Exhibit No.:	________________
Issue(s):	AAO Financial Benchmark
Witness/Type of Exhibit:	Riley/Rebuttal
Sponsoring Party:	Public Counsel
Case No.:	GU-2026-0225

REBUTTAL TESTIMONY

OF

JOHN S. RILEY

Submitted on Behalf of the Office of the Public Counsel

SPIRE MISSOURI, INC.

FILE NO. GU-2026-0225

July 22, 2026

REBUTTAL TESTIMONY

OF

JOHN S. RILEY

CASE NO. GU-2026-0225

Q. What is your name and what is your business address?

A. John S. Riley, PO Box 2230, Jefferson City, Missouri 65102.

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

A. I am employed by the Missouri Office of the Public Counsel ("OPC") as a Utility Regulatory Supervisor.

Q. What is your educational background?

A. I earned a B.S. in Business Administration with a major in Accounting from Missouri State University.

Q. What is your professional work experience?

A. I was employed by the OPC from 1987 to 1990 as a Public Utility Accountant. In this capacity, I participated in rate cases and other regulatory proceedings before the Public Service Commission ("Commission"). From 1994 to 2000 I was employed as an auditor with the Missouri Department of Revenue. I was employed as an Accounting Specialist with the Office of the State Court Administrator until 2013. In 2013, I accepted a position as the Court Administrator for the 19th Judicial Circuit until April 2016 when I joined the OPC as a Public Utility Accountant III. I have also prepared income tax returns, at a local accounting firm, for individuals and small business from 2014 through 2017

Q. Are you a Certified Public Accountant ("CPA") licensed in the State of Missouri?

A. Yes. As a CPA, I am required to continue my professional training by attending Missouri State Board of Accountancy qualified educational seminars and classes. The State Board of

Accountancy requires that I spend a minimum of 40 hours a year on training that continues and updates my education in the field of accountancy.

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

A. Yes, I have. A listing of my case filings is attached as JSR-R-1.

Q. What is the purpose of your rebuttal testimony?

A. I will respond to the direct testimony of Spire witness David A. Yonce. Specifically, I will address Mr. Yonce's assertions regarding the financial significance of the supposed "under recovery" Spire is claiming and the interplay that amount has with the guidance found in the Uniform System of Account ("USOA"). Based on my investigations, I have concluded that Spire presented inconsistent calculations to bolster its claim that the reduced sales were severe enough (greater than 5% of net income) to warrant an Accounting Authority Order ("AAO"). Therefore, my recommendation to the Commission is to reject Spire's request for an AAO associated with the reduced billings in the month of January of this year.

Q. Before directly addressing Mr. Yonce's testimony, can you provide a review of the criteria recognized in the USOA that address extraordinary transactions and the benchmark for establishing an AAO?

A. The relevant guidance from the USOA is found in General Instruction No. 7 Extraordinary Items:

> It is the intent that net income shall reflect all items of profit and loss during the period with the exception of prior period adjustments as described in paragraph 7.1 and long-term debt as described in paragraph 17 below. Those items related to the effects of events and transactions which have occurred during the current period and which are of unusual nature and infrequent occurrence shall be considered extraordinary items. Accordingly, there will be events and transactions of significant effect which are abnormal and significantly different from the ordinary and typical activities of the company, and which

> would not reasonably be expected to recur in the foreseeable future. (In determining significance, items should be considered individually and not in the aggregate. However, the effects of a series of related transactions arising from a single specific and identifiable event or plan of action should be considered in the aggregate. To be considered as extraordinary under the above guidelines, an item should be more than approximately 5 percent of income, computed before extraordinary items. Commission approval must be obtained to treat an item of less than 5 percent, as extraordinary. (See accounts 434 and 435.)

I will also quote the Company's application for this AAO:

> 9. In addition to the authority to set uniform methods of accounting, 393.140.4, RSMo. also provides the Commission with the discretion to prescribe forms of accounts to be kept by specific persons and corporations by order. These accounting authority orders ("AAOs") allow utilities to record an item differently than prescribed by the USOA and defer such item as a regulatory asset on the utility's income statement for future consideration.[1] **In order to be eligible for such deferral accounting, an item must be extraordinary and material**.[2] (Emphasis added)

I've highlighted the last sentence because the 'materiality" mentioned by the Company will be the focal point of my testimony.

