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Witness: Lisa M. Ferguson
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: GR-2022-0179
Date Testimony Prepared: August 31, 2022

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL & BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

DIRECT TESTIMONY
Revenue Requirement

OF

LISA M. FERGUSON

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

CASE NO. GR-2022-0179

Jefferson City, Missouri
August 2022

** Denotes Confidential Information **

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LISA M. FERGUSON

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LISA M. FERGUSON

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

CASE NO. GR-2022-0179

Q. Please state your name and business address.

A. My name is Lisa Ferguson. My business address is 111 N. Seventh Street, St. Louis, MO 63101.

Q. Please describe your educational background and work experience.

A. I attended Truman State University where I earned a Bachelor of Science degree in Accounting and a Master of Accountancy degree. I have been employed by the Commission since June 2008 with the Auditing Department.

Q. What is your current position with the Commission?

A. I am a Utility Regulatory Audit Supervisor in the St. Louis office.

Q. What knowledge, skills, experience, and training do you have in the areas of which you are testifying as an expert witness?

Q. I have been employed with the Commission for over 14 years. During that time, I have assisted, conducted, and supervised audits and have also examined the books and records of electric, gas, water and wastewater utilities in many cases before the Commission in the state of Missouri. I have also received continuous training on technical ratemaking matters since I began my employment at the Commission.

Q. Have you previously testified before this Commission?

A. Yes. A list of cases and issues that I have addressed in verbal and written testimony are attached to this testimony as Schedule LMF-d1.

EXECUTIVE SUMMARY

Q. What is the purpose of your direct testimony?

A. I am sponsoring Staff's Direct Accounting Schedules that are being filed concurrently with this direct testimony. Staff's recommendation regarding the amount of the revenue requirement increase for Spire Missouri operations are based on actual historical information through the update period ending May 31, 2022. Staff will revise its recommendation of the amount of the revenue requirement increase for Spire Missouri East and West based on actual information through September 30, 2022, as part of its true-up audit. In addition, as part of this rate proceeding, approximately $8.5 million of Infrastructure System Replacement Revenue (ISRS) will be transferred to base rates for the investment that occurred during June 1, 2021 through December 31, 2021. There is currently another ISRS filing pending before the Commission for investment covering the time period of January 1, 2022 through June 30, 2022. The amount determined in that proceeding will be included in rates during Staff's true-up audit.

In this testimony, I will provide an overview of the results of Staff's direct audit and its recommended revenue requirement for Spire Missouri. During Staff's examination, several Staff members participated in the review of Spire Missouri's books and records. The components of Staff's review include (1) capital structure and return on equity, (2) rate base investment, (3) revenue, (4) operation & maintenance expenses, (5) depreciation & amortization expense, and (6) income taxes, all of which are represented in the formula below.

OVERVIEW OF STAFF'S REVENUE REQUIREMENT DIRECT TESTIMONY

Q. Please explain the components of the cost of service for a regulated, investor-owned public utility.

A. The cost of service for a regulated, investor-owned public utility is comprised of the following formula:

Cost of Service = Cost of Providing Utility Service

Or

COS = O + (V-D)R where,

COS = Cost of Service

O = Operating Costs (Payroll, Maintenance, etc.), Depreciation, and Taxes

V = Gross Valuation of Property Required for Providing Service (including plant and additions or subtractions of other rate base items)

D = Accumulated Depreciation Representing Recovery of Gross Depreciable Plant Investment

V – D = Rate Base (Gross Property Investment less Accumulated Depreciation = Net Property Investment)

R = Rate of Return

(V-D)R = Return Allowed on Rate Base

At other times, the terminology "cost of service" and "revenue requirement" have been used interchangeably. In this testimony, Staff will refer to the "revenue requirement" in terms of the increase or decrease in revenues based on the current total cost of service as compared to the current revenue level that exists in current rates. Spire Missouri consists of two separately tariffed service territories: Spire East and Spire West. In turn, Staff has prepared separate accounting schedules to demonstrate the cost of service for each service territory.

Q. What is the objective of an audit of a regulated, investor-owned public utility for ratemaking purposes?

A. The objective of the audit is to determine the appropriate amounts of the cost of service components for the regulated entity within its tariffed service territory. All relevant factors are examined and a proper relationship of revenues, expenses, and rate base is maintained. The following summarizes the process for making the revenue requirement determination:

(1) Selection of a test year. The test year income statement represents the starting point for determining a utility's existing annual revenues, operating costs, and net operating income. Net operating income represents the return on investment based upon existing rates. The "amended" test year approved by the Commission for Case No. GR-2022-0179 is the twelve months ended September 30, 2020 with known and measureable adjustments through May 31, 2021[1]. Several types of adjustments such as "Annualization," "normalization", and "disallowance" adjustments are made to the amended test year results when the unadjusted amounts do not fairly represent the utility's most current, ongoing, and appropriate annual level of revenues and operating costs. These adjustments are described later in this testimony.

(2) Selection of a "test year update period." A proper determination of revenue requirement is dependent upon matching the components of rate base, return on investment, revenues and operating costs at a point in time. This is referred to as the "matching" principle. It has been standard practice in Missouri for ratemaking to utilize a period that is beyond the established test year in which to match the major components of a utility's revenue requirement. By utilizing an update period, information can be reflected beyond the established "amended" test year and be based upon more current information. The Commission did not order an "official" update period in this case, however the Staff and Spire Missouri informally agreed upon May 31, 2022.[2]

[1] Case No. GR-2022-0179, *Order Establishing Procedural Schedule, Establishing Test Year, and Other Procedural Requirements,* May 18, 2022.
[2] Case No. GR-2022-0179, *Order Establishing Procedural Schedule, Establishing Test Year, and Other Procedural Requirements,* May 18, 2022.

(3) Selection of a "true-up date" or "true-up period." A true-up date generally is established when a significant change in a utility's cost of service occurs after the end of the test year update period, but prior to the operation-of-law date, and the significant change in cost of service is one the parties and/or Commission has decided should be considered for establishing the cost of service in the current case. In this case, the Commission has authorized a true-up period of September 30, 2022.[3]

(4) Determination of the Rate of Return, which is represented by the "R" in the formula above. An examination of the cost-of-capital must occur to allow Spire Missouri the opportunity to earn a fair rate of return on its net investment ("rate base") that is utilized in providing utility service. Staff witness, Dr. Seoung Joun Won, of the Commission's Financial Analysis Department, has performed a cost-of-capital analysis of which he discusses the results of his analysis in his direct testimony.

(5) Determination of Rate Base, which is represented by the (V-D) in the formula above. A utility's rate base represents the net investment that is used in providing utility service, and this net investment is what the rate of return is applied to that permits the utility the opportunity to earn a return. Staff has utilized a rate base as of the May 31, 2022 update period in this case for its direct filing. Rate base includes plant-in-service, accumulated reserve, cash working capital, materials and supplies, prepayments, gas and propane inventories, accumulated deferred income tax, various regulatory assets and liabilities, etc.

(6) Net Operating Income from Existing Rates, which is represented by the "O" in the formula above. In order to develop net income from existing rates, the operating revenues,

[3] Case No. GR-2022-0179, *Order Establishing Procedural Schedule, Establishing Test Year, and Other Procedural Requirements,* May 18, 2022.

expenses, depreciation, and taxes for the amended test year is used. The utility's revenue and expense categories are examined to determine whether the unadjusted amended test year results require adjustment to fairly represent the utility's most current level of operating revenue and expense. Several changes can occur during any given year that will impact a utility's annual level of operating revenue and expense. The amended test year has been adjusted to reflect the Staff's determination of the appropriate ongoing levels of revenue and expense.

(7) Determination of Net Operating Income Required. The net income required for Spire Missouri is calculated by multiplying Staff's recommended rate of return by Staff's recommended rate base. Net income required is then compared to net income available from existing rates in Item (6) above. The difference, after factoring-up for income taxes, represents the incremental change in the utility's rate revenues required to cover its operating costs and to provide a fair return on investment used in providing gas service. If a utility's current rates are insufficient to cover the operating costs and provide a fair return on investment, the comparison of net operating income required (Rate Base x Recommended Rate of Return) to net income available from existing rates (Operating Revenue less Operating Costs, Depreciation, and Income Taxes) will result in a positive amount, which indicates that the utility requires a rate increase. If the comparison results in a negative amount, this indicates that the utility's current rates may be excessive.

Q. Please identify the types of adjustments that are proposed to unadjusted test year results so as to reflect the current annual level of operating revenue and expense for a utility.

A. The following types of adjustments are used to reflect a utility's current annual level of operating revenue and expense:

(1) Normalization Adjustments. A utility's rates are intended to reflect normal ongoing operations. A normalization adjustment is required when the test year contains an abnormal event. An example of this type of adjustment is weather normalization. Actual weather conditions during the test year are compared to 30-year "normal" values. The weather normalization adjustment restates the test year sales volumes and revenues to reflect normal weather conditions.

(2) Annualization Adjustments. Annualization adjustments are required when changes have occurred during the test year, update and/or true-up period that have not been fully reflected in the unadjusted test year results. An example of this is payroll. Because Spire Missouri's amended test year is the twelve months ended September 30, 2020 with known and measureable adjustments through May 31, 2021; it does not include the pay increase for non-union employees that occurred in November 2021. Staff used the payroll rates in effect at May 31, 2022 and applied those rates to the actual employee levels experienced at this date to annualize payroll expense. An adjustment was proposed to the amended test year to capture the impact of the payroll increase as if that increase existed for the entire annual period. The same process will be utilized for the true-up period, through September 30, 2022, to recognize the union pay increase that occurs in August 2022.

(3) Disallowance adjustments. Disallowance adjustments are proposed to eliminate costs during the test period that are not considered to be prudent, reasonable, appropriate, non-recurring or not of benefit to Missouri ratepayers and thus not proper for recovery from ratepayers. In this case, due to the use of the amended test year, many of the disallowance adjustments proposed as part of the original test year (twelve months ending September 30, 2020) are intact; however Staff has additional costs that have been proposed for

removal from the test year in this current case. Since some of these costs were not proposed for removal in the prior case, Staff has proposed these additional disallowance adjustments to the amended test year in this case. An example of this are some of the compressed natural gas (CNG) expenses. These adjustments were not proposed in Case No. GR-2021-0108 and thus have been removed from the amended test year. I will discuss the removal later in this direct testimony.

(4) Proforma Adjustments. A proforma adjustment is proposed due to an event that generally occurs beyond the test year, update or true-up cut-off date. These adjustments occur anytime a party proposes to include the effects of an event without considering the revenue requirement associated with the offsetting items. The Commission allows parties to request the inclusion of the revenue requirement associated with proforma or isolated adjustments in the calculation of the cost of service. These adjustments must be proposed with caution as these adjustments must be known and measureable and must be examined to determine whether its inclusion will affect the relationship between revenue, expense and investment. There are no isolated adjustments proposed as a part of Staff's direct filing in this case. While Staff has endeavored to include all aspects of the cost of service at May 31, 2022 in this case, there minimal number of items that could not be included at that date, such as accumulated deferred income taxes (ADIT). ADIT has been included as of December 31, 2021. However, isolated adjustments are not necessary as Staff's true-up audit will examine a full range of cost of service items which will assist in maintaining the timing of revenue, expense and investment.

Q. What amount of revenue requirement increase did Spire Missouri request in this case and what return on equity (ROE) percentage was this request based?

A. Spire Missouri requested an increase in annual revenue of $73.94 million for Spire East and $77.95 million for Spire West. The increase in annual revenue for both service territories contemplates a 10.5% ROE. The increase also includes a rebase related to the infrastructure system replacement surcharge of $8.5 million in revenue requirement for both Spire East and for Spire West. As part of this rate proceeding, the ISRS revenue surcharge will be reset to $0 and the ISRS rate components will be included in base rates for both service territories.

