Exhibit No.:
Issue(s): *Cash Working Capital, Propane Cavern, Advanced Leak Detection Tracker, and Discrete Adjustments*
Witness: *Keith Majors*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *GR-2025-0107*
Date Testimony Prepared: *May 30, 2025*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

KEITH MAJORS

SPIRE MISSOURI INC.,
d/b/a Spire

CASE NO. GR-2025-0107

Jefferson City, Missouri
May 2025

** Denotes Confidential Information **

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REBUTTAL TESTIMONY

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KEITH MAJORS

SPIRE MISSOURI INC.,
d/b/a Spire

CASE NO. GR-2025-0107

Q. Please state your name and business address.

A. Keith Majors, Fletcher Daniels Office Building, 615 East 13th Street, Room 201, Kansas City, Missouri, 64106.

Q. By whom are you employed and in what capacity?

A. I am a Utility Regulatory Audit Supervisor employed by the Staff ("Staff") of the Missouri Public Service Commission ("Commission").

Q. Are you the same Keith Majors who previously provided testimony in this case?

A. Yes. I provided direct testimony in this case on April 23, 2025.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the following Spire Missouri witnesses and topics:

- Timothy S. Lyons
  - Cash Working Capital ("CWC") Income Tax lag
- David A. Yonce
  - Propane Cavern
  - Advanced Leak Detection Tracker
- Eric Bouselli
  - Discrete Adjustments

CASH WORKING CAPITAL INCOME TAX LAG

Q. On page 9 of his CWC direct testimony[1], Spire Missouri witness Timothy S. Lyons identifies the methodology he used to determine a 39.00-day expense lead for federal and state income taxes in the CWC calculation. Does Staff agree with this methodology?

A. No. Due to income tax benefits such as accelerated depreciation and bonus depreciation, Spire Missouri is currently not a cash income taxpayer. Staff has reflected a 365-day lag for federal and state income taxes.

Q. When does Spire Missouri project it will be a cash income taxpayer?

A. ** [redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]

[1] Spire Missouri witness Timothy S. Lyons also filed direct testimony concerning the Class Cost of Service in this rate case. This rebuttal testimony is not responsive to that testimony.

[redacted]

- [redacted]
- [redacted]
- [redacted] **

Q. What is the difference between the income tax expense in cost of service and the purpose of the income tax CWC lag?

A. Staff has reflected the statutory income tax rates in the cost of service, whether those taxes are current or deferred, regardless of whether they are paid in the near or distant future. This concept is referred to as "tax normalization". The purpose of the CWC lag is to measure the cash flow impact related to actual net cash income tax payments. To the extent these payments are not remitted, or are remitted and refunded, the CWC lag for these taxes should reflect that reality.

Q. Has the Commission recently determined this issue?

A. Yes. In Case No. GR-2021-0108, Office of the Public Counsel ("OPC") witness John A. Riley proposed to reflect a 365-day expense lag as part of cash working capital because Spire Missouri would not be required to pay income taxes through the period that the rates from the last rate case were in effect. This issue was litigated and the Commission found that:

> [F]ederal and state income tax expense is included in rates but the Company is not likely to remit any federal or state income taxes because of its [net operating loss carryforward] NOLC…This lack of income tax

> payment should be reflected in the CWC expense lag. The fact that no income tax payments have been made in the test year or true-up period justifies the use of a 365-day expense lag. Therefore, the Commission finds that the appropriate expense lag days for income taxes within the CWC calculation is 365 days.[2]

Q. Have any of the facts materially changed since that decision?

A. No.

PROPANE CAVERN

Q. What is Spire Missouri requesting in this rate case concerning the propane storage cavern and associated facilities?

A. As described on pages 17-19 of the direct testimony of Spire Missouri witness David A. Yonce, Spire Missouri is requesting to remove all rate base amounts associated with propane assets and inventories, as well as associated propane revenue and expenses from the cost of service of Spire Missouri East.

