

Exhibit No.: 216  
Issue: Prepayments  
Witness: Wayne Hodges  
Sponsoring Party: MoPSC Staff  
Type of Exhibit: Rebuttal Testimony  
Case Nos.: 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

Staff Exhibit No. 216  
Date 10-17-17 Reporter AK  
File No. GR-2017-0215, GR-2017-0216

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



Rebuttal Testimony of  
Wayne Hodges

1 Q. Does Staff agree that these costs should be included as a prepayment for LAC  
2 and MGE?

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

14 **PREPAYMENTS**

15 Q. What types of dues is Staff proposing to exclude from LAC and MGE’s  
16 prepayments in this rate case?

17 A. Staff is proposing to eliminate payments made to the Missouri Chamber  
18 Foundation, the St. Louis Regional Business Council, MEDA, and the Kansas City Chamber  
19 of Commerce, consistent with Staff’s recommendation to eliminate these costs as part of its  
20 recommended adjustments for Lobbying and Dues and Donations discussed on page 120  
21 and 126 of its Cost of Service Report, filed on September 8, 2017. These costs do not  
22 provide a direct benefit to ratepayers and are not necessary for the provision of safe and  
23 adequate service.

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

2 A. According to Staff's discussion with LAC and MGE personnel, Gross Receipt  
3 Taxes ("GRT") are reported as Prepaid Taxes in LAC's prepayment detail that was provided  
4 in response to Staff's Data Request No. 0118.

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

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

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

16 Q. Explain why Staff recommends that property taxes that are under appeal  
17 should be eliminated from LAC and MGE's prepayments.

18 A. Property taxes are assessed on property owned as of January 1 of each year and  
19 are typically not due to the various taxing authorities until December 31 of that same year.  
20 The exception is property taxes assessed in the state of Kansas, where one-half of the year's  
21 property taxes are due at December 31 of the year assessed and the other half are not due until

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<sup>1</sup> City of St. Louis Municipal Code, Chapter 23.36  
[https://library.municode.com/mo/st.\\_louis/codes/code\\_of\\_ordinances](https://library.municode.com/mo/st._louis/codes/code_of_ordinances)

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

7 Q. Should property taxes under appeal be included in rate base?

8 A. No. The amounts paid by LAC and MGE for property taxes under appeal  
9 should not be given rate base treatment because shareholder investments are not involved.  
10 LAC and MGE are simply disputing the amount of taxes paid. Therefore, customers should  
11 not be responsible for providing a rate of return to LAC and MGE on property taxes that are  
12 under appeal.

13 Q. Does the Federal Energy Regulatory Commission ("FERC") Uniform System  
14 of Accounts ("USOA") support disputed costs by a gas utility as a prepayment?

15 A. No. The USOA defines a prepayment as follows;

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

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

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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.