Q. How is the revenue requirement determined for a regulated utility?

A. First, the utility's cost of service must be calculated. Staff has examined all aspects of the case that would affect the amended test year in this case. Staff began with utilizing the final amounts contained within Staff's Accounting Schedules as filed to comply with the Commission's Amended Report & Order in Case No. GR-2021-0108. This creates an amended test year of the twelve months ending September 30, 2020 with all known and measurable adjustments through May 31, 2021. Staff then examined all aspects of the cost of service with the exception of test year disallowances, as a short period of time has elapsed since Spire Missouri's rates were last implemented on December 23, 2021. This amended historical test year was ordered by the Commission through its *Order Establishing Procedural Schedule, Establishing Test Year, and Other Procedural Requirements* on May 18, 2022. Staff has also updated its cost of service calculations for most items through May 31, 2022.

Q. Please describe Staff's direct cost of service (revenue requirement) filing in this rate proceeding.

A. The results of Staff's audit of Spire Missouri's books and records as part of this proceeding can be found in the Staff's filed Accounting Schedules and is summarized on Accounting Schedule 1, Revenue Requirement. Accounting Schedule 1 demonstrates that Staff's recommended revenue requirement in this proceeding is $11,791,973 for Spire East and $27,456,723 million for Spire West. Staff's direct accounting schedules also include a rebase of the ISRS surcharge of $3.1 million for Spire East and $5.4 million for Spire West for plant in service for the period of June 1, 2021 through December 31, 2021. The recommended revenue requirements are premised on a mid-point recommended rate of return (ROR) after tax of 6.897% for both Spire East and for Spire West. For both Spire East and Spire West, Staff is recommending a midpoint ROE of 9.58%, with a range of 9.33% to 9.83% as calculated by Staff witness Dr. Seoung Joun Won. Staff's revenue requirement at the low and high ROR range of 9.33% to 9.83% for Spire East is $8,896,129 to $14,710,265. Staff's revenue requirement at the low and high ROR range of 9.33% to 9.83% for Spire West is $24,958,070 to $29,974,747.

Q. Did Staff include a true-up allowance in its Accounting Schedules?

A. No. There is a short period, only four months, from Staff's update period to the true-up date of September 30, 2022 and Staff did not have the data in a format available to estimate this for that four month period. The true-up audit will include actual costs incurred through September 30, 2022 as part of Staff's true-up audit.

Q. Please list the items that are included in Staff's recommended rate base in its direct case.

A. The following rate base items were updated as of the update period of May 31, 2022, either through a balance as of that date or a 13-month average balance May 31, 2022: Plant-in-service, Accumulated Depreciation Reserve, Cash Working Capital, Materials and Supplies, Natural Gas and Propane Inventories, Prepayments, Customer Deposits, Customer

Advances, regulatory asset and liability balances for Pensions & OPEBs, Energy Efficiency, Energy Affordability, Insulation Financing and EnergyWise, transition costs, and the overhead deferral. All of the rate base items will be restated as a balance or 13-month average as of September 30, 2022 as part of Staff's true-up audit.

Q. Please explain how the various Staff members contributed to create a combined work product in rate proceedings.

A. The Staff auditors in this case relied upon the work from several other Staff departments in order to calculate the revenue requirement for Spire Missouri East and West in this case. Weather normalized revenue and the recommended rate of return are some examples of data analysis and inputs that are provided to the Auditing Department for inclusion in the Accounting Schedules. Each Staff member who has contributed a calculation or input for inclusion in the Accounting Schedules has submitted direct testimony in this case providing discussion on each topic that they were assigned along with their recommendation on the issue. Signed affidavits and credentials for all Staff members who contributed to the direct cost of service filing and for which they are responsible are attached to each Staff member's testimony.

Q. What are the biggest differences between the revenue requirements for Spire East and Spire West filed by Spire Missouri as compared to the revenue requirement filed by Staff in this case?

A. There are five main revenue requirement differences. The differences are based on projections proposed by Spire Missouri through September 30, 2022. Many of the values listed below will change when Staff and Spire Missouri update their respective revenue requirements through the true-up cutoff date, September 30, 2022.

- **Return On Equity (ROE) and Capital Structure – Issue Value $17.7 million for Spire East and $15.2 million for Spire West –** Spire Missouri's return on equity recommendation for both Spire East and Spire West is 10.5%. Staff's mid-point recommendation is 9.58%. The value of the difference between Spire Missouri and Staff for ROE is $12.2 million for Spire East and $10.5 million for Spire West. Spire Missouri recommends a capital structure of 45.00% long-term debt and 55.00% equity for both Spire East and Spire West. Staff's proposed capital structure is 48.12% long-term debt and 51.88% equity. Staff also recommended a cost of long-term debt of 4.005% while Spire Missouri recommended 3.990%. The value of the difference between Spire Missouri and Staff for capital structure and cost of debt is $5.5 million for Spire East and $4.7 million for Spire West.

- **Non-Operating Overhead Expense and Capital – Issue Value is $20.4 million for Spire East and $14.7 million for Spire West –** During Spire Missouri's last rate proceeding, it was discovered that Spire Missouri was not following Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USOA) guidance regarding capitalization of its non-operating overhead. An external audit was performed in several phases. Staff and Spire Missouri are now including this deferred overhead cost in the cost of service. Staff differs from Spire Missouri regarding the amount of test year overhead expense to include in the cost of service as well as the amount of the deferred regulatory asset for past overhead that was deferred and the time period over which that regulatory asset should be amortized. Staff is recommending 15 years and Spire Missouri is recommending 2 years.

- **Payroll and Payroll Taxes – Issue Value $7.0 million for Spire East and $2.9 million for Spire West –** Staff has included the current employees for each division as of May 31, 2022. Staff and Spire Missouri have a difference in their amended test year prior to annualization. Staff's amount also does not include what Spire Missouri considers contract payroll. Staff does not include contracted labor as part of its payroll as those individuals are actually employed with a company other than Spire Missouri. Staff's amount includes the most current non-union pay increase as of November 2021, but it does not include the union payroll increase that is set to occur after the update period in August 2022. Staff will include this increase during its true-up audit along with the most current head count for direct and shared service employees.

- **Operating Revenue – Issue Value $1.2 million for Spire East and $3.1 million for Spire West –** Staff has weather normalized as well as adjusted the ending operating revenues from Case No. GR-2021-0108 for rate switching, days, and annualization of the rate change that took effect on December 23, 2021. Staff's revenues include actual growth through May 31, 2022 that will be updated at true-up. Spire Missouri included the amount of their overall revenue requirement increase by rate class with some additional adjustments to the transportation class. While the revenue requirement amounts that Spire Missouri used are close to the overall revenue requirement increases in Staff's report & order accounting schedules in Case No. GR-2021-0108, they do not completely match.

- **Cash Working Capital Income Tax Lag – Issue Value $1.14 million for Spire East and $1.91 million for Spire West -** Staff has included a 365 day expense lag in its cash working capital schedule for federal and state income taxes per the Commission's Report & Order in Spire Missouri's last rate case. Spire Missouri is proposing a zero day lag.

There are other differences that exist between Staff and Spire Missouri's direct filings, however these other differences have lesser value than those listed and discussed above.

Q. Could it be possible that significant differences exist between Staff's revenue requirement and other parties to this case besides Spire Missouri?

A. Yes. The other parties who have different positions than those of Spire Missouri, and possibly Staff, will also file direct testimony concurrently with Staff's filing. Those differences will be reviewed and addressed in further rounds of testimony.

Q. Please describe the direct testimony Staff has filed for this current rate proceeding.

A. Each Commission Staff member has direct testimony that sponsors specific issues. The testimony provides an explanation of each specific area of concern or adjustment with Staff's recommendation. Schedule LMF-d2 attached to this testimony summarizes Staff's witnesses which contributed to Staff's direct cost of service and their associated area of responsibility.

Q. Please list the Staff witness and the issue for which they are responsible for which significant differences exist between Staff and Spire Missouri.

A. The Staff expert/witness for each significant difference is listed below:

Issue	**Staff Witness**
Return on Equity & Capital Structure	Dr. Seoung Joun Won
Non-Operating Overhead	Matthew R. Young
Payroll & Payroll Taxes	Jane C. Dhority
Revenue	Nancy L. Harris
CWC Income Expense Tax Lag	Lisa M. Ferguson

Q. On what date will Staff file its direct class cost of service and rate design testimony in this proceeding?

A. Staff's class cost of service and rate design testimony and associated schedules will be filed on September 9, 2022.

Q. As a part of this testimony, do you individually address any revenue requirement issues?

A. Yes. I address reporting requirements for the utility; non-labor distribution maintenance expense; compressed natural gas (CNG) investment, expense, and revenue; miscellaneous revenue; propane investment, inventory, revenue and expense; uncollectibles;

facilities transactions; energy efficiency, energy affordability, and red tag; meter replacement; amortization expense; accumulated deferred income tax (ADIT), excess accumulated deferred income taxes (TCJA & MO); current and deferred income tax expense and the cash working capital (CWC) expense lag for federal, state, and city income tax.

COMPRESSED NATURAL GAS (CNG) FUELING STATIONS

Q. What are CNG fueling stations?

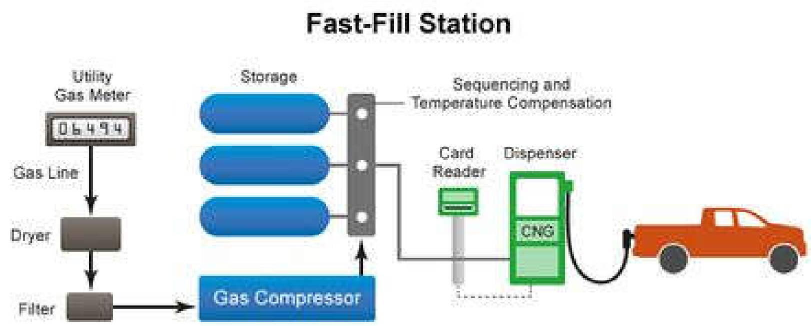
A. CNG fueling stations receive natural gas that passes through a natural gas utility meter (or inlet meter) from a local distribution company (LDC) such as Spire Missouri and then use special equipment that converts the natural gas into fuel for CNG compatible vehicles. A CNG fueling station generally consists of the following equipment: underground piping, a gas dryer, a compressor and a dispenser. More specialized CNG fueling stations utilize storage containers, sequencing and temperature controls, and a payment station.

Q. Are there different types of CNG fueling stations?

A. Yes. Generally there are three types of CNG fueling stations: fast-fill, time-fill and combination-fill.

Q How does a fast-fill CNG fueling station work?

A. A fast-fill station is designed to fill CNG vehicles in about the same time duration that it takes a standard gasoline pump to fill a gasoline combustion engine vehicle. A fast-fill station is customarily a metered customer of an LDC and receives natural gas at a very low pressure of approximately 95 pounds per square inch ("PSI"). A fast-fill station then converts the natural gas to CNG by drying and compressing the natural gas to very high pressures (approximately 3,000 PSI or more) and stores this CNG in specialized storage vessels. A CNG vehicle owner can fill a CNG compatible vehicle using a dispenser that regulates the temperature and compression of the CNG fuel to ensure that the vehicles tank is not overfilled. Typically a fast-fill pump is designed for public retail access and offers a credit card pay station that bills CNG vehicle customers through a gasoline gallon equivalent ("GGE") measurement. The diagram below depicts an example of a fast-fill CNG fueling station.[4] These diagrams are also attached to this testimony as Schedule LMF-d3.

