

Exhibit No. 117

Exhibit No.:
Issue(s): *Allocations and Affiliate Transactions*
Witness: *Keith Majors*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *GR-2021-0108*
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MISSOURI PUBLIC SERVICE COMMISSION
FINANCIAL AND BUSINESS ANALYSIS DIVISION
AUDITING DEPARTMENT

REBUTTAL TESTIMONY
OF
KEITH MAJORS

SPIRE MISSOURI INC., d/b/a SPIRE
SPIRE EAST and SPIRE WEST
GENERAL RATE CASE

CASE NO. GR-2021-0108

Jefferson City, Missouri
June 2021

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KEITH MAJORS
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1 **AFFILIATE TRANSACTIONS AND CORPORATE ALLOCATIONS**

2 Q. Generally, do you agree with Mr. Schallenberg's recommended adjustments
3 regarding affiliate transactions and corporate allocations?

4 A. No. Mr. Schallenberg recommends an adjustment to disallow approximately
5 \$84 million of Spire costs to be allocated between capital and expense based upon his opinion
6 that "Spire Missouri should not include, as regulatory costs, its non-regulated costs that were
7 not charged to its affiliates for goods and services these affiliates receive from Spire Missouri
8 but did not pay for."

9 Mr. Schallenberg also recommends a disallowance of \$1 million based on his opinion
10 that Spire Missouri affiliates do not pay for the market value Spire Missouri creates in the
11 operation of Spire Inc. and Spire Services Inc.

12 Q. Please briefly describe Spire Inc. and Spire Services Inc.

13 A. Spire Inc. is the holding company for all Spire Missouri affiliates. Spire
14 Services Inc. functions as a clearinghouse to properly allocate and charge costs for goods and
15 services between the Spire Inc. subsidiaries. No full-time employees or assets are assigned to
16 either entity.

17 Q. On pages 16-17 of his direct testimony, Mr. Schallenberg lists several
18 categories of costs that he claims are being provided to Spire Inc. and its affiliates at little to
19 no cost. Are Spire Missouri ratepayers being burdened with the entire costs of these goods
20 and services?

21 A. No. Mr. Schallenberg's testimony implies that these costs are solely allocated to
22 Spire Missouri and consequently paid solely by Missouri ratepayers. That is not the case as
23 these costs were the subject of Staff's adjustments in this rate case and a portion of these costs
24 were allocated to both regulated and non-regulated affiliates.

Rebuttal Testimony of
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1 Q. What are the specific costs at issue in Mr. Schallenberg's direct testimony?

2 A. As listed on pages 16-17 of Mr. Schallenberg's direct testimony, summarized
3 and not verbatim:

- 4 1. Preparation and distribution of Spire Inc. 2019 Proxy Statement,
5 Notice of Annual Meeting of Shareholders, and Annual Report
- 6 2. Preparation of Corporate Income Tax Returns
- 7 3. Preparation and distribution of United States Securities and
8 Exchange Commission ("SEC") Form 10-K
- 9 4. Lease and Expenses for headquarters at 700 Market, St. Louis,
10 Missouri
- 11 5. Lease and Expenses for facilities at 800 Market, St. Louis,
12 Missouri
- 13 6. Spire Inc. non-employee directors on Board of Directors
- 14 7. Spire Inc. executive officers
- 15 8. Cash Management Function
- 16 9. Financing decisions and execution
- 17 10. Accounting Services for Spire Inc. and affiliates
- 18 11. Risk analysis and related response
- 19 12. Initial Audit [assumed to be Internal Audit]
- 20 13. Acquisition Analysis
- 21 14. Governance
- 22 15. Strategic Planning

23 Q. Please explain if and how Staff accounted for these expenses in its revenue
24 requirement recommendation.

25 A. Items 1-3 are financial and governmental reporting functions that involve both
26 personnel and information technology. Through Staff's payroll annualization, a substantial
27 portion of the salaries and wages of Spire Missouri employees are allocated to various Spire Inc.
28 affiliates using the three factor allocator¹. The fiscal year 2020 allocation factors applicable to
29 certain categories of cost are shown in the tables below²:

¹ The three factor allocator uses an average of fixed assets, revenue, and wages. There are separate allocators for corporate-wide, utility only, and Missouri only.

² Source: Response to Staff Data Request 17.