Q. What does Mr. Yonce have to say regarding the subject of the materiality of the supposed under recovery?

A. Beginning on page 11 line 22 of his direct testimony, Mr. Yonce describes what he believes to be the financial significance of what he has characterized as Spire's "under recovery." Specifically, he argues that "Spire Missouri was approximately $12 million below its revenue

[1] In the Matter of the Application of Spire Missouri Inc. for an Accounting Authority Order Concerning Its Commission Assessment for the 2019 Fiscal Year, File No. GU-2019-0011, Report and Order at 10 (March 20, 2019).

[2] In the Matter of the Application of Union Electric Company d/b/a Ameren Missouri for the Issuance of an Accounting Authority Order Relating to its Electrical Operations, File No. EU-2012-0027, Report and Order at 4 (November 26, 2013).

requirement on a billed basis, with projections reaching approximately $27 million on an annualized financial reporting basis"[3] as of March 2026. These values, he asserts "easily exceed" the 5% materiality threshold found in the USOA. Outside of these two statements, there is virtually no discussion of the materiality threshold.

Q. Do you agree with Mr. Yonce's statement?

A. No for two reasons. The first is that the $12 million he refers to is not a reduction to "revenue requirement" as he claims. Instead, it is a claim of reduced revenues. Secondly, including a statement projecting a $27 million loss for the remainder of Spire's fiscal year has no bearing on the Company's request for an AAO that covers just the months of November 2025 through March 2026. If Spire believes that its current rates are going to cause the Company to fall short of its authorized revenue requirement, then the Company should file a rate case, not seek an AAO.

Q. Can you please explain the distinction between "revenues" and "revenue requirement" you alluded to in your first reason and why that matters in this case?

A. The term revenue requirement gets brandished around to mean several things but generally Staff refers to revenue requirement as the change in total income needed when establishing new rates for a given utility. I look upon revenue requirement as an overall calculation which includes adjustments to the cost of service. Cost of service is a calculation of the required overall revenues based on the amount of expenses (Costs) and the allowed rate of return. Revenues are just one side of the equation. A revenue requirement is the end product of all the revenues less all the expenses.

[3] Direct testimony of David A. Yonce, page 12, lines 1-4

Q. Notwithstanding the distinction between "revenues" and "revenue requirement," do you agree with Mr. Yonce's calculation of the overall rate impact he claims Spire has suffered?

A. No. After reviewing the workpapers accompanying Mr. Yonce's testimony and issuing additional data requests, I have concluded that the Company is playing a little loose with its numerical presentation when it comes to establishing the 5% threshold criteria. I've included a copy of the Company's work sheet, as Schedule JSR-R-02 that lists the billed revenues for the requested timeframe. Yonce's narrative and the misapplied calculations at the bottom of the sheet are a concern to me and I question how the Company had calculated the percentage impact of these "lost revenues."

Q. Focusing on the Company's calculation of the percentage impact at the bottom of the Schedule, what did you discover?

A. The calculations that the Company had performed were as follows: first, the Company summed the "delta" that it had calculated between the "case revenues" and "billed revenues" for each month of the requested AAO period into one total. This total was then adjusted for tax benefits that would be incurred if this was a revenue requirement adjustment. Finally, the Company divided this tax adjusted (or "tax effected" as it is referred to in the workpaper) amount by the Company's 2025 net income figure to yield its final percentage impact figure, which Spire has calculated to be 7.1%. However, there is a critical error in these calculations.

Q. How did Spire err in performing these calculations?

A. Spire is dividing its claimed lost <u>revenues</u> by its <u>net income</u>. However, these are two separate and distinct concepts. Revenues represent the total inflow of cash for a business. For a company like Spire that is in the business of selling goods (in this case natural gas) the term revenue is interchangeable with sales. Sales, however, are just one part of an equation. A business also has to factor in the expenses it incurs. This is where the term "net income" comes in. Net Income is, in simple terms, sales less expenses. It is also sometimes referred to as "profit."

By dividing the lost revenues by a net income figure, Spire is making an apple and oranges comparison. The resulting percentage impact is therefore completely skewed. The Company's end product implies an <u>income</u> deduction of negative 7.1% which appears to be well above the 5% threshold. But this is not correct.

Q. How should the calculation be performed?

A. There should be consistent numerators and denominators. If the point of the calculation is to determine a percentage loss of revenues, as the Company demonstrates in its workpaper, then to find the percentage loss, you have to divide the Company's $11,943,878 revenue shortfall with an annual revenue total.[4] Schedule JSR-R-03 is a page from Spires, Inc. 2025 10-K SEC financial statements. Specifically, it is the Missouri Spire section of the 10-K presenting its comparative three years of comprehensive income (Income Statements). The annual operating revenues are the first line item on the statement. For 2025, the last complete yearly total, the revenue listed is $1,544,100,000. If there is going to be a threshold calculation based on revenues, then the calculation should be $11,943,878 divided by $1,544,100,000. This produces a revenue percentage impact of .774%. This is obviously far below the 5% threshold of the USOA.