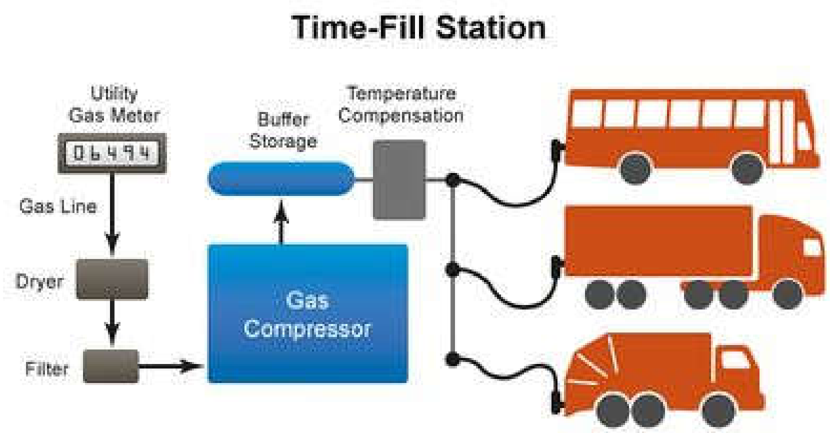


Q. Please describe a time-fill CNG fueling station.

A. A time-fill CNG fueling station fills CNG vehicles over a longer period of time, usually overnight when such vehicles are typically not in use. A time-fill CNG fueling station is typically designed to serve a fleet of CNG vehicles where this type of CNG station is placed at the fleet location and one dispenser is capable of filling multiple CNG vehicles simultaneously overnight. Time-fill stations are typically customers of an LDC that receive low pressure natural gas and perform compression services on their own. Time-fill stations have no storage tanks but they have large compressors from which vehicles are directly being filled. They operate at lower pressure than that of fast-time filling. Also, stations may have a buffer tank that prevents the compressor from turning on and off all the time. With less equipment needed, this type of fueling station is less expensive since it requires lower capital and maintenance cost. The time spent to fill a vehicle depends on the number of vehicles being

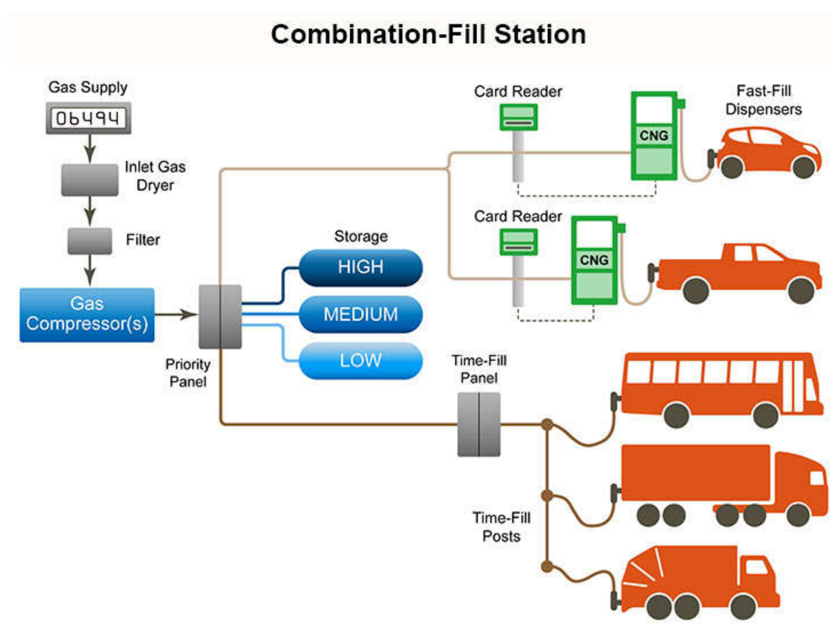
[4] U.S. Department of Energy, [Online] https://afdc.energy.gov/fuels/natural_gas_cng_stations.html.

fueled and the size of compressors. Vehicles with larger tanks need larger compressors. The diagram below depicts an example of a time-fill CNG fueling station.[5]



Q. Please describe a combination-fill CNG fueling station.

A. Combination-fill stations include both the fast-fill and time-fill components in one system. The vehicles connected to the time-fill posts are filled directly from the compressor, usually overnight. Vehicles at the fast-fill dispensers are typically filled from the storage vessels. The diagram below depicts an example of a combination-fill CNG fueling station.[6]



[5] Ibid.
[6] Ibid.

Q. What types of CNG fueling stations does Spire Missouri own?

A. Spire Missouri owns CNG fueling stations at three locations within its service territory. I have attached photos of these fueling stations as Schedule LMF-d4.

Spire West operates one fast-fill station to fill CNG vehicles which includes a single private hose "behind the fence" that is used for filling Grunsky[7] bottles at an operations center in St. Joseph, MO. At the St. Joseph CNG station, the fast-fill and time-fill operations share compression and drying equipment. The CNG station located in Spire West is a legacy Missouri Gas Energy (MGE) asset that Spire Missouri (formerly known as Laclede Gas Company) acquired as part of the merger that was approved by the Commission as part of Case No. GM-2013-0254.

In Spire East, there is one fast-fill only CNG station located at Lambert International Airport that was recently acquired from an unregulated affiliate, Spire CNG, Incorporated. This station was briefly addressed by Staff in Spire Missouri's prior rate case, Case No. GR-2021-0108.[8] Spire East also owns and operates a combination-fill CNG station that is located at an operations center in Shrewsbury, MO. At Spire Missouri's Shrewsbury location the fast-fill and time-fill operations share compression and drying equipment.[9]

Q. How does Spire Missouri operate and use the fast-fill stations?

A. Spire Missouri operates these fast-fill public access stations for purposes of selling CNG to the public and to fill some utility owned CNG vehicles. At all three locations,

[7] A Grunsky bottle is a metal cylinder container that along with additional equipment can be used to provide non-interrupted gas service to customers when repairs or replacements are performed. This process also prevents the need for the utility to assist some of its customers with re-lights for natural gas appliances that operate with pilot lights.
[8] Refer to Staff's Revenue Requirement Cost of Service Report, page 29.
[9] Staff has submitted data requests seeking to obtain additional specific information from Spire Missouri regarding its CNG activities, operations and accounting of costs associated with each CNG operation.

Lambert, Shrewsbury and St. Joseph the general public can access the fast-fill locations 24/7 to fill their CNG compatible vehicles and these customers can pay using a variety of credit card options. Spire Missouri has also explained to Staff that utility operations personnel may also fill Spire Missouri CNG vehicles at each of these three fast-fill locations as needed.

In the fast-fill operations at all three locations, Spire Missouri accepts natural gas that comes into each facility at an inlet meter. The gas goes through a drying process in order to remove all moisture from the gas and then that gas is compressed from 95 psi to very high pressure levels, approximately 3,000 psi and is stored in special compression storage tanks. The compression, drying, and storage equipment are located on-site at the fueling stations. In the fast-fill scenario, the compressed natural gas flows into a storage container on-site so that the CNG is available on demand for "quick" filling of CNG vehicles. The CNG is then distributed through a meter that measures the CNG that the customer has purchased, similar to a gasoline pump.

Q. How does Spire Missouri operate and use the time-fill stations?

A. At both the Shrewsbury and St. Joseph locations Spire Missouri keeps its time-fill operations "behind the fence" in a location that is not accessible to the general public. At Shrewsbury, Spire Missouri can fill 64 CNG vehicles simultaneously behind the fence through its time-fill connections. St. Joseph's behind the fence time-fill connection is not used to fill Spire Missouri CNG vehicles, but instead is only used to fill Grunsky bottles.

As part of its time-fill operations at Shrewsbury, Spire Missouri takes low pressure natural gas at its inlet customer meter. The natural gas then goes through a drying process in order to remove all moisture from the gas and then that gas is compressed and used to fill multiple Spire Missouri CNG vehicles simultaneously overnight. As part of its time-fill operations Spire Missouri does not require special compression storage tanks to fill their CNG vehicles, storage bottles and containers. Instead, Spire Missouri CNG vehicles, bottles and containers are filled directly from the compression units. Spire Missouri also uses the behind the fence time-fill pumps at Shrewsbury to fill bottles and large trailer sized containers that allow Spire Missouri to connect to customer homes and businesses in order to keep those customers supplied with natural gas service during times when repairs or replacements might otherwise cause customers to be without natural gas service. St. Joseph's time-fill operations operate similarly with the exception that no connectors exist to fill CNG vehicles, instead connectors only allow for the time-fill of Grunsky bottles that are also used to keep customers in service during time periods when repair and replacement work is being performed.

Q. How many CNG vehicles does Spire Missouri have?

A. Spire Missouri ** [redacted] **

It is Staff's understanding that almost all major vehicle manufacturers have discontinued the production of virtually all small and mid-size CNG vehicles in favor of electric vehicle production.[10] It is also increasingly difficult to find after-market CNG conversion kits that would allow small and mid-size vehicles such as trucks and vans that are typically used by

[10] Large CNG semi-trucks and other large CNG vehicles such trash trucks are still manufactured today.

Spire Missouri. Spire Missouri has indicated to Staff in meetings that its CNG fleet will continue to decline as CNG vehicles are retired and that they likely will not be replaced by new CNG vehicles. Staff is seeking information to determine if Spire Missouri's behind the fence CNG operations and CNG vehicle fleet are cost justified. Staff will address this consideration in its rebuttal testimony. Given the anticipated retirement of CNG vehicles, at some point in time Spire Missouri's CNG fleet will become so small that the costs associated with continuing behind the fence CNG operations may no longer be cost-justified, if not already.[11]

Q. What is the price of CNG at the stations and how does Spire Missouri determine the cost of that service to charge?

A. It is Staff's understanding that Spire Missouri is charging $2.15 per GGE at all of the CNG fueling stations for which there is third party retail access. This price has not fluctuated regardless of the cost fluctuations of natural gas that have occurred. Spire Missouri personnel has explained to Staff that the Company has not performed an economic analysis to ensure that the price of the fuel is sufficient to cover all costs of the stations. Spire Missouri utilizes a "rule of thumb" where the costs of running the CNG stations are considered the "floor" of the price, but that the price is also determined by keeping in line with other CNG alternative fuel providers in the industry. The operational costs of the CNG stations themselves consist of variable and fixed cost components.

Q. When did Staff first become aware that Spire Missouri, owned and operated these CNG fueling stations?

[11] Staff would expect that this situation is similarly affecting other company businesses and as their CNG vehicles are retired they may be replacing them with available electric powered models if they have the financial resources to do so.

A. In the last Spire Missouri rate case, Case No. GR-2021-0108, Staff discovered from Spire's 10K filing to the Securities and Exchange Commission (SEC) dated November 18, 2020, that Spire Missouri had purchased impaired CNG facility assets located at Lambert from an unregulated affiliate, Spire CNG, Inc. (Spire CNG). That transaction occurred in December 2020. Spire CNG was ending its operations and disposing all of its CNG assets. At the time of the prior rate case, it was Staff's understanding from prior rate case review that the CNG station was being utilized **only** for utility operations. Spire Missouri explained at that time that it would be more economical for Spire Missouri to purchase the facility than to purchase land and construct a new CNG station near its Berkeley operating facilities. Staff was unaware at that time that Spire Missouri was planning to convert natural gas into CNG product and then sell CNG directly to the public from this Lambert CNG station that it had acquired from the affiliate, or for that matter at any other CNG facility that it owned and operated.

In this current rate case, Staff conducted meetings with Spire Missouri and discovered that Spire Missouri owns three public access CNG fueling stations and these CNG stations are being utilized to convert natural gas into CNG by performing drying, compression and storage services in order to sell CNG directly to third parties and the general public, without any authorization from the Commission.

Q. Do any of Spire Missouri's tariffs contemplate CNG in any manner?

A. Yes. Spire West's current tariffs contemplate CNG, but they are only structured in a manner that contemplates a scenario in which natural gas is provided by Spire Missouri to an existing customer who themselves dry and compress the natural gas into a CNG product and then use the CNG or sells it. Spire East has no such current tariff, even though Staff is aware that Spire East currently sells natural gas to customers such as Gain Clean Fuel who in turn performs drying, compression and storage activities for making CNG sales to large fleets such as Anheuser Busch InBev and Waste Management and to other members of the general public.

Q. What CNG related revenue, expense and investment was included in rates that were established by the Commission in Spire Missouri's last rate case?