1

Spire Inc. Entity	Corporate Wide 3 Factor	700 Market Street	800 Market Street
Spire Missouri East	40.27%	42.53%	52.45%
Spire Missouri West	24.36%	25.77%	29.43%
Alabama	24.28%	21.66%	12.60%
Spire Marketing	1.93%	2.76%	1.01%
Laclede Pipeline	0.06%	0.04%	0.03%
Laclede Venture	0.09%	0.07%	0.05%
Laclede Oil	0.02%	0.02%	0.01%
Laclede Development	0.02%	0.02%	0.01%
Spire STL Pipeline	2.04%	1.20%	0.83%
Laclede Insurance Risk Services	0.19%	0.14%	0.10%
Spire Gulf	4.29%	3.72%	2.23%
Spire Mississippi	0.91%	0.81%	0.47%
Spire Storage	1.54%	1.15%	0.79%
Total	100%	100%	100%

2

3

The information technology costs were similarly allocated.

4

Q. How were Items 4-5, the 700 and 800 Market Street facilities, allocated?

5

A. They were allocated using the 700 and 800 Market Street allocators as shown above. The personnel that manage the facilities were allocated similarly.

7

Q. On page 18 of his rebuttal testimony, Mr. Schallenberg implies that Spire Missouri customers bear the entire expense of the corporate headquarters at 700 Market.

9

Do you agree with this premise?

10

A. No. Along with Spire Missouri, these costs were allocated to other affiliates as

11

I described above using the appropriate allocators.

12

Q. For Item 6, how were the Spire Inc. Board of Director (“BOD”) costs allocated?

13

A. Staff did recommend some adjustments to the BOD expenses and the

14

elimination of any stock based compensation charged to Spire Missouri. The residual expense

Rebuttal Testimony of
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1 in the test year is Spire Missouri's allocated share, using an allocator approximate to the
2 three-factor allocator.

3 Q. For the remaining Items 7-15, how were these reflected in Staff's revenue
4 requirement?

5 A. These are largely a function of internal company labor performed by
6 Spire Missouri employees or employees of Spire Inc. affiliates which are reflected in Staff's
7 salary and wage allocations and charged to the regulated and non-regulated affiliates.

8 Q. Although you have identified that a significant portion of costs incurred by
9 Spire Missouri are in fact allocated to affiliates, does that disprove Mr. Schallenberg's assertion
10 that Spire Inc. and Spire Services are not being allocated their fair share of costs?

11 A. No. Mr. Schallenberg concludes that because only \$355,610 of mostly
12 personnel costs are retained at Spire Inc., a negative adjustment of \$84 million to
13 Spire Missouri's revenue requirement is warranted.

14 Q. How did Mr. Schallenberg quantify this proposed adjustment?

15 A. The adjustment was calculated using the following data in the Fiscal Year 2020
16 Spire Missouri Annual Report:

17

A	Total Amount of Common Allocated Costs Incurred at Spire Missouri	\$221,088,881
B	Total Costs Charged to Spire Missouri Affiliates	\$52,321,863
C=A-B	Residual Costs Retained at Spire Missouri	\$168,767,018
D=C*50%	50% of Residual Costs Retained at Spire Missouri	\$84,383,509
E	Costs Retained at Spire Inc. in Fiscal Year 2020	\$355,611
F=D-E	Schallenberg Adjustment	\$84,027,898

18
19 Mr. Schallenberg's adjustment assumes that 50% of all retained costs at Spire Missouri, less
20 the amount actually allocated to Spire Inc., should be charged to Spire Inc. Mr. Schallenberg
21 does not identify the basis, allocation factor, or other driver for allocating \$84 million of costs
22 to Spire Inc.

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1 Q. Under what circumstances would it be appropriate for Spire Inc. and Spire
2 Services Inc. to retain substantial amounts of costs and not charge the costs to affiliates?

3 A. At the present time, Spire Inc. and Spire Services Inc. do not appear to have a
4 material corporate purpose separate and apart from the operations and lines of businesses of
5 their regulated and non-regulated affiliates. In these circumstances, it does not seem
6 presumptively unreasonable for the affiliates to be assigned the bulk of the costs incurred
7 across all of Spire Inc.'s holdings. Spire Inc. does have several non-regulated affiliates that are
8 allocated expenses based on the drivers of the certain expenses such as square-footage,
9 labor, etc. If Spire Inc. were involved in substantial merger and acquisition activities or other
10 non-utility ventures, then different allocation procedures could be warranted. However, the
11 implication in Mr. Schallenberg's direct testimony that Spire Inc. and Spire Services should be
12 assigned and retain some level of corporate costs on account of their very existence is not
13 necessarily valid, in Staff's view.

