

# Exhibit No. 131

*Exhibit No.:*  
*Issues:* Capitalized Depreciation,  
Property Taxes,  
Injuries and Damages,  
Incentive Compensation  
*Witness:* Jeremy Juliette  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Surrebuttal Testimony  
*Case No.:* GR-2021-0108  
*Date Testimony Prepared:* July 14, 2021

**MISSOURI PUBLIC SERVICE COMMISSION**  
**FINANCIAL AND BUSINESS ANALYSIS DIVISION**  
**AUDITING DEPARTMENT**

**SURREBUTTAL TESTIMONY**  
**OF**  
**JEREMY JULIETTE**

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

**CASE NO. GR-2021-0108**

*Jefferson City, Missouri*  
*July 2021*

**TABLE OF CONTENTS OF  
SURREBUTTAL TESTIMONY OF  
JEREMY JULIETTE  
SPIRE MISSOURI INC., d/b/a SPIRE  
SPIRE EAST and SPIRE WEST  
GENERAL RATE CASE  
CASE NO. GR-2021-0108**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14

EXECUTIVE SUMMARY .....1

CAPITALIZED DEPRECIATION .....2

PROPERTY TAX TRACKERs.....2

MISSOURI PROPERTY TAX ANNUALIZATION .....4

INJURIES AND DAMAGES.....6

INCENTIVE COMPENSATION.....8



1 Finally, I will respond to Missouri Industrial Energy Consumers' witness, Greg R. Meyer,  
2 regarding injuries and damages, and Missouri property tax annualization.

3 **CAPITALIZED DEPRECIATION**

4 Q. In her rebuttal testimony, Ms. Antrainer states, "To avoid  
5 over-capitalization, Spire does not transfer depreciation related to tools, shop, and garage  
6 equipment, therefore no adjustment is required to avoid a double recovery as Staff suggest"<sup>1</sup>.  
7 How does Staff respond?

8 A. After reviewing Ms. Antrainer's rebuttal testimony, Staff requested additional  
9 information on how Spire capitalizes depreciation.<sup>2</sup> In response, Staff received an explanation  
10 of the FERC accounts that Spire capitalizes depreciation and the rates used for those accounts.

11 Q. Did the additional information Staff received change Staff's position?

12 A. Yes. After reviewing the additional documentation received from Spire,  
13 Staff agrees with Ms. Antrainer and will adopt Spire's adjustment for capitalized depreciation  
14 for the test year period.

15 **PROPERTY TAX TRACKERS**

16 Q. In both Mr. Kuper and Mr. Weitzel's rebuttal testimony,<sup>3</sup> Spire argues that the  
17 Kansas property tax tracker should be continued as gas prices are volatile and could increase  
18 Kansas property taxes significantly in any given year. Does Staff agree with Spire's position?

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<sup>1</sup> Case No. GR-2021-0108, Rebuttal Testimony of Michelle Antrainer, pages 8-9.

<sup>2</sup> Staff Data Request No. 442 in Case No. GR-2021-0108.

<sup>3</sup> Case No. GR-2021-0108, Rebuttal Testimony of Charles J. Kuper, pages 6-7 and Case No. GR-2021-0108, Rebuttal Testimony of Scott A. Weitzel, pages 16-17.

Surrebuttal Testimony of  
Jeremy Juliette

1           A.       Staff agrees that Kansas property taxes fluctuate from year to year, but does not  
2 agree that the Kansas property tax tracker should be continued. Staff has 12 years of historical  
3 data it uses to help develop a normalized level of Kansas property tax expense. As a result, Staff  
4 supports using the normalization methodology to develop an appropriate level of these costs to  
5 include in Spire’s cost of service. The normalization methodology accounts for fluctuations that  
6 may occur such as an increase in gas prices.

7           Q.       Both Mr. Kuper and Mr. Weitzel argue that Winter Storm Uri provides a great  
8 example of how gas prices can be volatile and could increase Kansas property taxes  
9 significantly. How does Staff respond?

10          A.       Winter Storm Uri does provide an example of how extraordinary events can  
11 cause significant fluctuation in gas prices; however, Winter Storm Uri occurred in February of  
12 2021, which had no impact on the valuation of Kansas property taxes which is based upon an  
13 annual valuation of assets every year as of January 1. If a winter storm like Uri had occurred in  
14 previous years and affected Kansas property taxes, Staff would have captured the significant  
15 increase in the 12-year analysis and could have included it in its normalization calculation.

16          Q.       Does Staff have any other reasons justifying why the Kansas property tax tracker  
17 should be discontinued?