Q. Is that how the calculation should be performed according to the USOA instruction 7?

A. Not exactly. Referring back to the quote of instruction 7 above, the second last sentence states, **"To be considered as extraordinary under the above guidelines, an item should be more than approximately 5 percent of <u>income</u>, computed before extraordinary items."** (Emphasis added). However, the apples to oranges comparison problem still persists.

[4] To be consistent in this revenue calculation, neither the "lost revenues" or the total annual revenues would be adjusted for income taxes.

Therefore, in order to adhere to the USOA instructions, the revenues listed on the Company spreadsheet will instead need to be converted to an income amount so that it can then be divided by the 2025 Spire Mo. annual Income amount in order to find the income percentage impact.

Q. How would the Commission correctly convert the "lost" revenue amount into an income amount?

A. As stated before, revenues are nothing more than sales. Sales have deductions (costs) associated with them. The simple formula is Income equals total sales less deductions. Let's refer back to JSR-R-02 for relevant numbers to develop some percentages. The biggest deduction against sales is usually the cost of goods sold ("COGS"). For Spire, COGS means the natural gas it buys off the market and then sells to customers, which appears at line three of the schedule. Since the Company is claiming a loss of sales then we also need to "lose" the natural gas costs within the income statement that are associated with these lost sales. This is due to the obvious fact that the Company did not buy the gas it did not sell to its customers and hence would not have incurred that cost. The percentage of sales that are related to natural gas costs would be the total gas amount of $669,400,000 divided by total sales of $1,544,100,000. This calculates to 43.35%. This means that for every dollar of gas sold, Spire incurs $0.4335 in costs to purchase the gas being sold. Therefore, for every dollar of gas sales "lost," the same amount ($0.4335) in COGS has been eliminated. JSR-R-04 is a spreadsheet consisting of a side-by-side comparison with Spire's 2025 income statement and a statement adjusted for costs eliminated with the lost sales.[5] The lost sales column provides a simple picture of the income loss created by a sales loss of $11,943,878. The amount of lost income, once the reduction in the cost of goods sold is taken into account, amounts to approximately $6.1 million. To this we make the same tax adjustment that Spire performed in order to deduct the gross-up tax not being generated and the total loss for this reduction in

[5] The only other adjustment was for a reduction for estimated gross receipts or franchise tax. I applied 5% to the sales amount to reduce Taxes other than income tax by $600,000.

revenues is $4,190,700. Dividing this amount by the $142,100,000 representing Spire's 2025 Missouri net income before taxes yield a percentage impact of only 2.95%. A far cry short of the 5% that the Company wanted to illustrate.

Q. Why did you use the $142.1 million "Income Before Income taxes" as your denominator when the Company used the $128.3 net income?

A. The $128.3 has been reduced by taxes This is the wrong place to calculate a tax adjustment. In ratemaking, the income tax and gross-up are calculated at the end of the revenue requirement. The consistency is to calculate income and then apply the tax and gross-up that would be applied in a rate case. The income tax in the Company income statement is a reduction to the income to produce net income while the income tax calculation on the loss is to reflect the reduction in income taxes due to the loss in income. Calculating income tax on the loss is a reflection of the reduced severity due to a tax saving.

Put another way. The income tax reduction represents an additional expense on the income statement but the income tax reduction on the loss represents a lessening in the true loss to the Company.

I note, however, that even if the Company's $128,300,000 dollar value is used, the total percentage impact only increases to 3.3%. This is still far from material.

Q. Could you summarize your position?

A. The Company took some liberties with what to include in its calculations. The Company's attempt to reduce the lost revenues by only a composite tax rate was a mistake due to its failure to also reflect a reduction in the COGS. By dividing a base revenue number by an income number, the Company has created an "apples to oranges" comparison. Once this error is corrected for, the actual value of the loss Spire is claiming falls dramatically below the USOA instruction 7 guidance for materiality.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Spire Missouri Inc. d/b/a Spire's Application for an Accounting Authority Order	))	Case No. GU-2026-0225

AFFIDAVIT OF JOHN S. RILEY

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

John S. Riley, of lawful age and being first duly sworn, deposes and states:

1. My name is John S. Riley. I am a Utility Regulatory Supervisor for the Office of the Public Counsel.

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

John S. Riley
Utility Regulatory Supervisor

Subscribed and sworn to me this 20th day of July 2026.

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.