A. Rates in Spire Missouri East and West included all investment costs and all gas costs and operating expenses pertaining to all aspects of Spire Missouri time-fill and fast-fill operations at all three locations. Spire Missouri recorded all investment costs and all expense in above the line accounts. However, no revenue collected from the general public for the sale of CNG product at fast-fill locations were included in rates. Spire Missouri records the revenue in a below-the-line non-utility revenue account. There were no adjustments proposed in the last rate case to remove expense or investment or to include the revenue as part of rates that were established by the Commission.

Q. You mentioned above that Spire Missouri's current tariffs only contemplate the sale of natural gas to third parties, who then transform natural gas into CNG and sell the CNG to customers, in the scenario discussed above. Is there a problem with Spire Missouri's current tariff regarding parties that purchase natural gas for its own compression and use/sale?

A. Yes. For many years, Spire East had a tariff called the Vehicular Fuel (VF) tariff that contemplated the sale of natural gas to customers that would compress and then use that CNG in its operations for sale. As indicated earlier in this testimony, Gain Clean Fuel (St. Louis) is one such customer of Spire East for this purpose. In Spire Missouri's last rate proceeding, when the parties were making more strides toward consistent tariffs for Spire East and Spire West, the VF tariff was discontinued for Spire East, however there was no inclusion of the above activity within the Large General Service (LGS) and Small General Service (SGS) tariffs that, according to Spire Missouri, are currently intended to cover that activity. There is a small mention of that activity (selling natural gas to customers who perform their own compression services) in the SGS, LGS and Large Volume (LV) tariffs for Spire West. Staff believes that there should either continue to be a separate tariff, such as the VF tariff for both East and West, or inclusion of the same CNG language regarding CNG that is in Spire West's tariff, in Spire East's tariffs, for the scenario of sales of natural gas to customers who themselves take natural gas and convert to CNG and then use or sell that CNG.

Q. As part of your review of Spire Missouri's books and records in the current case, has Spire Missouri's accounting of these revenues, expense and investment costs changed since rates were established by the Commission in the prior rate case?

A. No. Spire Missouri continues to record all investment and expense associated with its CNG operations above the line and continues to record all revenue received for the public sale of CNG in a below the line account.

Q. What is Staff's position with regard to the inclusion in rates for all revenues, expense and investment costs related to owning and operating CNG fueling stations that are **located behind the fence** and that are used for regulated natural gas operations?

A. It is Staff's position that Spire Missouri's behind the fence (not for public access) CNG operations may be recoverable in rates as long as costs to own and operate those facilities are cost-justified (benefits support the cost levels incurred through cost benefit analysis) and if all costs are reasonable, prudently incurred and properly accounted for by Spire Missouri. Again, it is Staff's understanding that all behind the fence equipment is used only for fueling Spire Missouri's current fleet of CNG compatible vehicles and to fill special bottles and large trailer containers that are used to provide natural gas service to customers when repairs and replacement work would cause customer outages. ** [redacted] ** Staff is also concerned that Spire Missouri has performed no allocation or accounting of any costs associated with making unregulated CNG sales in comparison to utility usage of CNG at any of the locations. ** [redacted] ** Staff has submitted several data requests regarding these questions and to address other concerns. The responses that have been received require further discovery and explanation from Spire Missouri. There are also some outstanding responses to some of Staff's data requests that were not available at the time of preparation of this direct testimony.

Q. Is Staff currently able to assess whether or not the behind the fence CNG activities are cost justified?

A. No. It is unclear at this point how much investment, gas costs and other CNG fuel station related expense pertains to Spire Missouri's behind the fence operations. Staff has submitted data requests in order to gain a better understanding of how these costs are currently accounted for. Again, Staff also has concerns about whether these operations are cost-justified or in the alternative if not, whether any operational needs justify the costs that are incurred.

Q. What is Staff's position with regard to the inclusion in rates for all revenues, expense and investment costs related to owning and operating **public access fast-fill** CNG fueling stations that are used for making sales of CNG product to the general public?

A. It is Staff's position that Spire Missouri's sales of CNG to the general public at its fast-fill CNG operations do not represent a rate regulated service. Staff recommends that all amounts of revenue, natural gas costs, other operating expense and investment pertaining to these activities should be excluded from the Commission's establishment of rates in this rate proceeding. These operations should be conducted as a non-utility service. However, Spire Missouri also uses the fast-fill CNG operations to fill utility owned CNG vehicles. The public access fast-fill stations can be utilized by utility employees for utility operations, however they must use a fuel card for "purchase" of the CNG gas similar to that of a non-related third party. Due to this, the fuel expense associated with filling utility CNG vehicles should and is included in Staff's cost of service calculation, in this rate case. Spire Missouri has explained in meetings to Staff that when CNG is purchased by an employee at a public access fast-fill station that the CNG fuel is recorded as fuel expense. The cost of the natural gas itself, prior to conversion to CNG, is treated as "company use" and is recorded in multiple expense accounts. Since this fast-fill equipment is also used to make sales to the general public, all investment and other expenses should be reflected below the line as non-utility operations.

Q. What adjustments has Staff proposed as part of this rate case?

A. Staff has removed all CNG investment and removed an amount of expense to account for operation and maintenance costs, the natural gas costs and the Lambert lease and royalties' expenses from the cost of service. This amount is not actual, but due to lack of information to be able to determine the exact amounts and accounts for which these costs are recorded, Staff has utilized this placeholder. Staff intends to address this issue further in its rebuttal testimony after additional information becomes available.

Q. Did Spire Missouri propose ratemaking treatment and tariff language for CNG fueling stations in their last rate proceeding, GR-2021-0108, or the current case, GR-2022-0179?

A. No. Spire Missouri filed no direct testimony in its prior rate case supporting the need to purchase distressed CNG assets from an affiliate nor did it propose any tariff modifications to address the activities that it knew would be conducted once acquired. Spire Missouri indicated to Staff in a meeting that it believes they indirectly received approval for the CNG stations to become a regulated activity in Case No. GR-2021-0108, even though Spire Missouri provided no testimony that addressed the CNG issue. In fact, Spire Missouri continues to display a disturbing trend by disregarding the need to file testimony to seek Commission approval prior to conducting transactions on behalf of the regulated utility. Besides the purchase of distressed assets from an unregulated affiliate and intermingling investment and expense between the utility and non-utility operations, other examples of this pattern of actions that ignore the need to seek approval from the Commission occurred with the attempts to record the propane cavern assets below the line and transfer them to an affiliate for revenue production, the sale of Forest Park facility assets, the sale of utility assets to Saint Louis University (SLU) and the wholesale meter change out that is currently taking place and is discussed further below.[12] Staff has reason to believe that these concerns are starting at the top of organizational management. In an earnings call on August 4, 2022, Suzanne Sitherwood the President and Chief Executive Officer of Spire Inc. states:

> In addition, the next 10-years requires our industry as a whole to think differently about service. As you know, I've been in the natural gas business more than 40-years. And if there's something I'm committed to above all else, it's changing the paradigm around the concept of a ratepayer. Ratepayer is a word and a mind-set that the relet of an industry that believed it was in the regulated utility business. We are not. We are in the business of providing essential energy to people. And while the businesses we operate work inside a regulated structure, the service we provide to people is not meant to be encumbered with broad and restrictive customer classes like residential or commercial and industrial.

Q. Has Spire Missouri conducted its CNG operations such that the CNG operations are kept separate and apart from Spire Missouri's other regulated gas plant?

A. No. The situation regarding CNG is complex and aspects of regulated and unregulated activity are interwoven. It is hard to peel apart the layers when the Company embarks, with the mindset that they are unregulated, on a project that includes both the utility and its unregulated affiliates. Staff has taken the position it has in this testimony due to the fact that Staff has had several meetings with Company and several rounds of discovery and multiple concerns remain regarding the CNG fueling stations and protection of customer rates, some of which includes the following:

(1) Staff maintains that the public access CNG stations are not a regulated activity subject to the Commission's jurisdiction,

(2) the impact of public access CNG fueling station activity for sale to third parties is inseparable from that of Company use for many aspects of the cost of service that affects levels

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[12] Propane – Case No. GR-2013-0171; Forest Park - Case No. GR-2017-0215; Asset Sale to SLU – Case No. GM-2020-0292; Meter Replacement began in Case No. GR-2021-0108.

of expense included in base rates due to the inclusion of natural gas costs, royalties and leases for the public fast-fill pumps and,

(3) operating its current fleet of CNG vehicles along with behind the fence CNG stations may not be cost-justified. At the time of filing this direct testimony, Staff has data requests that have not yet been answered or that have been answered but only after internal testimony deadlines that prevents Staff from conducting an adequate review of the responses. While Staff understands from discussions with Spire Missouri that there may be a portion of the investment and expense associated with the behind the fence CNG stations that could be properly included in base rates due to its direct use in utility operations; it is uncertain at this time what portion of investment and expense that would be. Due to this uncertainty, Staff has removed all CNG investment and has imputed an adjustment to remove other CNG associated expense from Spire Missouri's cost of service.

Q. Do Spire Missouri's traditional natural gas customers have a choice in their natural gas provider?

A. No.

Q. Do Spire Missouri's CNG customers have a choice in the provider of CNG?

A. Yes.

Q. Could a competitor to Spire Missouri enter Spire Missouri's service territory and provide competing traditional natural gas service?

A. No.

Q. Could a competitor to Spire Missouri purchase CNG conversion equipment and provide CNG service to customers in the Spire Missouri area?

A. Yes.

Q. Does converting regular natural gas to CNG require Spire to perform some operation to convert natural gas to CNG?

A. Yes. As described above, the natural gas must be dried and compressed and in some instances stored prior to use whereas natural gas itself can be used without modification.

Q. Did Spire CNG, Inc. operate as a regulated monopoly under any privilege, license, or franchise granted by the State of Missouri or by any political subdivision of the State of Missouri?

A. No.

Q. Is Staff aware of any other entities operating CNG filling stations?

A. Yes.

Q. Based on your understanding, as stated earlier, does Staff believe that Spire Missouri's traditional natural gas customers are customers of a regulated monopoly?

A. Yes.

Q. Based on your understanding, as stated earlier, does Staff believe that Spire Missouri's CNG customers are customers of a monopoly provider?

A. No.

Q. Are those other non-regulated entities operating as a regulated monopoly under any privilege, license, or franchise granted by the State of Missouri by any political subdivision of the State of Missouri, as far as Staff is aware?

A. No.

Q. Based on your understanding of the above, does Staff believe that Spire Missouri's equipment used to convert natural gas to CNG for the purpose of selling CNG directly to third parties at its public access fast-fill station is "gas plant" subject to the Commission's jurisdiction?

A. No. Based upon legal guidance provided by Staff Counsel, it is Staff's position that sale of CNG is not a regulated activity and is not currently authorized by the Commission.

Q. If the Commission determines that the sale of CNG to the general public is a regulated activity, does Staff take any other position for the Commission to consider?

A. Yes. Currently Spire Missouri does not record any of the revenues it receives for the sale of CNG to the public in an above the line account. If the Commission authorizes the sale of CNG to the general public as part of this rate case, it should also order Spire Missouri to record the revenues received for CNG sales, to the general public, above the line going forward for inclusion in the determination of rates. If this is the option that the Commission chooses then there will be multiple tariff considerations that would need to be addressed by Staff's tariff and rate design unit in order to set rates and develop rules and regulations. Finally, Spire Missouri should also be required to provide cost-justification to support the inclusion of all of the revenue, expense and investment for public access CNG stations in customer rates.

ULTRASONIC METER INSTALLATIONS

Q. Please explain how the situation with Spire Missouri's meters has evolved.

A. Spire Missouri has utilized diaphragm meters for many years for its utility operations. As part of Case No. GR-2017-0215, on July 1, 2017 Spire East (formerly known as Laclede Gas Company) purchased 700,262 meter interface units (or AMR modules) that were previously being leased from then owner Landis+Gyr. Staff supported Spire East's decision to purchase these meter interface units as part of that rate case as the purchase and renegotiation of that contract was supported by a cost benefit analysis for which some cost savings was demonstrated for customers.