14 A good example of a corporate structure and function that had a separate purpose and
15 focus from regulated utility operations was that of Aquila, Inc. Aquila, Inc. was the parent of
16 Missouri Public Service which is now doing business as Evergy West and is owned by
17 Evergy, Inc. During the late 1980's and 1990's Aquila Inc. invested in utility properties around
18 the world and in various other industries such as home security services and equipment, utility
19 distribution maintenance providers, and regulated utilities in England and New Zealand. During
20 this period, Aquila Inc.'s primary focus was clearly no longer its Missouri regulated utility
21 operations and Staff recommended that Missouri customer rates be calculated assuming
22 substantial retention of costs at the parent level to reflect corporate activities not premised upon
23 or required by Missouri utility operations.

Rebuttal Testimony of
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1 Q. What types of costs should be retained at the Spire Inc. holding company level?

2 A. Any charitable donations should be retained at the holding company level. Any
3 internal labor and consulting expenses incurred in utility merger and acquisition activity, or
4 potential non-regulated business ventures, should be retained by Spire Inc. Any costs incurred
5 on behalf of Spire, Inc. that are duplicative of or in excess of that category of cost for Spire
6 Missouri should be retained by Spire Inc.

7 Q. Did Mr. Schallenberg present any evidence in his direct testimony that these
8 types of costs were being incurred on Spire Inc.'s behalf but were nonetheless being allocated
9 to Spire Missouri?

10 A. No.

11 Q. What is Staff's position regarding OPC's proposed \$1 million adjustment
12 to account for alleged value received by Spire, Inc. and its affiliates resulting from
13 Spire Missouri's provision of services to them?

14 A. Staff's position is that the current cost assignment and allocation procedures in
15 effect for Spire Missouri and its affiliates are reasonable and result in equitable compensation
16 to Spire Missouri for affiliated services provided.

17 **ACQUISITION TRANSITION COSTS**

18 Q. What are acquisition transition costs?

19 A. The costs to transition Missouri Gas Energy, now Spire Missouri West,
20 into Laclede Gas, now Spire Missouri, were deferred into a regulatory asset pursuant to the
21 *Partial Nonunanimous Stipulation and Agreement* in Case Nos. GR-2017-0215 and
22 GR-2017-0216 filed on December 20, 2017. The amortizations of the regulatory asset are
23 included in the accounting schedules attached to the direct testimony of Wesley E. Selinger.

Rebuttal Testimony of
Keith Majors

1 Q. Do you have a correction to your direct testimony in Staff's Cost of Service
2 Report on this issue?

3 A. Yes. Spire Missouri included an amortization of \$63,134 in the test
4 year pursuant to Item 5 in the *Partial Nonunanimous Stipulation and Agreement*. However, the
5 stipulation clearly states that this amount is not to be included in the cost of service.
6 Staff inadvertently left the test year amortization in revenue requirement calculations. Staff now
7 recommends this amount should not be included in cost of service pursuant to the
8 *Partial Nonunanimous Stipulation and Agreement*.

9 Q. Does that conclude your rebuttal testimony?

10 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Spire Missouri Inc.'s d/b/a)
Spire Request for Authority to Implement a) Case No. GR-2021-0108
General Rate Increase for Natural Gas)
Service Provided in the Company's)
Missouri Service Areas)

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.

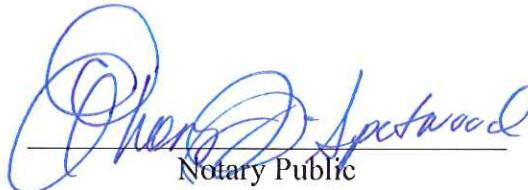
Further the Affiant sayeth not.



KEITH MAJORS

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 15th day of June 2021.



Notary Public



EBONEY JACKSON-SPOTWOOD
My Commission Expires
April 8, 2023
Clay County
Commission #19865798