Exhibit No.:

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Witness:
Sponsoring Party:
Type of Exhibit:

Type of Exhibit: Case Nos.: Prepayments
Wayne Hodges
MoPSC Staff
Rebutal Testimony

GR-2017-0215 and GR-2017-0216

Date Testimony Prepared:

October 17, 2017

MISSOURI PUBLIC SERVICE COMMISSION COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

WAYNE HODGES

Date DIS-17 Reporter AF
File No CR 2000 2006

SPIRE MISSOURI, INC., d/b/a SPIRE

LACLEDE GAS COMPANY AND MISSOURI GAS ENERGY GENERAL RATE CASE

CASE NOS. GR-2017-0215 and GR-2017-0216

Jefferson City, Missouri October 2017

| 1 | REBUTTAL TESTIMONY | | | |
|--------|--|--|--|--|
| 2 | OF - | | | |
| 3 | WAYNE HODGES | | | |
| 4 | | SPIRE MISSOURI, INC., d/b/a SPIRE | | |
| 5 6 | LACLEDE GAS COMPANY AND MISSOURI GAS ENERGY GENERAL RATE CASE | | | |
| 7 | | CASE NOS. GR-2017-0215 and GR-2017-0216 | | |
| 8 | Q. | Please state your name, employment position, and business address. | | |
| 9 | A. | Wayne Hodges, Utility Regulatory Auditor with the Missouri Public Service | | |
| 10 | Commission ("Commission" or "PSC"), Fletcher Daniels State Office Building, 615 East 13 ^t | | | |
| 11 | Street, Kansas City, Missouri 64106. | | | |
| 12 | Q. | Are you the same Wayne Hodges who has previously provided testimony in | | |
| 13 | this case? | | | |
| 14 | Α. | Yes. I contributed to Staff's Cost of Service Report ("COS Report") filed in | | |
| 15 | the Laclede Gas Company ("LAC") and Missouri Gas Energy ("MGE") rate cases designated | | | |
| 16 | as Case No. GR-2017-0215 and Case No GR-2017-0216, on September 8, 2017. | | | |
| 17 | Q. | What is the purpose of your rebuttal testimony? | | |
| 18 | A. | I will respond to the direct testimony of LAC and MGE's witness Lewis E. | | |
| 19 | Keathley on the subject of prepayments. | | | |
| 20 | EXECUTIVE SUMMARY | | | |
| 21 | Q. | Please describe LAC and MGE's recommendation for the level of prepayments | | |
| 22 | included in their respective rate bases. | | | |
| 23 | A. | Mr. Keathley supports the amount of LAC and MGE's prepayments that | | |
| 24 | includes prer | paid taxes, property taxes under appeal, and dues and donations. | | |

and MGE?

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Q. Does Staff agree that these costs should be included as a prepayment for LAC

A. No. Staff examined each prepayment proposed by LAC and MGE on a monthby-month basis. For the test year and update periods ordered in this proceeding, Staff identified costs that should not be included in prepayments. For instance, LAC includes Prepaid Taxes in its prepayments, and both LAC and MGE include property taxes that are under appeal and dues paid to Missouri Energy Development Association ("MEDA") and Chamber of Commerce organizations. It is Staff's position that none of those costs are appropriately included in utility rate base as prepayments. Staff excluded costs related to MEDA and the Chamber of Commerce from prepayments because they do not provide a direct benefit to ratepayers and they are not necessary for the provision of safe and adequate utility service. Staff excluded prepaid taxes and property taxes that are under appeal because they are not actual prepayments.

PREPAYMENTS

- Q. What types of dues is Staff proposing to exclude from LAC and MGE's prepayments in this rate case?
- A. Staff is proposing to eliminate payments made to the Missouri Chamber Foundation, the St. Louis Regional Business Council, MEDA, and the Kansas City Chamber of Commerce, consistent with Staff's recommendation to eliminate these costs as part of its recommended adjustments for Lobbying and Dues and Donations discussed on page 120 and 126 of its Cost of Service Report, filed on September 8, 2017. These costs do not provide a direct benefit to ratepayers and are not necessary for the provision of safe and adequate service.

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Q. What types of taxes are identified by LAC as prepaid taxes?