Q. At the time of Case No. GR-2017-0215 and GR-2017-0216, did Spire Missouri discuss plans for a future wholesale meter change out that would replace the diaphragm meters and meter interface units that had just been purchased?

A. No.

Q. When did Spire Missouri first notify Staff of its intention to utilize ultrasonic meter infrastructure?

A. As far as I am aware, Spire Missouri witness Scott A. Weitzel first discusses this in a short piece of testimony in Case No. GR-2021-0108. Specifically on page 9, line 5-6 of his direct testimony Mr. Weitzel states, "Spire is installing advanced metering technology to improve metering quality and provide enhanced safety." Spire Missouri met with certain Staff members on June 9, 2021 to discuss meter replacement and a number of other topics. However from what Staff understands today, that discussion did not lay out in detail plans and strategies for how Spire Missouri would officially perform a wholesale meter replacement. Spire Missouri also has no direct testimony regarding meter replacement, strategies, plans, costs or otherwise in Case No. GR-2021-0108 nor the current rate case, GR-2022-0179.

Q. Did Spire Missouri provide a formal meter strategy to Staff in its meeting on June 9, 2021?

A. No. The Company provided a presentation during this meeting and it occurred after Staff had already filed its direct "case in chief" for the rate proceeding on May 12, 2021. This presentation, provided to Staff on June 9, 2021, attached to this testimony as Schedule LMF-d5 provides only a general description of the Spire Missouri's strategy regarding the change out of the meters and then provides multiple benefits of installing the ultrasonic meters. The "transition" was premised on the ultrasonic meters being installed when, (a) "a meter is scheduled for replacement," (b) "the meter is sample eligible and it can be replaced when the customer service is already interrupted," (c) "meter is replaced as part of main or service replacement project," or (d) "new installations." On this same presentation slide, the Company notates, "Over 60% of Missouri meters are more than 10 years old, and must be replaced per Commission rules (20 CSR 4240-10.030(19)). Commission Rule 20 CSR 4240-10030(19)) states:

> (19) Unless otherwise ordered by the commission, each gas service meter installed shall be periodically removed, inspected and tested at least once every one hundred twenty (120) months, or as often as the results obtained may warrant to insure compliance with the provisions of section (18) of this rule.

Nowhere in this rule does it state that the Commission has a requirement that a meter be replaced after it has been in service for 10 years or more. The rule states that the meter is to be removed, inspected, and tested. Section (18) of this rule, which is referenced as part of rule section (19) also does not state this:

> (18) No gas service meter shall be allowed in service which has incorrect gear ratio or dial train or is in any way mechanically defective or shows an error in measurement in excess of two percent (2%) when passing gas at the rate of six (6) cubic feet per hour per rated light capacity. When adjustment is necessary, the adjustment should be made to within at least one percent (1%) of correct registration. Tests for accuracy shall be made with a suitable meter prover, at least two (2) consecutive test runs being made which agree within one half (1/2) of one percent (1%).

Spire Missouri did not perform a cost benefit analysis nor did it perform the process of Requests for Proposals (RFP), to determine the best cost supplier[13]. At this point, Staff notes

[13] Spire Missouri response to OPC Data Request 8551.

that Spire Missouri had already began its change out of diaphragm meters to ultrasonic meters in June 2020 in its Spire Missouri West territory. Prior to the 2021 rate case or even during the case, Spire Missouri did not provide evidence of its need for the meter replacement, permanent expiration of contracts regarding the Landis+Gyr meter device contracts in Spire East, the labor and non-labor resources needed for the replacement, the knowledge required for installation and use of the ultrasonic meters, the timing of replacement in the service territories, cost savings due to meter replacement, etc. Spire Missouri did mention that their "primary supplier is discontinuing manufacture of residential or small commercial diaphragm meters in 2021."

Q. What was ultimately determined by the Commission for inclusion of the meter replacement costs incurred since the time of Spire Missouri's 2017 rate case and May 31, 2021 (true-up cutoff date) in Case No. GR-2021-0108?

Q. Staff recommended a disallowance of 26% of the cost of the ultrasonic meters in case GR-2021-0108. The Commission Report & Order decision states as follows:

> The Commission finds that Spire Missouri's switch to ultrasonic meters for its replacement program is justified, except for the 26% of installations as alleged by Staff. Spire Missouri did not submit a proposal to replace its entire fleet of meters, so meters should be replaced on an as-needed basis and consistent with Commission meter testing sampling rules. The Commission finds that recovery for the cost of replacement of meters replaced on an as-needed basis, is appropriate in instances where: the service was already disconnected; the existing meter needs replacement; and the alternative is a new diaphragm meter…As to the quarterly reports requested by Staff, and supported by the OPC and Spire Missouri – the Commission agrees with the parties and will order the non-contested quarterly reports.

Q. Has Spire Missouri "submitted a proposal to replace its entire fleet of meters since the issuance of the Report & Order in Case No. GR-2021-0108?

A. Not officially. Spire Missouri has held two technical discussions during this current rate proceeding regarding the installation of ultrasonic meters, but those meetings were more a discussion of what has been completed up to this point and a general explanation regarding a problem with meter investment still remaining on the books and records of the company when those meters are in fact no longer in-service in the field. For more information on this topic, please reference the direct testimony of Staff witness Sarah L.K. Lange. In fact, it appears that Spire Missouri does not know what amount their rate base may be overstated by and for how long that rate base has been overstated.

Q. Does the FERC USOA require gas utilities to maintain specific information regarding meters?

A. Yes. Specifically for FERC account 381, Meters, the USOA states the following:

> A. This account shall include the cost installed of meters or devices and appurtenances thereto, for use in measuring gas delivered to users, whether actually in service or held in reserve.
>
> B. When a meter is permanently retired from service, the installed cost included herein shall be credited to this account.
>
> C. The records of meters shall be so kept that the utility can furnish information as to the number of meters of each type and capacity in service and in reserve as well as the location of each meter.

The same language applies to FERC account 382, Meter installations, however in that account rather than meters being referred to, it refers to the cost of labor and materials used in connection with installation of customer meters. It appears these rules have not been met.

Q. Has Staff attempted to quantify the value of the difference between the amount of meter and meter associated costs that are not consistent between Spire Missouri's books and those assets in the field?

A. Not at this time. Staff will need to determine that amount and will attempt to do so in a further round of testimony.

Q. How many ultrasonic meters have currently been installed in the Spire Missouri service territory?

A. As of July 2022, approximately 107,288 ultrasonic meters have been installed in Spire Missouri West and approximately 68,175 meters in Spire Missouri East.

Q. What is Spire Missouri's general policy and procedure for meter replacement?

A. According to the response to Staff Data Request No. 0283, "The meter replacement practices, past and present, are summarized in the Missouri meter strategy attached to Data Request 0282." The response to Staff Data Request No. 0282 has been attached to this testimony as Schedule LMF-d6.

Q. What is the current status of Spire Missouri's meter replacement strategy?

A. As stated above, Spire West began replacing meters in June 2020 in the Spire West territory and also began meter replacement in the Spire East territory on June 29, 2021. As part of the response to Staff Data Request No. 0282, referenced above, Spire Missouri relays that it has no final strategy as it is basing its final strategy on continuous discussions with Staff and the parties, rather than having performed this step prior to beginning replacement. The chart below shows a current proposal for different scenarios, conservative to aggressive, for the meter change replacement.

Spire MO Region	Total Residential (250 Class Meters)	Ultrasonic Meters Installed thru 7/19/2022	Remaining Residential Diaphragm Meters	Forecasted Replacement Cadence Monthly		Inventory Balances (3-6 Months)		Est. Installation Cost per Meter (Meter + Labor)	
				Conservative	Aggressive	Conservative	Aggressive	Opport	Target
West	538,555	106,974	431,581	4,000	6,000	18,000	36,000	$197	$278
East	622,774	67,590	555,184	8,000	10,000	30,000	60,000	$197	$278

Spire Missouri still does not have a formal strategy regarding its meter replacement program and there are several areas of risk Spire Missouri is attempting to address. Since its initial meeting with Staff in June 2021, Spire Missouri has met with Staff twice to discuss their strategy and plans regarding meter replacement, as the meters are being replaced. The first meeting created many questions for which Staff issued further discovery in this case.

Q. Is Spire Missouri currently completing its meter replacement in such a way as to follow guidance provided in the Commission's Report & Order in Case No. GR-2021-0108 so as to receive full cost recovery?

A. Not as far as Staff is aware. Based upon Spire Missouri's most recent presentations and responses to Staff discovery in this rate case, it appears Spire Missouri has remained status quo regarding its method and timing of meter replacement. Staff also submitted a data request in order to obtain the number of meters and the cost of that investment separated into two buckets, one that provides for meters that were replaced under the Commission guidance and those that were not, the response is attached to this testimony as Schedule LMF-d7. The response does not give a clear indication of what meters followed Commission guidance.

Q. Does Staff propose a disallowance of meter costs that have been proposed for recovery in this case?

A. Yes. Staff witness Claire M. Eubanks, PE discusses and explains Staff's proposed 7.50% and 8.90% disallowance adjustments for ultrasonic meters and meter installations, respectively, in her direct testimony. I am addressing the revenue requirement impact of this adjustment and also providing an account of what of has transpired with Spire Missouri's meter replacement activity.

Q. What has been Staff's experience with other utilities when they are considering a widespread meter replacement program?

A. Traditionally, when other utilities have decided to begin a complicated, costly, and lengthy meter replacement program they have met with Staff and discussed at length all aspects of the project. Spire Missouri decided to embark on this meter replacement program without details on what requirements would be necessary to be met in order to seek full cost recovery of the program in rates. One of the main reasons Spire Missouri began the meter change out was to address a permanently expiring contract for Landis+Gyr for which Spire Missouri purchased modules from only five years ago. However the current plan in the chart shown earlier in this testimony demonstrates that even with the aggressive approach to meter replacement, Spire Missouri will not see full replacement of the meters in Spire East territory until almost 2 years after the contract expires and the modules are no longer supported. The response to Staff Data Request No. 0282 also states that as the date for expiration of the Landis+Gyr contract draws closer, Spire Missouri plans to consider utilizing outside contractors for use in meter replacement. If the expiring contract and the lack of access to indoor meters were an issue in Spire East, as has been explained, then the proper planning would have been to determine if the modules purchased in 2017 would be supportable in the future and to assess what direction the industry was moving regarding diaphragm meters. Also, it seems that meter replacement would have made more sense if it had begun in the Spire East territory. Instead Spire West was started almost an entire year before Spire East. This may cause additional cost, at a minimum, for the additional outside contractors to replace meters prior to expiration of the Landis+Gyr contract. Spire Missouri itself has stated in its meter presentations to Staff that there is a possibility of increases in resources needed to complete the replacement.

All of these items would have and should have been addressed as part of a proper and organized meter replacement planning process. In addition, Spire Missouri could have also taken an additional step to discuss its plans with the Staff and Office of the Public Counsel ("OPC") prior to any meters actually being changed.

Q. Don't utilities that employ advanced metering infrastructure, such as ultrasonic meters, experience some cost savings due to the wireless abilities of the meters themselves, such as less truck rolls for disconnecting and reconnecting meters?

A. Yes. Typically there is cost savings in some manner. Cost savings has been monitored and reflected in utility rates for at least one other investor owned utility in Missouri that is currently in the process of performing a wholesale meter replacement program.