18          A.       Yes. As discussed in my rebuttal testimony,<sup>4</sup> the over/under collection of  
19 Kansas property taxes is immaterial. The table provided on page 12 of my rebuttal testimony  
20 illustrates that the over/under collection of Kansas property tax every year since 2015 is under  
21 one percent of Spire West’s net income. The immateriality of the under/over collection of  
22 Kansas property tax coupled with the 12-year historical analysis illustrates why the

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<sup>4</sup> Case No. GR-2021-0108, Rebuttal Testimony of Jeremy Juliette, page 12.

1 Kansas property tax tracker is no longer needed for Spire West. Staff considers Kansas  
2 property taxes a normal operating expense that can be reasonably calculated using ratemaking  
3 methodologies.

4 Q. Is it your understanding that Spire has agreed to discontinue the Missouri  
5 property tax tracker?

6 A. Yes. In his rebuttal testimony,<sup>5</sup> Mr. Kuper states that Spire does not oppose  
7 discontinuation of the Missouri property tax tracker.

#### 8 **MISSOURI PROPERTY TAX ANNUALIZATION**

9 Q. In his rebuttal testimony,<sup>6</sup> Greg R. Meyer states the methodology used by Staff  
10 to annualize Missouri property tax expense does not conform to the known and measureable  
11 standard. Does Staff agree with this assertion?

12 A. No. As explained in Staff's COS Report,<sup>7</sup> Staff used a ratio based on actual  
13 2020 property taxes paid and the amount of plant in service as of January 1, 2020, and applied  
14 this ratio to the amount of plant in service as of January 1, 2021. Both of the elements used in  
15 calculating the ratio, actual property taxes paid and the amount of plant in service, are known  
16 and measurable.

17 Q. Has Staff used this method in previous rate cases?

18 A. Yes. In addition to the rate cases cited in Staff's COS report,<sup>8</sup> Staff has used this  
19 method in general rate cases as recent as 2020 and as far back as 1996.

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<sup>5</sup> Case No. GR-2021-0108, Rebuttal Testimony of Charles J. Kuper, page 7.

<sup>6</sup> Case No. GR-2021-0108, Rebuttal Testimony of Greg R. Meyer, pages 8-9.

<sup>7</sup> Case No. GR-2021-0108, Staff's Direct Cost of Service Report, page 83.

<sup>8</sup> Case No. GR-2021-0108, Staff's Direct Cost of Service Report, page 83.

1 Q. Mr. Meyer goes on to state that the cases Staff cites as precedent for its approach  
2 are over 15 years old. Has the Commission specifically addressed Staff's method in a recent  
3 Report and Order?

4 A. Yes. In The Empire District Electric Company's most recent rate case, Case No.  
5 ER-2019-0374, the Commission found Staff's method of calculating property tax to be  
6 reasonable. Staff has used the same approach for calculating property taxes in both the  
7 2019 Empire District Electric rate case and the current Spire rate case. In its Amended Report  
8 and Order for Case No. ER-2019-0374, the Commission stated,

9 The Commission finds that \$25,138,294 (after the jurisdictional  
10 allocation factor is applied) is the appropriate amount of property tax to  
11 include in the cost of service. The Commission additionally finds that  
12 Staff's method of calculating property tax is reasonable.<sup>9</sup>

13 Q. Does Mr. Meyer have any other concerns regarding property taxes?

14 A. Yes. On page 10 of his rebuttal testimony, he states,

15 In the Staff's Report, there is a discussion of numerous tax appeals filed  
16 by Spire. Specifically, Spire East has filed tax appeals in St. Francois and  
17 St[e]. Genevieve. A hearing on those appeals is scheduled for June 2021.  
18 Spire West filed appeals in Clay and Platte Counties, and those appeals  
19 are still open. Rightfully, the Staff did not reflect any effect from these  
20 appeals as the outcomes are not known and measureable. For the reasons  
21 described above, the 2021 property taxes are also not known and  
22 measurable and should not be included for this rate case.

23 Q. Does Staff agree these appeals are not known and measureable?

24 A. Yes. The property tax appeals discussed in Staff's COS Report are from 2018,  
25 2019, and 2020. Staff discussed the appeals in its Cost of Service Report in regards to possibly  
26 being an offset, in a future rate case, to the regulatory asset for Missouri property taxes once the

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<sup>9</sup> Case Nos. GR-2017-0215 and GR-2017-0216, Amended Report and Order, page 182.



1 appeal cases have been decided by the Missouri Tax Commission. The appeals Mr. Meyer  
2 discusses have no impact on the 2021 property taxes Spire will pay on December 31, 2021.