Q. Does Staff agree with Spire Missouri's recommendation?

A. No. It is important to note that nowhere in Mr. Yonce's testimony does Spire Missouri state that the facilities are to be wholly retired, which would involve removal of the inventory and abandonment of the facility. At this time, the propane cavern has been retired from the supply portfolio.

Q. Does the propane cavern have residual value?

A. Yes it could. ** [redacted]

[2] Case No. GR-2021-0108, Amended Report and Order, page 31, issued Nov. 12, 2021, EFIS Item No. 435.

[redacted] **

Q. Did the propane cavern make a profit in the test year?

A. ** [redacted]

[redacted]

**

Q. Are all expenses and investment related to propane operations currently included in the cost of service?

[3] Corrected for the statutory income tax rate.

A. Yes, and they have been since the 1970's.

Q. What is Staff's recommendation regarding the propane cavern and inventories?

A. At this time, Staff recommends the status quo, which is inclusion of net plant and propane inventories and all associated revenues in the determination of cost of service.

ADVANCED LEAK DETECTION TRACKER

Q. What is Spire Missouri requesting in this rate case concerning the Advanced Leak Detection tracker?

A. On pages 21-24 of his direct testimony, Spire witness David A. Yonce describes Spire Missouri's request for a tracker for all operation and maintenance costs and the revenue requirement associated with capital spending incurred to comply with the final Leak Detection and Repair ("LDAR") Notice of Proposed Rulemaking ("NPRM") from the United States Department of Transportation's Pipeline and Hazardous Materials Safety Administration (" PHMSA").

Q. What is a "tracker"?

A. The term "tracker" refers to a rate mechanism in which the amount of a particular cost of service item actually incurred by a utility is "tracked" and compared to the amount of that item currently in a utility's rates. Any over-recovery or under-recovery of the item in rates compared to the actual expenditures made by the utility is then booked to a regulatory asset or regulatory liability account, and would be eligible to be included in the utility's rates set in its next general rate proceeding through an amortization to expense.

Q. Should the use of trackers be common in Missouri rate regulation of utilities?

A. No. Rates are normally set in Missouri to allow a utility an opportunity to recover its cost of service, measured as a whole, on an ongoing basis from the utility's customers. However, under this approach, with rare exceptions, neither the utilities nor their customers are allowed to be reimbursed through the rate case process for any prior under- or over-recovery of costs experienced by the utilities in rates, measured either for its cost of service as a whole or for individual cost of service components. For this reason, the use of trackers in order to provide reimbursement in rates to utilities or customers of any over- or under-recovery of individual rate component items is rare and should be dependent on unique and unusual circumstances.

Q. Under what criteria might Staff consider the use of trackers justified?

A. The use of trackers may be justified under the following circumstances: (1) when the applicable costs demonstrate significant fluctuation and up-and-down volatility over time, and for which accurate estimation is difficult; (2) when there are new costs for which there is little or no historical experience, and for which accurate estimation is accordingly difficult; and (3) when there are costs imposed upon utilities by newly promulgated legislation or new federal or state requirements. In addition, the costs should be material in nature.

Q. Why are trackers sometimes justified by significantly fluctuating and volatile costs?

A. If a utility's cost levels for a particular rate item over time demonstrate significant up-and-down volatility, it can be appropriate to implement a tracker mechanism for this type of item to reduce the amount of risk associated with a material inaccuracy in estimating the particular costs for purposes of setting the utility's rates.

Q. What is an example of the Commission authorizing a tracker for a volatile cost?

A. All major utilities operating in Missouri, including Spire Missouri, have tracker mechanisms in place for their pension and other post-employment benefit ("OPEB") expenses.

Annual pension and OPEB expense amounts in the past have had significant annual volatility, primarily because pension and OPEB funding amounts are impacted by investment outcomes in equity and debt markets which, of course, can swing upward or downward based upon trends in the general economy.