Q. Has Spire Missouri experienced any cost savings from the meter replacement?

A. Spire Missouri relayed to Staff that it does not track exact cost savings from installing ultrasonic meters. Spire Missouri is aware that employee's time has been required to investigate issues caused by having two devices (a diaphragm meter and a communication device) such as meter reading issues, etc. That time, or internal labor cost, has been for investigating issues by back office employees and field employees. The estimated cost savings provided by Spire Missouri at this point relates to labor costs for which that labor would more than likely be deployed to another area of need within Spire Missouri's operations, if not for working on these issues. As far as I am aware, no employees have been let go due to the meter replacement; so no true labor cost savings have been achieved by the replacements and furthermore Spire Missouri has not determined whether non-labor savings has occurred.

<u>NON-OPERATING REVENUE</u>

Late Fees and Reconnect/Disconnect Revenue

Q. What has Staff included in the cost of service for late fee and reconnect/disconnect revenue?

A. Due to the interrelationship of late fee, reconnect/disconnect revenue and uncollectibles, Staff has included the twelve months ended May 31, 2022 in the cost of service to reflect the appropriate level of late fee and reconnect/disconnect revenue without inclusion of any anomalies due to the COVID-19 pandemic.

Oil, Gas Property, and Other Revenue

Q. What has Staff included in the cost of service for oil, gas property rental revenue, and other revenue and how does this differ from the level requested by Spire Missouri?

A. Staff normalized this revenue over a five year period for Spire East and accepted the amended test year for Spire West. Spire East has several different miscellaneous revenue streams that Spire West does not have and the levels of that revenue have fluctuated over time. Spire Missouri did not propose an adjustment.

<u>UNCOLLECTIBLES</u>

Q. What level of uncollectibles has Staff included in the cost of service?

A. Staff has included the net write-offs for the twelve months ending May 31, 2022, to reflect the appropriate level of uncollectible costs without inclusion of any anomalies due to the COVID-19 pandemic.

FACILITIES TRANSACTIONS

Q. Please discuss the facilities transactions that have occurred since Spire Missouri's last rate proceeding.

A. During the time period since Spire Missouri's last rate proceeding, the Company has had the following changes in its facilities related to operations:

- Spire West – The "Old Republic" property was a storage facility in Republic, MO that was sold May 20, 2022
- Spire East – The "Carrie Anne Circle" property in Poplar Bluff, MO consisted of land only that had been purchased for utility use for a future facility that was never built. The land was sold on June 13, 2022
- Spire East – The Company had a regional field operations service center located on Broadway Street in Poplar Bluff, MO. This facility was leased until June 30, 2022 when Spire Missouri purchased a facility in Poplar Bluff located on Westwood Street.
- Spire East – a new facility was leased to enclose the new meter shop at Carr Lane in Shrewsbury, MO that replaced the old meter facility located on Gravois in south St. Louis City. The move occurred in February 2022 and the old meter facility was listed for sale that same month. ** [redacted] **
- Spire West – The KC Central parking lot was previously leased but was purchased in January 2022.
- Spire East – The facility located on Progress Drive in Farmington, MO was previously leased and was purchased in September 2021.

Since Staff has updated its cost of service through May 31, 2022; the purchases of new facilities and sales of facilities prior to that time period have been added or excluded from the plant in service and depreciation reserve balances as of that date. Staff witness Paul K. Amenthor has removed expired or expiring leases as part of his direct testimony. The "Old Republic" property was recorded as non-utility and thus, no adjustment was required. However, Staff did propose an adjustment to remove the property that was sold at Carrie Anne Circle as that property was sold subsequent to May 31, 2022. Staff also proposed an adjustment to remove the old meter shop facility on Gravois as it should be considered non-utility plant or plant held for future use until it is sold. Any property transactions that occurred subsequent to May 31, 2022 will be included in Staff's plant-in service and accumulated depreciation reserve balances as of the true-up cutoff in this case and these separate adjustments will no longer be needed. Spire Missouri will no longer incur property tax for the sold properties, but the new locations will have associated Operations & Maintenance Expenses ("O&M"). Staff did not propose to remove any O&M associated with the facilities as the new locations are assumed to utilize that same O&M.

<u>PROPANE CAVERN</u>

Propane Investment

Q. Please summarize the history surrounding Spire East's propane cavern.

A. During Case No. GR-2010-0171, Spire East (Laclede Gas Company at that time) had removed revenue associated with storage at the propane cavern below the line as the Company had planned to sell the propane asset to an affiliate at net book value. At that time, the asset was resource for serving regulated customers when meeting peak demand. Also, the sale of the asset at net book value to an affiliate would not have been an arms-length transaction that would have benefitted the utility and its customers. In 2011, Spire East then proposed to move the investment and depreciation reserve associated with its propane cavern and other propane equipment below-the-line for accounting purposes. Staff opposed this decision and the associated ratemaking treatment in the Company's subsequent rate case, Case No. GR-2013-0171. Staff's position was and still is that the propane cavern and related equipment represent valuable assets to protect the Company and its ratepayers against extremely cold winters that are occasionally experienced. In addition, if any revenue opportunities present themselves by utilizing the propane cavern, that should be to the benefit of the utility and its customers.

Q. Was a stipulation & agreement agreed to for disposition of the issue in Case No. GR-2013-0171?

A. Yes. As part of the resolution of the case, section 14 of the *Stipulation and Agreement* addressed the propane related issues as follows:

> The Parties agree that Laclede's propane cavern and associated equipment and any associated revenues, expenses and investment shall be accounted for "above the line" (meaning that it shall be included in the regulated cost of service calculation) for ratemaking purposes. Revenues shall include, but not be limited to; funds received for use of the propane cavern and associated equipment in any manner whatsoever and also all funds received from the sale of propane inventory. Such accounting treatment shall be without prejudice to the rights of any Party to assert in subsequent rate case proceedings whatever position they believe is appropriate regarding the proper regulatory treatment of propane related issues. As part of the settlement of this rate case proceeding, if Laclede seeks different regulatory treatment than as set forth above for Laclede's propane cavern and associated equipment, including all associated revenues, expense and investment prior to its next rate case it agrees to file a request before the MPSC for approval of its proposed treatment, provided that as part of its request for approval Laclede may also seek a Commission determination that its intended treatment may be implemented without further action by the Commission. At the time it makes its filing for different regulatory treatment, Laclede Gas Company will provide a study and all financial and operation justification for the determination and proposed change to the regulatory treatment compared to other alternatives it considered (e.g. reduction of other capacity and peaking supply contracts). Such study shall include related impacts on Laclede Gas Company's cost of

> service (including gas costs for its customers). All parties agree that this agreement does not have any precedential value in any current or future case or to any other instance where Laclede may seek to dispose of utility assets that it believes are no longer used and useful for the provision of utility service.

Q. Since the 2013 rate case, have the terms of the stipulation continued for subsequent rate cases?

A. Yes. The stipulation from the 2013 case was continued in the GR-2017-0215 and GR-2021-0108 rate cases. The crux of the agreement was that if Spire East had any changes associated with the regulated treatment of the propane investment, revenue and expense; that it was to propose that treatment to the Commission during a rate case or in between rate cases. Spire East included language in testimony and proposed retirement of some of its propane assets in Case No. GR-2021-0108. Staff proposed adjustment to keep those assets above the line with the regulated utility.

Q. Did Spire Missouri include discussion of the investment, revenue or expense associated with the propane cavern in this current rate case?

A. No. There has been no testimony regarding the propane assets. Staff has verified that there are some propane cavern assets and associated equipment currently recorded above-the-line as of May 31, 2022. Staff did discover that Spire East has again retired assets associated with the propane cavern in April 2022 through a spreadsheet attachment as part of the response to Staff Data Request No. 0156. Staff has proposed an adjustment to move the propane assets back above the line. Staff will also confirm that this treatment is maintained through September 30, 2022, the true-up cutoff established by the Commission in this rate proceeding.

Q. Does Staff have concern regarding Spire's plans for the propane cavern?

A. Yes. Staff is providing the above information to the Commission ** [redacted] **

Since Staff first included the above language regarding ** [redacted] ** in testimony, Spire Missouri has described the propane cavern as an aged asset that is out of service and for which the industry is moving away from, even though Spire Missouri itself still recently included it in its resource planning[14]. ** [redacted] **

Spire Missouri has removed assets from service associated with the propane cavern and have either retired or repurposed those assets for uses at other Spire Missouri facilities

[14] Response to Staff Data Request No. 0262.

without notice to the Commission. This was one of the major points of the stipulation language that has been agreed to by Spire Missouri over many years. However, when asked about ** [redacted] **, a direct answer has not been given. Staff continues to maintain its long-standing position that the propane assets are valuable to Spire East and are still a benefit its customers, especially in light of the appeals court remand of the use of Spire STL Pipeline and the uncertainty as to whether the temporary use certificate will be reinstated permanently.

Q. What does Staff propose the Commission order in regards to the propane investment, revenue and expense in this proceeding?

A. ** [redacted] **, Staff recommends that the Commission mandate that Spire East seek specific authorization from the Commission as delineated in the stipulation & agreement language referenced above from Case No. GR-2013-0171, regarding **<u>any new ratemaking treatment</u>** than what is currently authorized through either a separate case, or in direct testimony filed in the context of a future rate case. This includes retirement and repurposing of propane assets. At the time it makes its filing for different regulatory treatment, Staff recommends Spire East be ordered to provide a study and all financial and operational justification for the determination and proposed change to the regulatory treatment compared to other alternatives it considered (e.g. reduction of other capacity and peaking supply contracts). Such study as ordered by the

Commission should include related impacts on Spire East's cost of service (including gas costs for its customers).

Propane Inventory

Q. Please explain the situation regarding Spire East's propane inventory.

A. Propane gas is purchased and stored to meet peak demand during the winter months. Spire East's propane cavern is located adjacent to the Lange natural gas underground storage field that contains propane inventories. Staff continues to recommend that both the current natural gas and propane inventories that were previously included in the PGA/ACA process be included as part of rate base in the cost of service calculation.

For Spire East only, Staff has reviewed all propane inventories for the period of June 1, 2021 through May 31, 2022, and has included the balance ending May 31, 2022 due to the continuing inventory decline, as the proper amount of propane inventory to be included in rate base. Staff also learned through discovery that ** [redacted]. ** Spire Missouri has relayed to Staff that ** [redacted] **

These amounts are included in rate base in order to give Spire East the opportunity to earn a return on its investment for these inventories until those assets have been used. Staff will continue to review the propane inventory levels through the true-up date in this case.

Propane Revenue and Expense

Q. What amount of propane revenue and expense has Staff included in the cost of service?

A. As discussed above, Spire East has not requested, as part of this current rate case, different regulatory treatment than what was agreed to by the parties in the *Stipulation and Agreement* for propane investment, revenue and expense in the 2021 rate case. Staff has continued to include the revenues associated with the propane cavern above-the-line as of May 31, 2022. Staff has reviewed, and included in the cost of service calculation, all revenues Spire East generated since the time of its last rate proceeding through the use of its propane assets. Staff has reviewed the contracts in connection with ** [redacted] **

Consistent with its position on propane cavern investment and revenues, Staff has included all operation and maintenance expenses associated with operating the propane cavern in its cost of service calculation as well as all property taxes associated with the propane cavern.

<u>ENERGY EFFICIENCY PROGRAMS</u>

Q. Has Spire Missouri proposed any program or tariff changes for any of its energy efficiency programs in this case?

A. No. However, Staff has reviewed the costs associated with the energy efficiency, Energy Affordability program, and Red Tag programs to maintain the matching relationship between revenue, expense, and investment for the time period under review as part of this rate case. Due to the Pay As You Save (PAYS) program just beginning with the effective date of rates in the last rate case. There have been no costs to include at this time in the cost of service. The costs that have been incurred have been reviewed through May 31, 2022, in order to include current balances and amortizations. Staff also included in its adjustment a return of the over recovery of a previous low income program amortization. Staff will review through September 30, 2022 as part of its true-up audit.

<u>NON-LABOR DISTRIBUTION MAINTENANCE</u>

Q. Has Staff proposed an adjustment to non-labor maintenance expense?

A. Yes. Staff has included a three year average of non-labor maintenance expense in the cost of service for both Spire East and Spire West.