3 Q. Is Staff including the 2021 Missouri property taxes in Spire's cost of service?

4 A. No. As discussed above, Staff is using two known and measurable elements,  
5 actual property taxes paid and plant in service, to determine a ratio. Staff then uses this ratio to  
6 annualize property tax expense based on plant in service as of January 1, 2021.

7 **INJURIES AND DAMAGES**

8 Q. Mr. Schallenberg states in his rebuttal testimony that he has concerns with the  
9 adjustments that Staff made to FERC account 925 for injuries and damages and insurance  
10 premiums.<sup>10</sup> Do you agree with Mr. Schallenberg's concerns?

11 A. No. I will address the concerns regarding the level of injuries and damages  
12 included in Staff's recommendation and Staff witness Antonija Nieto will address the concerns  
13 regarding the insurance premiums included in Staff's recommendation in her surrebuttal  
14 testimony. As noted in my rebuttal testimony,<sup>11</sup> there were two errors regarding injuries and  
15 damages that were provided to Staff by the Company. The \$10,577,100 figure Mr. Schallenberg  
16 presents for Spire Missouri's position in his table in his rebuttal testimony on page 23 is  
17 incorrect and needs to be adjusted due to the errors described in my rebuttal testimony.  
18 Regarding the level of injuries and damages included in Staff's recommendation, Staff and  
19 Spire's positions are within \$100,000 of each other. The difference, Staff believes, is due to the  
20 above-mentioned errors in Spire's direct workpapers.

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<sup>10</sup> Case No. GR-2021-0108, Rebuttal Testimony of Robert E. Schallenberg, pages 22-23.

<sup>11</sup> Case No. GR-2021-0108, Rebuttal Testimony of Jeremy Juliette, page 13.

Surrebuttal Testimony of  
Jeremy Juliette

1 Q. Mr. Schallenberg also states he believes Staff's recommendation includes  
2 fees associated with the discrimination lawsuit discussed in OPC witness Dr. Geoff Marke's  
3 direct testimony. Does Staff's recommendation includes these fees?

4 A. Yes. After further analysis and discovery, Staff has become aware that some of  
5 the litigation fees and insurance recoveries associated with the discrimination lawsuit are  
6 incorporated in Staff's recommended level of injuries and damages. Staff did not include any  
7 of the judgement awarded in the lawsuit in Staff's COS Report as Spire booked these costs in  
8 October of 2020, Fiscal Year 2021. Staff's recommended level of injuries and damages is based  
9 on a three-year average of fiscal years 2018, 2019 and 2020.

10 Q. What is Spire's position regarding the inclusion of the above-mentioned  
11 litigation fees?

12 A. On page 3 of his rebuttal testimony, Mr. Lobser states,

13 Legal fees are necessary corporate expenses to defend the Company  
14 against lawsuits. Where suits have no merit, lawyers defend to prevent  
15 the Company from paying unnecessarily, and from becoming a soft  
16 target. Where suits have merit, legal fees are necessary to position the  
17 case to limit the Company's exposure. We track and monitor legal  
18 expense on all lawsuits monthly, and the Company works very hard to  
19 keep these costs as low as possible, while still remaining appropriate to  
20 the defense of the case. Our defense costs absolutely limit the amount of  
21 judgments and settlements, keeping the overall cost of service low.

22 Q. What is Staff's position regarding the inclusion of the above mentioned  
23 litigation fees?

24 A. Staff recommends that none of the litigation fees, judgement, or insurance  
25 recoveries associated with the discrimination lawsuit be included in base rates. Staff will  
26 make the adjustment to its three-year average for injuries and damages during the true-up for  
27 this case.

1 Q. What is the revenue requirement impact for this adjustment?

2 A. This adjustment would decrease Spire West's revenue requirement by  
3 approximately \$100,000.

4 **INCENTIVE COMPENSATION**

5 Q. In his rebuttal testimony, Mr. Schallenberg states the costs of Spire's Annual  
6 Incentive Plan (AIP) should be recovered in a properly designed incentive plan and not in  
7 base rates.<sup>12</sup> He goes on to state that the recovery of the AIP in base rates would be  
8 "double recovery." Does Staff agree with his statements?

9 A. No. Any savings Spire recognized because of its successful incentive  
10 compensation plan that is currently in effect would be built into the test year for this rate case  
11 proceeding. These savings, therefore, will be reflected in Spire's cost of service approved by  
12 the Commission in this case and will be built into the approved base rates. In Staff's COS  
13 Report, Staff has included a level of non-earnings based AIP expense that Staff believes will be  
14 representative of Spire's incentive compensation expense for the year following this case. If  
15 Spire recognizes further savings in future years, those savings would be reflected in the next  
16 general rate case and passed on to customers.