Q. Are there other unusual aspects to pension and OPEB expense that justify using a tracker mechanism?

A. Yes. In Missouri, utilities place amounts intended for later payment to retired employees for pension and OPEBs into external trust funds to help ensure that such funds are available when due to utility employees. Staff believes it is good policy for utilities to keep as current as possible on the funding of pension and OPEB amounts. The authorizing of a tracker mechanism for these expense items encourages utilities to stay current on pension and OPEB expense allowances currently included in their rate levels. Of course, if pension or funding amounts turn out to be less than the amounts for these items currently included in a utility's rate level, use of trackers also ensures that the funding/rate differential would ultimately be flowed back to its customers.

Q. Does Staff continue to recommend that the Commission authorize Spire Missouri's pension and OPEB trackers?

A. Yes. Continued authorization of these trackers remains appropriate for Spire Missouri and other utilities that offer pension and OPEB benefits to their employees.

Q. Are there other instances in which trackers may be justified?

A. In rare circumstances, utilities will incur significant new expense for which they have little or no history to aid in determining an appropriate ongoing level for those expenses for ratemaking purposes. In those circumstances, it may be appropriate to authorize a tracker to protect both the utility and its customers from over- or under- recovery in rates of these expenses due to erroneous estimates.

Q. Has Staff agreed to the use of a tracker for this reason?

A. Yes. In several electric utility rate cases when a new generating unit goes into service, Staff has agreed to a tracker applicable to the operations and maintenance ("O&M") expenses associated with the new plant, given the lack of history for these expenses. However, after several years of operation, Staff recommends discontinuation of the tracker when adequate history of these expenses is known.

Q. Are there any other instances where the Commission has used trackers?

A. In some circumstances, the Commission has established, within the rules it promulgates, provisions for tracking and recovery of incremental costs caused by utility compliance with new rules. This was the case with the Commission rules requiring electric utilities to take certain actions regarding vegetation management and infrastructure inspection activities, which became effective in 2008.

Q. Are cost deferrals resulting from the use of trackers different from cost deferrals resulting from an accounting authority order ("AAO")?

A. Yes. An AAO is a Commission order that allows a utility to defer certain costs on its balance sheet for potential recovery of the deferred costs in rates through amortizations to expense in a general rate proceeding. This is similar to how deferrals resulting from trackers may be treated in general rate proceedings. However, the nature of the costs to which AAOs are normally granted, and the nature of the costs to which tracking treatment is normally granted are quite different.

Q. Would you explain the major differences in how the Commission has allowed utilities to use AAOs and trackers?

A. Typically, AAOs have been used to allow utilities to capture certain unanticipated and "extraordinary" costs that are not included in their ongoing rate levels. The term "extraordinary costs" is defined as costs associated with an event that is unusual, unique, and non-recurring in nature. The classic example of an extraordinary event is the occurrence of a natural disaster, such as a wind or ice storm, or a major flood that affects a utility's service territory.

In contrast, the Commission has allowed utilities to use trackers to track certain costs that are ongoing to a utility and for which some allowance has been built into the utility's existing rate levels. For this reason, while costs subject to trackers exhibit some highly unusual or unique attributes which justify the use of a tracker, these costs are not "extraordinary" in the sense that this term is commonly applied to costs covered by AAOs.

Q. If trackers have not been limited to extraordinary costs, why not track all or most costs?

A. There are at least two reasons. First, excessive use of trackers would tend to skew ratemaking results either in favor of the utility or in favor of its customers. Secondly, broad use of trackers offers no incentive for a utility to operate as efficiently and productively under the rate regulation approach used in Missouri.

Q. Why would the widespread use of trackers tend to skew the ratemaking results for a utility?

A. With certain exceptions, the historical practice in Missouri has been to set a utility's rates based upon measurement of "all relevant factors," taking into account levels of revenues, expenses, rate base, and rate of return that are calculated at or approximately at the same point in time. Use of an “all relevant factors” approach is necessary to ensure that a utility’s rate levels are based upon an accurate measurement of its cost of service at a particular point in time.