<u>INCOME TAX</u>

Current and Deferred Income Tax

Q. How has Staff approached current and deferred income taxes in this case?

A. Staff's methodology for calculating income tax expense is largely consistent with the methodology used in Spire Missouri's previous rate cases. The income tax calculations begin by taking adjusted net operating income before taxes, then adding to or subtracting from net income certain timing differences in order to obtain the net taxable income amount for ratemaking purposes. These "add back" and/or subtraction adjustments are necessary to identify new amounts for the tax deductions that are different from those levels reflected in the income statement as revenues or expenses. Tax timing differences occur when the timing used in reflecting a cost (or revenue) for financial reporting purposes (book purposes) is different than the timing required by the IRS in determining taxable income (tax purposes). The current income tax calculations for Spire East and Spire West reflect timing differences consistent with the timing required by the IRS. Staff has included Spire East's and Spire West's calculations of timing differences. The ratemaking calculation of income taxes for regulated utilities may reflect either the "normalization" approach or the "flow through" approach of recognizing the effect of tax timing differences on income tax expense. The tax normalization method defers for ratemaking purposes the deduction taken for tax purposes for certain tax timing differences. The effect of use of tax normalization is to allow utilities the net benefit of certain net tax deductions for a period of time before those benefits are passed on to the utility's customers in rates. The flow-through tax method essentially provides for the same tax deduction taken as a deduction for ratemaking purposes as is taken for tax payment purposes. Staff utilized a normalization approach in calculating income taxes for this case. Under either the tax normalization or tax flow-through approach, the resulting net taxable income for ratemaking is then multiplied by the appropriate federal, state, and city tax rates to obtain the current liability for income taxes. A federal tax rate of 21.00 percent and a state income tax rate of 4.00 percent were used in calculating Spire East's and Spire West's current income tax liability. The difference between the calculated current income tax provision and the per book income tax provision is the current income tax provision adjustment.

Q. Is Spire Missouri subject to city income taxes?

A. Spire East is subject to taxes from the City of St. Louis, MO, and Spire West is subject to taxes from the City of Kansas City, MO. The earnings tax is a one percent (1%) general revenue tax that is collected from all city residents and any non-city residents who work within city limits. Staff has reviewed the earnings tax return information for both Spire East in the City of St. Louis and Spire West in the City of Kansas City. Spire East and Spire West have not been required to pay earnings taxes for many years. Since it has been several years since either Spire East or Spire West has paid earnings taxes, Staff believes no inclusion of any city earnings taxes in either Spire East or Spire West's cost of service is appropriate at this time.

Q. Does Spire Missouri file as part of a larger consolidated group?

A. Yes. Spire Inc. files a consolidated tax return including all of its regulated and non-regulated affiliate enterprises. Spire Missouri has not actually paid a tax liability to the IRS due to the existence of a net operating loss ("NOL"). A net operating loss occurs when a company's allowable deductions exceed its taxable income within a tax period. The NOL can generally be used to offset a company's future tax payments in other tax periods called a net operating loss carryforward. This NOL is driven mainly by deductions such as past "bonus depreciation," MACRS (modified accelerated cost recovery system) depreciation, and gas costs experienced during winter storm Uri. Spire Missouri does not anticipate paying taxes to the taxing authorities until the net operating loss carryforwards are exhausted. However, Staff is normalizing the tax treatment and is including a positive amount of federal and state income tax expense for both Spire East and Spire West. In Spire Missouri's last rate case, GR-2021-0108 and also in this current case, GR-2022-0179, normalized deductions and credits were unable to be used due to the Net Operating Loss situation that Spire and Spire Missouri was experiencing. Spire Missouri must first use its loss before it was able to take advantage of its normalized credits or deductions. Staff will review income tax expense as part of its true-up audit.

Accumulated Deferred Income Tax (ADIT)

Q. What is ADIT and what has been included in the cost of service?

A. Spire Missouri's Accumulated Deferred Income Tax Reserve ("ADIT") represents, in effect, a prepayment of income taxes by Spire Missouri's customers to Spire Missouri prior to payment being made by Spire Missouri to taxing authorities. Each year that Spire Missouri has a temporary tax timing difference that causes a deferred income tax expense, a liability is created. The liability recognizes that the tax savings received in the current period are temporary, and will be reversed in future periods. The federal government intended to create these timing differences so that a company could have an effective cost-free loan from the federal government so that the firm could reinvest in its company. Over time, the tax liability related to temporary timing differences are accumulated in Spire Missouri's liability accounts as Accumulated Deferred Income Taxes ("ADIT"). Ratepayers are charged deferred income tax expense related to normalized tax timing differences protected by the Internal Revenue Service's ("IRS") Internal Revenue Code ("IRC"). Because ratepayers do not immediately receive the benefits of the normalized tax deductions, customers have effectively paid income tax expense that Spire Missouri has not yet incurred. As such, Spire Missouri's ADIT represents cash collected from customers for an expense that will be realized in future periods and is considered an interest-free loan from ratepayers. Since the amount of ADIT customers have provided is available for Spire Missouri's use, rate base is reduced by that amount to avoid charging customers a rate of return on funds they have made available to Spire Missouri.

As an example, because Spire Missouri is allowed to deduct depreciation expense on an accelerated basis for income tax purposes, the depreciation expense deduction used for income taxes paid by Spire Missouri is considerably higher than depreciation expense used for ratemaking purposes. This results in what is referred to as a "book-tax timing difference" and creates a deferral of income taxes to the future. The net credit balance in the deferred tax reserve represents a source of cost-free funds to Spire Missouri. Therefore, Spire Missouri's rate base is reduced by the deferred tax reserve balance to avoid having customers pay a return on funds that are provided cost-free to Spire Missouri. Since the expense recognized for depreciation is considerably lower for accounting and ratemaking purposes than for income tax purposes, Spire Missouri customers are required to pay higher costs for income taxes in rates than Spire

Missouri will actually pay to the IRS. The difference in income tax paid to the IRS and those paid in utility rates are "accumulated" to recognize the future tax liability that will eventually be paid to the IRS. Because Spire Missouri has retained these tax deferrals they will be used as an offset to rate base. Staff has included the ADIT balance as of December 31, 2021 in the direct cost of service for Spire East and Spire West, respectively. As part of its true-up audit, Staff will re-examine the ADIT balances to make sure all items included in those balances are consistent with the other components of the cost of service and that they reflect the current balances at the true-up cut-off date, September 30, 2022. Based on this true-up examination, Staff may make additional adjustments to the cost of service as necessary.

TCJA and Missouri Excess Deferred Income Tax (EADIT)

Q. What is excess ADIT and what has been included in the cost of service?

A. The Tax Cuts and Jobs Act was signed into law in December 2017, and as part of that, a reduction in the corporate tax rate required the revaluation of accumulated tax timing differences that were previously valued at 35% to be revalued at 21%. This excess deferred tax value is required to be returned to customers based on whether the excess deferred taxes are protected or unprotected. Protected excess ADIT is the portion associated with accelerated depreciation tax timing differences that must be "normalized" for rate making purposes and where the flow back of excess ADIT cannot be returned to customers any more quickly than over the estimated life of the assets that gave rise to the ADIT. Unprotected excess ADIT is the portion of the deferred tax reserve that resulted from normalization treatment of tax timing differences other than accelerated depreciation. In Case No. GR-2017-0215 and GR-2017-0216, a tracking mechanism was ordered due to the timing of the rate cases and the TCJA legislation in order to reflect the impacts of the TCJA in Spire Missouri's rates.

The tracking mechanism was necessary because not all of the effects of the TCJA were not known as the IRS and the Securities and Exchange Commission had not yet issued guidance or promulgated rules on the implementation of the TCJA. In addition, the calculations regarding the total excess ADIT and the calculations of what was known as "protected" and "unprotected" ADIT were not completed at the date of the Commission's Order in that case. In the last rate case, GR-2021-0108, Spire Missouri provided calculations of the TCJA's impact to ADIT, classified into protected and unprotected amounts, and amounts of over and under amortizations. The tracking mechanism was also discontinued as of the effective date of rates in that case, December 23, 2021. There was a period between May 31, 2021 and the operation of law date from the previous case that the tracker was in effect but not recognized in rates. This "stub period" is discussed below.

Q. Did Spire Missouri propose a change to the TCJA excess deferred tax balances that were agreed to in the last rate case?

A. Yes. Due to the Missouri supreme court overturning the Commission's decision in Case Nos. GR-2017-0215 and GR-2017-0216, a portion of pension expense that had previously been disallowed was reinstated in customer rates. Due to the tracking mechanism that Spire Missouri has for pension expense, there is a deferral balance that creates a tax timing difference. This balance changed due to the amount of pension expense reinstated by the Court. This amount was erroneously omitted from the original tracking mechanism for excess ADIT that began with the effective date of rates, April 19, 2018, in the 2017 cases and which was addressed in the last rate case. The internal memo from Spire Missouri memorializing this change is attached to this testimony as Schedule LMF-d8.

TCJA Stub Period Amortization

As discussed above, a major change to the tax code that was brought about due to this Act was a reduction in the corporate tax rate on businesses from 35% to 21%. This tax rate reduction affected the current income tax calculation as well as the accumulated deferred income tax (ADIT) calculation included in the base rates of a utility. The ADIT tax timing changes were initially calculated assuming a 35% rate but going forward they were overstated as the new tax rate was only 21%. This difference in the tax rate as applied to individual tax timing differences is considered “excess” ADIT.

Spire Missouri was to quantify and track all impacts of the Tax Cuts and Jobs Act of 2017 potentially affecting gas service rates from January 1, 2018, going forward. As part of Spire Missouri’s last rate proceeding, the excess ADIT tracking mechanism ended as of the effective date of rates, December 23, 2021, however the true-up cutoff date contemplated in that case only went through May 31, 2021. The time period running between June 1, 2021 and December 23, 2021, is considered the “stub period” and the difference between the excess ADIT included in rates and that actually experienced by Spire Missouri during that time period will be reflected in rates in this case.

In Spire Missouri’s last rate case, GR-2021-0108, Staff recommended amortizing the originally tracked amounts of protected excess ADIT over the Average Rate Assumption Method (ARAM), which is the method under which the balance of excess deferred taxes is reduced over the average remaining life of the property that gave rise to the reserve for deferred taxes and the unprotected excess ADIT over a 10 year period. Staff proposes to keep the same amortization periods established in that case for the stub period and ongoing amortizations in this case.

State Corporate Tax Reform

Q. Please explain the excess ADIT that was created due to the Missouri corporate tax reform.

A. The state of Missouri passed legislation reducing Missouri's corporate tax rate from 6.25 percent to 4 percent on January 1, 2020, however the change in tax rates impacted Spire Missouri beginning on October 1, 2020, the start of its 2021 fiscal year. The Missouri tax rate reduction had the same effect on Spire Missouri's ADIT liability as the TCJA and lead to a balance of unprotected Excess ADIT. As established in Spire Missouri's last rate case, all of the excess deferred taxes related to the state corporate tax deduction is considered unprotected. This is because the TCJA addresses excess deferred taxes for federal purposes regarding protected and unprotected excess ADIT. The state tax laws do not make this delineation. Staff ultimately included the excess ADIT produced by Missouri's tax reform to customers beginning with the effective date of rates in the last rate case, December 23, 2021. Staff has included an excess ADIT balance at May 31, 2022 in rate base and an annualized amount of amortization in its income tax schedule. The amortization is based on a 10 year period for unprotected excess ADIT.

MGE ADIT Rate Base Offset

Q. Please explain this amortization and the ratemaking treatment proposed by Staff in this case.

A. Per the Stipulation and Agreement approved by the Commission in Case No. GM-2013-0254, MGE is required to recognize a rate base offset of $125 million:

> Laclede Gas shall include a rate base offset for its MGE Division in the amount of $125 million. Laclede Gas' MGE Division shall amortize this rate base offset over a period of ten years commencing on the

> effective date of close. For clarification, the outstanding balance of such rate base offset shall serve to reduce rate base for rate making purposes in the context of all future rate proceedings during the amortization period, which will effectively prevent customers from paying a return on such rate base offset. This shall result in lower rates and charges in future periods.