A. According to Staff's discussion with LAC and MGE personnel, Gross Receipt Taxes ("GRT") are reported as Prepaid Taxes in LAC's prepayment detail that was provided

in response to Staff's Data Request No. 0118.

Q. Explain why Staff recommends that GRT should be eliminated from LAC's prepayments.

A. LAC pays GRT (commonly referred to as franchise taxes) for the right to do business in the municipalities in which it operates. For example, LAC pays the City of St. Louis a monthly 10% GRT based on non-residential gross revenues and a monthly 4% GRT based on residential gross revenues. The taxes are paid to the city of St. Louis the month after the revenues are collected from LAC's customers.¹

It is Staff's position that GRT is collected from customers in advance of payments made to cities and municipalities. For this reason, Staff included GRT in LAC's Cash Working Capital as a payment in the arrears. Therefore, GRT does not qualify as a prepayment.

- Q. Explain why Staff recommends that property taxes that are under appeal should be eliminated from LAC and MGE's prepayments.
- A. Property taxes are assessed on property owned as of January 1 of each year and are typically not due to the various taxing authorities until December 31 of that same year. The exception is property taxes assessed in the state of Kansas, where one-half of the year's property taxes are due at December 31 of the year assessed and the other half are not due until

¹ City of St. Louis Municipal Code, Chapter 23.36 https://library.municode.com/mo/st. louis/codes/code of ordinances

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late in the first quarter of the following year. Since property taxes are assessed at the beginning of the year and paid at the end of the same year, they are paid in arrears on a calendar year basis. LAC and MGE are also collecting revenue for these taxes that are included in their base rates. The fact that LAC and MGE are appealing those tax amounts does not make them a prepayment. They simply have a dispute with the taxing authority about the amount of property taxes owed by LAC and MGE for a given year.

- Q. Should property taxes under appeal be included in rate base?
- A. No. The amounts paid by LAC and MGE for property taxes under appeal should not be given rate base treatment because shareholder investments are not involved. LAC and MGE are simply disputing the amount of taxes paid. Therefore, customers should not be responsible for providing a rate of return to LAC and MGE on property taxes that are under appeal.
- Q. Does the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts ("USOA") support disputed costs by a gas utility as a prepayment?
 - A. No. The USOA defines a prepayment as follows;

This account shall include payments for undelivered gas and other prepayment of rents, taxes, insurance, interest, and like disbursements made prior to the period to which they apply.

Although the USOA includes taxes in the definition of prepayments, property taxes are not prepayments by virtue of how the taxes are assessed at the beginning of the year and paid in arrears at the end of the year. The USOA also does not support disputed costs such as property taxes that are under appeal as a prepayment. Therefore, it is Staff's position that property taxes that are appealed by LAC and MGE do not qualify as prepayments and should be excluded from rate base.

Rebuttal Testimony of Wayne Hodges

| 1 | Q. Does Mr. Keathley support any other costs as a prepayment that Staff | | |
|---|--|--|--|
| 2 | recommends be removed? | | |
| 3 | A. Yes. Staff has identified three miscellaneous costs that should be excluded | | |
| 4 | from prepayments because those expenses are no longer being incurred by LAC and MGE. | | |
| 5 | They include Debt Transaction Cost, JP Morgan Line of Credit Fees, and Moody's Services. | | |
| 6 | Therefore, it is Staff's position that those costs be excluded from prepayments. | | |
| 7 | Q. Does that conclude your rebuttal testimony? | | |
| 8 | A. Yes. | | |

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

| In the Matter of Laclede Gas Company's Request to Increase Its Revenues for Gas Service | .))) | Case No. GR-2017-0215 |
|---|---------------|-----------------------|
| n the Matter of Laclede Gas Company I/b/a Missouri Gas Energy's Request to norease Its Revenues for Gas Service |) | Case No. GR-2017-0216 |
| AFFIDAVIT O | F WAY | 'NE HODGES |

STATE OF MISSOURI) ss.
COUNTY OF JACKSON)

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

Further the Affiant sayeth not.

WAYNE HODGES

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 Jefferson City, on this day of October, 2017.

Notary Public

NOTAM SEAL S

BEVERLY M. WEBB My Commission Expires April 14, 2020 Clay County Commission #12484070