17 Q. Would Mr. Schallenberg's adjustment go against a long-standing precedent set  
18 by the Commission to include non-earnings based incentive compensation in a utility's cost of  
19 service?

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<sup>12</sup> Case No. GR-2021-0108, Rebuttal Testimony of Robert E. Schallenberg, page 18.

Surrebuttal Testimony of  
Jeremy Juliette

1           A.     Yes. The Commission has consistently disallowed incentive compensation  
2 based upon earnings metrics<sup>13</sup> while allowing inclusion of incentive compensation based upon  
3 customer and operational metrics.

4           Q.     Mr. Schallenberg states that an employee incentive plan should not be recovered  
5 in rates and any inclusion would constitute “double recovery.” Do you agree?

6           A.     No. To Staff’s knowledge, this premise has never been presented in the  
7 context of incentive compensation issues. Incentive compensation is a component of overall  
8 employee compensation, and is included with items such as pensions, benefits, and base pay.  
9 “Double recovery” is not an issue as the savings from the plan achievements are included in the  
10 cost of service as reductions in cost or increases in revenue, both of which benefit customers  
11 who pay for the incentive plan through cost of service.

12          Q.     Mr. Schallenberg contends that the incentive compensation plans are not known  
13 and measurable. Do you agree?

14          A.     No. The known and measurable standard relates to items or events affecting a  
15 utility’s cost of service that must have been realized (known) and must be calculable with a  
16 high degree of accuracy (measurable). Mr. Schallenberg’s explanation for why incentive  
17 compensation amounts are not known and measurable is “the plans can be terminated at any  
18 time and actual payments from the plans vary from year to year”. It would be difficult to find  
19 any component of cost of service that would meet Mr. Schallenberg’s unreasonable  
20 requirements.

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<sup>13</sup> See Report and Orders, Case Nos. ER-2006-0314, ER-2006-0315, ER-2007-0291.

1 Q. Mr. Schallenberg also states he believes the two new metrics of Spire's AIP  
2 are earnings based and should not be included in Spire's cost of service.<sup>14</sup> Do you agree with  
3 Mr. Schallenberg?

4 A. No. As stated in Staff's COS report, in the fall of 2018 Spire implemented  
5 two new metrics, Utility Contribution Margin and Utility Adjusted O&M per Customer.<sup>15</sup> Both  
6 of these metrics provide benefits to ratepayers as they incentivize employees to reduce expenses  
7 or increase revenues while providing safe and reliable service.

8 Q. By incentivizing employees to reduce expenses or increase revenues, does  
9 Spire's bottom line increase, which benefits its shareholders?

10 A. Yes, reducing expenses and increasing revenues would increase Spire's  
11 bottom line. However, the methods employees use to reach these targets benefit ratepayers.  
12 For instance, by repairing leaks and reducing outage durations, employees have increased  
13 Spire's revenues while providing safer and more reliable service to the customers.

14 Q. Mr. Schallenberg goes on to state on page 19 of his rebuttal testimony,  
15 "Any costs reductions that occur on this basis, without corresponding in [*sic*] reductions in  
16 customers' rates, is going to increase earnings." Is this true?

17 A. Yes, any incremental costs reductions that occur in between general rate cases  
18 would increase Spire's earnings. However, this is true of any expense in Spire's cost of service.  
19 This is due to regulatory lag. The cost reductions achieved by Spire would be passed on to  
20 customers during the next general rate case. Also, if Spire's costs increased in between general

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<sup>14</sup> Case No. GR-2021-0108, Rebuttal Testimony of Robert E. Schallenberg, page 19.

<sup>15</sup> Case No. GR-2021-0108, Staff's Direct Cost of Service Report, page 67.

Surrebuttal Testimony of  
Jeremy Juliette

1 rate cases past the amount included in base rates, Spire's shareholders would pay for the  
2 increased expenses until the next general rate case due to regulatory lag.

3 Q. Does this conclude your testimony?

4 A. Yes it does.

**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        )  
General Rate Increase for Natural Gas            )  
Service Provided in the Company's                )  
Missouri Service Areas                                )

Case No. GR-2021-0108

**AFFIDAVIT OF JEREMY JULIETTE**

STATE OF MISSOURI        )  
                                      )  
COUNTY OF JACKSON     )        ss.

COMES NOW JEREMY JULIETTE and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Surrebuttal Testimony of Jeremy Juliette*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

  
\_\_\_\_\_  
JEREMY JULIETTE

**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 12<sup>th</sup> day of July 2021.

  
\_\_\_\_\_  
Notary Public



M. RIDENHOUR  
My Commission Expires  
July 22, 2023  
Platte County  
Commission #19603483