Spire Missouri Inc., then known as Laclede Gas Company, at that time included a rate base offset for its MGE division in the amount of $125 million as of the effective date of rates in Case No. GR-2014-0007. MGE began amortizing this rate base offset over a period of ten years commencing on the effective date of close of the sale of MGE to Spire Missouri, Inc., then known as Laclede Gas Company. As this balance has been amortizing for some time, Staff has reset this amortization over 3 years and included the unamortized portion of the rate base offset at May 31, 2022 for the direct filing as a reduction to rate base. This balance will be updated as of September 30, 2022, for true-up purposes.

<u>CASH WORKING CAPITAL (CWC) INCOME TAX EXPENSE LAGE</u>

Q. Please explain the situation regarding the income tax expense lag as part of the cash working capital (CWC) calculation.

A. In the last rate case, GR-2021-0108, OPC witness John A. Riley, proposed to reflect a 365 day expense lag as part of cash working capital because Spire Missouri would not be required to pay income taxes through the period that the rates from the last rate case were in effect. This issue was litigated and the Commission found that:

> …federal and state income tax expense is included in rates but the Company is not likely to remit any federal or state income taxes because of its net operating loss carryforward (NOLC)…this lack of income tax payment should be reflected in the CWC expense lag. The fact that no income tax payments have been made in the test year or true-up period justifies the use of a 365-day expense lag. Therefore, the Commission finds that the appropriate expense lag days for income taxes within the CWC calculation is 365 days.

Q. What did Spire Missouri propose for its CWC expense lag for income taxes in the current rate case?

A. Spire Missouri witness Charles J. Kuper proposes a zero day lag for income taxes as he believes including the Commission ordered 365 day lag would create a normalization violation for Spire Missouri in that there would be a duplication with the ADIT NOL adjustment.

Q. Has Staff included a 365 day expense lag in CWC for the current case?

A. Yes.

Q. Is Spire Missouri still experiencing a net operating loss (NOL)?

A. Yes. In addition, there is a large net operating loss carryforward (NOLC) for future tax offset.

Q. Does Staff believe that by including a 365 day expense lag in CWC for income taxes would in fact create a normalization violation?

A. No. Staff includes normalized income taxes in the cost of service. This means that current income taxes are included as if they will be paid and that income tax is determined after taking into account any tax timing differences that can create a deduction by the utility. If the utility is in a net operating loss (NOL) situation where they cannot utilize the tax timing difference then the amount of that tax timing difference is an offset to ADIT. The CWC component of a cost of service is separate and distinct from the normalization of actual income taxes. CWC is meant to determine the "cash in" and "cash out" of the cost of service. This means that CWC is essentially calculating the time value of money. If the CWC is positive then that means that the time value of the money that the utility is "fronting" for expenses for customer's service needs to be paid to the utility. If the CWC is negative then that means that the time value of money that the customers are "fronting" to the utility for service needs to be reflected in less revenue requirement or rates for customers. The time value of money is NOT the money itself. In other words, the CWC for income tax expense is not the income tax expense itself, it is the time value of money on the payment of income tax. If no income tax is paid but the income tax expense was built into the cost of service. Then the time value of that "money" or income tax expense should be given back to customers. If this CWC lag is not used then essentially the utility is receiving a duplicative benefit. Once with inclusion of income tax in the cost of service but then also the time value of money for an expense that is never actually paid.

Q. Spire Missouri would like the Commission to approve of a Private Letter Ruling (PLR) for this specific issue with the IRS. What is Staff's position regarding Spire Missouri's request for a PLR?

A. Staff agrees that a normalization violation is a serious problem that would cause harm to Spire Missouri and its customers if the utility violates the rules. However Staff does not believe that is what is occurring through inclusion of a 365 day expense lag as explained above. However, Staff is not opposed to Spire Missouri's request for a PLR. If the Commission believes it is appropriate for the utility's resources and Staff's limited resources to be applied to it.

<u>**AMORTIZATION EXPENSE**</u>

Forest Park – Spire Missouri East

Q. Please explain this amortization and the ratemaking treatment proposed by Staff in this case.

A. In Case No. GR-2017-0215, Spire Missouri East sold property that contained one of its service centers (referred to as the Forest Park property) and partially replaced it with another service center (referred to as the Manchester facility) while also relocating its corporate headquarters. As part of the sale of the Forest Park property, Spire East received funds from the buyer to relocate its employees and equipment to other facilities. The Commission adopted Staff's proposal regarding an increase to depreciation reserve and creation of a regulatory liability to record the rate base offset of the relocation expense and then amortize the balance over five years. Staff has reset the unamortized balance at May 31, 2022 over 3 years as part of this rate proceeding to reflect better timing with Spire Missouri's next rate proceeding so as to avoid over-refunding customers. This balance will be updated as of September 30, 2022, for true-up purposes.

St. Peters Lateral – Spire Missouri East

Q. Please explain this amortization and the ratemaking treatment proposed by Staff in this case.

A. In 2017, Spire Missouri East (Laclede Gas Company at that time) contracted with MoGas Pipeline LLC to supply the Spire East territory with pipeline services at a reduced price per volume of natural gas. This contract was entered into with the agreement that Spire East would not build the St. Peters Pipeline to bypass MoGas. At the time that the contract was agreed to, Spire East had already incurred $2 million in pre-construction costs on the lateral. The MoGas contract ultimately resulted in cost savings for customers over the life of the contract. As part of Case No. GR-2017-0215, the parties agreed to a four year amortization of the costs. Staff has reset the unamortized balance at May 31, 2022 over 3 years as part of this rate proceeding to reflect better timing with Spire Missouri's next rate proceeding so as to avoid over-recovery of these costs in rates. This balance will be updated as of September 30, 2022, for true-up purposes.

Transition Costs

Q. Please explain this amortization and the ratemaking treatment proposed by Staff in this case.

A. On April 19, 2018, the effective date of rates in Case No. GR-2017-0215 and GR-2017-0216, a stipulation approved by the Commission allows Spire East and Spire West to recover $5.3 and $4.2 million, respectively, of acquisition transition costs over four (4) years. This amortization will have a remaining balance at the time of the effective date of rates in this case. Staff recommends including an amortization over three years of the remaining balance at May 31, 2022 to best match recovery of this cost with the effective rates. Staff will update the balances and amortizations at the September 30, 2022 true-up cutoff in this case. These unamortized balances are included in rate base pursuant to the Partial Non-Unanimous Stipulation and Agreement.

As Staff witness Keith Majors discussed in his direct testimony in GR-2021-0108, Spire East and Spire West were allowed to amortize two other regulatory assets related to the acquisition and referenced in the Partial Non-Unanimous Stipulation and Agreement in Case Nos. GR-2017-0215 and GR-2017-0216 as approved by the Commission. Mr. Majors removed the test year amortization for these regulatory assets, the 720 Olive Leasehold Improvements and the MGE Software Assets. These regulatory assets were to be amortized but not included in Staff's accounting schedules pursuant to that stipulation and agreement. Staff has maintained this ratemaking treatment in the current case.

Intangibles, Equity Software, and Other Non-Depreciable Items

Q. Please explain this amortization and the ratemaking treatment proposed by Staff in this case.

A. Certain items such as leasehold improvements, franchises and consents, land and land rights, intangible plant and easements/right of way costs are items that Spire East and Spire West include in their rate base but are not assets that have a depreciation rate assigned to them. In place of this, Spire East and Spire West amortize and recover the asset over the life of that asset. Specifically, in account 352.1 Storage Leaseholds & Rights, Spire East owns mineral rights associated with the property it owns that is known as the Lange natural gas storage field and the propane cavern located in north St. Louis County. Spire East pays royalties for these mineral rights, and books these payments as an amortization. Staff has included the yearly amortization expense for these royalties in the cost of service. Spire West does not pay royalties as it has only pipeline storage. Also, in account 350.2 UGS Easements, Spire East amortizes land easements related to its Lange natural gas storage field. A small amount related to these easements is contained in this account and is not currently being amortized. Spire East and Spire West also have leasehold improvements for several of their leased properties that are currently being amortized. Staff has included the annual amortization related to this in the cost of service for those leased premises that are not fully amortized. In addition, both East and West amortize portions of various software packages that are utilized in operations. These balances and amortizations will be updated as of September 30, 2022, for true-up purposes.

<u>REPORTING</u>

Q. What reporting requirements would Staff recommend the Commission order as part of this rate proceeding?

A. As part of this rate case, Staff requests that Spire Missouri continue to provide the surveillance (i.e., actual earnings information) separately for both of its current rate divisions, Spire East and Spire West as established by Commission order in case nos. GR-2017-0215 and GR-2017-0216. The requested reporting requirements should continue on a quarterly basis separately for both the Spire East and Spire West divisions with a complete general ledger with all supporting transactional detail, consistent with FERC USOA requirements that include all income statement and balance sheet transactions by month by FERC account. Spire Missouri should also include all transactions occurring between Spire Missouri, Inc.'s divisions and all other Spire affiliated entities. Staff has had ongoing discussions with Spire Missouri as part of its Cost Allocation Manual (CAM) docket for ongoing spreadsheets to be provided to Staff as part of Spire East and Spire West's CAM filing that provide all investment, revenue and expense transactions, both regulated and unregulated, that go to and come from Spire Missouri and all of its affiliates. Both the earnings surveillance and cost allocation data is important given that Spire Missouri, typically files rate cases in intervals that are three years or longer, the Company is in a process currently of shifting to its shared services structure, and ** [redacted] **, the surveillance data and CAM transactional data will assist Staff in monitoring Spire Missouri, Inc.'s earnings and all transactions between Spire Missouri and its regulated and unregulated affiliates during these intervals. Also, in order to be consistent with those utilities that are similarly structured with regulated and unregulated affiliates as well as a services company, Spire Missouri should have tax allocation agreements and money pool agreements that spell out what is to occur between Spire Missouri and the parent company or other affiliates.

In addition, Staff believes that continued reporting regarding Spire Missouri's meter replacement program is necessary. The current reporting that has been provided since the last rate case, attached here as Schedule LMF-d9, is not detailed and provides little usable information. Also, Spire Missouri has had past problems regarding proper recording of additions and retirements of it meter investment. Thus, Staff recommends that this reporting be modified to include further information. Staff is willing to work with the Company to determine what information is available for request surrounding the meter replacement and request information based on what is possible to acquire from the Company. Specifically Staff recommends the Commission order Spire Missouri to provide the following information separately by Spire East and Spire West: the number of meters, the reason each meter was replaced, plant addition dollars and plant retirement dollars by month by FERC account, the operations & maintenance costs by type with descriptive detail and all rationale for why that expense was necessarily incurred. The amount of expense directly related to meter replacement, separately by labor and non-labor, by month, by FERC account. Spire Missouri also needs to begin tracking all non-labor cost savings such as, but not limited to, fuel expense, meter reading costs, etc. by month by FERC account.

Q. Does this conclude your direct testimony?

A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Spire Missouri, Inc. d/b/a Spire's Request for Authority to Implement a General Rate Increase for Natural Gas Service Provided in the Company's Missouri Service Areas	)))))	Case No. GR-2022-0179

AFFIDAVIT OF LISA M. FERGUSON

STATE OF MISSOURI)
) ss.
COUNTY OF ST. LOUIS)

COMES NOW LISA M. FERGUSON and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct Testimony of Lisa M. Ferguson*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Lisa M Ferguson

LISA M. FERGUSON

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the City of St. Louis, State of Missouri, at my office in St. Louis, on this 30th day of August 2022.

Cheryl A. Eck

Notary Public

CHERYL A ECK
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: December 19, 2025
Commission Number: 13837618