When using trackers as part of setting rates, certain cost factors inevitably receive different and inconsistent treatment compared to other cost factors. For example, if a utility tracks expenses that tend to increase over time, but does not track factors that may reduce its cost of service (such as revenue growth, or increases in rate base offsets for accumulated depreciation or deferred taxes), the utility may receive retroactive dollar-for-dollar recovery of certain cost increases in its customer rates through trackers, at the same time that it retains beneficial changes in other cost of service components that occur over the same period. In this manner, inappropriate use of trackers can lead to skewed and unfair ratemaking results.

Q. How do trackers affect a utility’s incentive to operate efficiently?

A. An inevitable byproduct of the Missouri ratemaking approach is “regulatory lag.” “Regulatory lag” is simply the passage of time between when a utility experiences a change in its cost of service, and the reflection of that change in its rate levels. While regulatory lag is often portrayed by utilities as a phenomenon that is entirely negative or harmful, the existence of regulatory lag provides utilities with incentive to be as efficient and cost-effective over time as they can. Excessive use of trackers can eliminate or weaken these beneficial incentives.

Q. Is Spire Missouri’s request for a tracker in this case justified in relation to prior examples of authorized trackers?

A. In part, yes. As this is a new regulation, there is little to no historical experience. On the contrary, these are likely not material costs. Should the Commission authorize a tracker for these expenses, it should be limited to the time period between the conclusion of this rate case and the next general rate case, and limited to non-labor expenses.

DISCRETE ADJUSTMENTS

Q. What are discrete adjustments?

A. Discrete adjustments are adjustments made to the test year and/or true-up period for known and measurable changes or events that occur after the test year and/or true-up period.

Q. Are discrete adjustments also commonly referred to in past Commission cases as "isolated adjustments?"

A. Yes.

Q. In his direct testimony Spire Missouri witness Eric Bouselli proposes discrete adjustments for what he identifies as "known and measurable" items that occur beyond the true-up period, but before new base rates take effect. What discrete adjustments does he recommend?

A. Staff has identified the following discrete adjustments requested by Spire Missouri:

- Rate Base Items:
  - Forecasted plant in service and depreciation reserve from the true-up cutoff May 31, 2025 through the effective date of rates
  - 800 Market Leasehold improvements – remove due to end of lease
  - Forest Park Relocation Regulatory Liability – rate base portion
  - Merger Rate Base Offset

- Expense Items:
  - Depreciation and Amortization Expense related to forecasted additions
  - Payroll, benefits and payroll taxes
    - Spire Missouri East Union Contract increase scheduled for August 1, 2025
    - Spire Missouri West Union Contract anticipated increase August 1, 2025
    - Non-union annual merit increases anticipated in November 2025
    - Payroll linked benefits and taxes
    - Additional headcount after the true-up cutoff
  - 800 Market Lease
  - Call center hours changes
  - Re-amortization of GU-2020-0376

In the most recent Missouri-American Water Company ("MAWC") rate case, Case No. WR-2024-0320, MAWC proposed nearly every cost of service item include discrete forecasted adjustments. In this case, Spire Missouri has requested far fewer discrete adjustments. Staff's approach to the inclusion of those adjustments is generally the same as in the MAWC rate case.

Q. Is Staff opposed to discrete adjustments that occur past the true-up period?

A. Not in all cases. Staff is not necessarily opposed to limited inclusion of discrete adjustments occurring past the true-up period in cost of service if certain criteria apply. First, the adjustment must be known and measurable, and, second, if the timing of the event does not skew the matching principle in relation to other cost of service items, it may be appropriate to make a discrete adjustment. In its Cost of Service Report for Case No. ER-2019-0374, Staff recommended isolated adjustments to rate base related to the retirement of the Asbury generating plant for The Empire District Electric Company. The retirement adjustments were known and measurable prior to the end of the filing of testimony in that proceeding and well before the operation-of-law date in that proceeding.[4]

Q. What has been the Commission's criteria for determining whether an event outside the test year should be included in cost of service?

A. The Commission stated on pages 112 and 113 in the Amended Report and Order in Case No. ER-2019-0374:

> The criteria for determining whether an event outside the test year should be included is whether the proposed adjustment: 1) is known and measurable; 2) promotes the proper relationship of investment, revenues and expenses; and; 3) is representative of the conditions anticipated during the time the rates will be in effect.

