Please refer to the Schedule ADS-d2 attached hereto.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address issues related to payroll allocations, incentive compensation, and certain capital expense items.

Q. Would you explain which company or companies you are referring to when you address Spire or "the Company" in this testimony?

A. All references made to "Spire" or "the Company" are meant to refer to Spire Missouri, Inc.

Q. Please summarize your recommendations as presented in the subsequent testimony.

A. Within my testimony I recommend a more direct payroll allocation, a reduction in incentive compensation, as well as recommendations on the capitalization of certain cloud solutions.

<u>CORPORATE ALLOCATIONS</u>

Q. Please describe how Spire Shared Services, Inc. ("the Service Company" or "Spire Services") operates.

A. Spire Shared Services, Inc. is utilized to distribute shared services costs between the affiliates of Spire's parent company, Spire Inc., based on predetermined and defined allocators.

Q. Which of the Service Company's corporate functions are you addressing in your testimony?

A. My testimony addresses the method by which the Service Company salaries are allocated to its affiliated operating companies, which include Spire Missouri East and Spire Missouri West.

Q. Have there been updates to the Spire Shared Services model since the last rate case, GR-2022-0179?

A. Yes. During the last rate case, Spire Services did not have its own employees though a project was in progress to move specific share service cost centers from Spire Missouri and other Spire utilities to Spire Services on January 1, 2023.

Q. From your analysis of discovery presented in this case, were a majority of shared service functions moved from Spire Missouri to the Service Company?

A. Yes. Most cost centers previously focused within Spire Missouri have been shifted under the Service Company with the exception of **____ ____ ________** position.

Q. Since the business functions provided above remain assigned to Spire Missouri, do both Spire Missouri East and Spire Missouri West benefit from these services?

A. It would appear so. Each position listed within the cost centers provided above, with the exception of one position within External Affairs are assigned to Missouri East. And even though one External Affairs position is assigned to Missouri West, Missouri East is allocated **____ ** of this position's salary, while Missouri West is allocated **____ **.

Q. How did Spire allocate corporate shared services to Spire Missouri East and Spire Missouri West in this case?

A. A corporate allocation of **____ ** was utilized to assign Spire Missouri East its portion of Service Company payroll. Spire Missouri West's allocation was **____ **.

Q. How was the **____ ** corporate allocation calculated?

A. The corporate allocation is calculated based on **____________________________________
____ **

Q. Is this corporate allocation calculation found in Spire's cost allocation manual ("CAM")?

A. Yes. The **____ ** corporate allocation is found in the quarter ending September 30, 2024 cost allocation manual.

Q. What is your issue with allocating Service Company salaries and wages based on the **____ ** allocation?

A. The **____ ** is an allocation based on total costs. Payroll, for the purpose of setting rates, should be allocated based on total payroll, not total costs. Using an allocator based on total costs, rather than payroll specific costs, further increases indirect allocation. In order to achieve the most direct payroll allocation possible, a payroll only allocator should be utilized.

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Q. Is such an allocator calculated by Spire?

A. Yes. Spire calculates a "salaries & wages only" allocator ("payroll allocator") within its CAM. In referencing the salaries & wages only allocator as of September 30, 2024[1], the allocation percentage is approximately **____ ** for Spire Missouri East.

Q. Is the payroll allocator more accurate than a total cost allocator for use in allocating payroll dollars?

A. Yes. A payroll only allocator allows for the most direct assignment of payroll dollars and does not dilute the allocated payroll amount with indirect costs unrelated to payroll.

Q. By how much is Spire Missouri East affected?

A. In applying the **____ ** payroll allocator Spire Missouri East's share of shared services payroll is reduced by **____________**.

Q. What do you recommend?

A. I recommend the Commission order that Spire Missouri East's shared services payroll be allocated at **____ ** instead of **____ ** which achieves a more direct allocation of payroll without diluting service company payroll expenses with unnecessary indirect costs.

<u>INCENTIVE COMPENSATION</u>

Q. Does Spire administer an incentive compensation program for its employees?

A. Yes.

[1] See Schedule ADS-d-3.

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Q. What metrics does Spire utilize in order to measure employee objectives that meet criteria for incentive compensation payouts?

A. It appears that Spire assigns its employees performance goals and objectives established by a committee. Upon achievement of employee specific goals and objectives a Spire employee qualifies for Annual Incentive Plan ("AIP") compensation.

Q. Has Spire removed any portion of AIP incentive compensation from this rate case?

A. Yes. Spire has removed 10% of AIP incentive compensation to account for non-utility affiliated payouts. In theory, non-utility adjusted operating income is 10% of the corporate metric weighting.[2]

Q. Is removing 10% of AIP enough?

A. No.

Q. Why not?

A. There are two reasons. First, several of Spire's employee objectives are predominantly based on increasing ISRS and capital spending. For these, the cost of the AIP incentive compensation should be removed because encouraging excess capital spending is unnecessary, if not harmful to ratepayers, and instead clearly intended to benefit shareholders. The second type of AIP incentives that should be removed are those aimed at achieving operational efficiencies through the reduction in operation and maintenance expenses ("O&M")expenses.[3] These should not be recovered in rates because they will already be recovered through regulatory lag and thus including them in rates results in the Company double dipping.

[2] Direct testimony of Scott Bouselli, page 20.
[3] Company response to Staff DR 92.

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Q. Why would a utility Company aspire to increase capital spending?