Q. Does Staff agree that the rate base discrete adjustments are representative of known and measurable changes and should be included in this rate case?

A. Not all of them. For the forecasted plant in service and depreciation reserve, those expenditures past the May 31, 2025 true-up date will not be known and measurable until they are closed in some subsequent accounting period.

The 800 Market leasehold improvements are related to the 800 Market Street office space. This lease will not be renewed when the term ends on July 31, 2025. It would be appropriate to remove the plant in service and depreciation reserve at May 31, 2025 as this lease termination is known with a high degree of certainty that it will be terminated, and measurable to a high degree of accuracy at May 31.

The Forest Park regulatory liability and merger rate base offset are amortizations that will end prior to the effective date of rates. Generally, Staff's approach to the recognition of the balances of regulatory assets and liabilities has been to include amounts at the true-up cutoff

[4] *Staff Report, Cost of Service*, ER-2019-0374, pages 105-107 (Jan. 15, 2020).

and not recognize any amortization activity past that cutoff. However, the amortizations ending prior to the effective date of rates are known with a high degree of certainty and are measurable as they are fixed amortizations over a fixed time period.

Q. Does Staff agree that the expense discrete adjustments are representative of known and measurable changes and should be included in this rate case?

A. Not all of them. For the forecasted depreciation and amortization related to plant in service, those expenditures past the May 31, 2025 true-up date will not be known and measurable until they are closed in some subsequent accounting period.

For payroll increases, the contracted payroll union increases would be known and measurable in advance of the effective date of rates in this case. Staff would be supportive of including contracted increases on actual headcount as of May 31, and the associated payroll linked benefits and payroll taxes. The non-union increases would take affect after the effective date of rates. These increases are not contractual and would not be known and measurable prior to the effective date of rates.

The 800 Market lease will not be renewed when the term ends on July 31, 2025. It would be appropriate to remove the lease as this lease termination is known with a high degree of certainty that it will be terminated, and measurable to a high degree of accuracy at May 31.

The reamortization of the COVID-19 regulatory asset from Case No. GU-2020-0376 is a change to more closely align rate recovery with rate case timing. Staff does not disagree with this approach.

Q. What about the reduced call center hours?

A. On pages 25-26 of his rebuttal, Spire Missouri witness Eric Bouselli identifies planned call center hour reductions beginning in 2025. Staff does not consider these reductions known and measurable. Unlike the contractual wage obligations and the end of the lease at 800 Market, these reductions are planned, but there is far less certainty involved.

Q. If the Commission would approve discrete plant additions placed in service by the effective date of rates October 24, 2025, does Staff recommend that any costs associated with plant that is not placed in service by that date, be refunded to customers?

A. Yes. If the Commission would determine it is appropriate to include discrete plant additions, Staff recommends that any depreciation expense and return on plant that is not in place by the effective date of rates be refunded to customers either as a bill credit or through a deferral in the next rate case. Just to clarify, as an example, if the plant goes into service November 30, 2025, but was included in rates, one month of depreciation expense and return on the plant should be refunded to customers.

UPDATED REVENUE REQUIREMENT

Q. Has Staff updated its accounting schedules?

A. Yes. Based on ongoing discussions with Spire Missouri staff, Staff has made corrections and updates for numerous items. These updated accounting schedules will be supplied with Staff's surrebuttal testimony in this case.

Q. Does this conclude your rebuttal testimony?

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 KEITH MAJORS

STATE OF MISSOURI)
) ss.
COUNTY OF Jackson)

COMES NOW KEITH MAJORS and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Rebuttal Testimony of Keith Majors*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Keith Majors
KEITH MAJORS

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 29th day of May 2025.

CHERYL LEVERETTE
MY COMMISSION EXPIRES
9-7-2027
NOTARY SEAL
#01404338
JACKSON COUNTY
NOTARY PUBLIC, STATE OF MISSOURI

Cheryl Leverette
Notary Public