A. Utilities earn a rate of return for its shareholders based on its capital expenditures. By increasing capital spending, the Company increases these returns.

Q. Will customers also benefit from increased capital spending?

A. Not likely. Spire is already expected to undertake the amount of capital expenditure necessary to provide safe and adequate service. Encouraging increased capital spending beyond what is required, which is sometimes referred to as gold-plating, is unnecessary and only serves to boost shareholder value. Providing an AIP incentive is doubly harmful in that customers will end up paying not only the shareholder rate of return on the increased capital spending, but also the amount of incentive compensation tailored toward increasing capital spend allowed in rates.

Q. Does the same hold true for the AIP incentives aimed at decreasing the Company's O&M expense?

A. No. Because the Company does not earn a return on its O&M expense, there is no benefit to the Company for increasing these costs. Instead, there is a benefit for customers to have decreased O&M costs as this results in a reduction in the amount the Company would need to recover in rates.

Q. If that is true, and there is a benefit for ratepayers when the utility reduces its O&M expenses, why are you recommending that the Commission should still disallow the AIP incentive costs related to reducing O&M from being recovered in rates?

A. Because the Commission utilizes a historic test year, Spire's O&M costs will be fixed and already built into rates at the point in time when new rates are set in this case. As a result, it is the Company's shareholders, not customers, that will reap the benefits of any O&M efficiencies created in the years between rate cases. Present and future O&M efficiencies

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only benefit customers in future rate cases when rates are re-evaluated based on an updated test year revenue requirement. Between rate cases, any efficiency benefits derived on behalf of the customer will be absorbed by the company as revenue. This is an example of what is sometimes referred to as positive regulatory lag and benefits the Company more than its customers.

Q. Can you please provide more detail on this positive regulatory lag and how it will benefit the Company?

A. As I already stated, any savings generated for the Company in between rate cases will not result in a reduction to rates. Instead, those cost savings will be considered revenue for Spire and flow to the Company's bottom line in between rate cases. The incentive compensation programs, however, should only increase payroll costs for Spire by an amount that is less than the revenue being generated through the reduction in cost savings (or else Spire will be imprudently losing money through the program). Therefore, any cost reductions or increase revenue generated by the incentive compensation program will fully offset the cost of the incentive compensation program itself in between rate cases.

If, between rate cases, the Company achieves higher earnings than expected, or authorized, due to the achievement of underlying principles and metrics of its incentive compensation program, the related incentive costs should be assumed by shareholders. Shareholders are the primary beneficiaries of accomplishing incentive compensation goals. Ratepayers are already bearing the burden of additional rate increase costs, and any operational efficiencies achieved between rate cases for which shareholders are rewarded, will not proportionately adjust customer rates.

Q. What is your recommendation to the Commission?

A. The costs associated with Spire AIP incentive compensation plan objectives that emphasize increasing capital spending should be removed as they result in customers paying for both the capital investment and the employee incentive compensation designed to increase capital investment, with shareholders reaping the most rewards. The AIP incentives that seek to reduce O&M expenses should also be removed from rates because, due to positive regulatory lag, these O&M efficiencies will not be reflected in ratepayer bills. Even if O&M efficiencies are achieved, ratepayers will still be paying the same rates set by the Commission in the rate case and the cost savings generated will instead simply flow to Spire's bottom line. Therefore, I recommend the Commission remove the full amount of incentive compensation included in this case, which according to Company workpapers is **__________ **.

SOFTWARE

Q. How are utility software expenses generally treated?

A. Utility software expenses can either be expensed or capitalized if meeting certain criteria required for capitalization.

Q. Are there any reasons to not treat cloud solutions as capital investment?

A. Yes. Cloud vendors harbor a particular interest in gaining and maintaining a large presence within a customer's infrastructure. The more an organization continually upgrades its system utilizing the infrastructure and services of one particular cloud service provider, the more dependent upon a single cloud service provider said organization becomes. At some point an organization may find that a cloud service provider's products are so integrated across the organization, that significant risks and costs to switch providers or migrate data could keep the company locked-in. Such an occurrence defeats the supposed flexibility of cloud services. The organization becomes a captive customer of a vendor who could raise rates as it pleases.

Additionally, there's the potential for capitalizing costs that should really be considered expenses, inflating capital investment and ROE which lead to higher than necessary rate increases. Furthermore, an allowed return on cloud solutions could incentivize utilities to negotiate more expensive contracts to justify capital investment, while validating the incorporation of unnecessary features.

Q. Is there software and software related expenses in this case that you believe should be expensed rather than capitalized?

A. Yes. From what I have reviewed thus far, one particular contract for **________ ** software and expenses related to its implementation, to include contracted services, should be expensed, not capitalized.

Q. What is your recommendation to the Commission?

A. Since I currently have discovery pending related to this issue, I will provide a more specific recommendation in rebuttal testimony. However, in general, I recommend the Commission expense the **________ ** and related service contracts rather than capitalizing them.

Q. Does this conclude your testimony?

A. Yes.

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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 ANGELA SCHABEN

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Angela Schaben, of lawful age and being first duly sworn, deposes and states:

1. My name is Angela Schaben. I am a Utility Regulatory Auditor for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my direct testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Angela Schaben
Utility Regulatory Auditor

Subscribed and sworn to me this 22nd day of April 2025.

TIFFANY HILDEBRAND
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES AUGUST 8, 2027
COLE COUNTY
COMMISSION #15637121

Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2027.