Exhibit No.:	
Issue:	**Uncollectible Expense; Cost Allocation Mechanics**
Witness:	**Timothy W. Krick**
Type of Exhibit:	**Direct Testimony**
Sponsoring Party:	**Laclede Gas Company; Missouri Gas Energy**
Case No.:	**GR-2017-0215; GR-2017-0216**
Date Prepared:	**April 11, 2017**

LACLEDE GAS COMPANY
MISSOURI GAS ENERGY

GR-2017-0215
GR-2017-0216

DIRECT TESTIMONY

OF

TIMOTHY W. KRICK

APRIL 2017

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<u>DIRECT TESTIMONY OF TIMOTHY W. KRICK</u>

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Timothy W. Krick, and my business address is 700 Market Street, St. Louis, Missouri 63101.

Q. WHAT IS YOUR PRESENT POSITION?

A. I am Managing Director, Controller for Spire Inc. and Controller for the Laclede Gas Company ("Laclede" or "Company").

Q. PLEASE STATE HOW LONG YOU HAVE HELD YOUR POSITION AND BRIEFLY DESCRIBE YOUR RESPONSIBILITIES.

A. I was promoted by the Company into my present position in January 2017. In this position, I am responsible for accounting, financial reporting, tax and external financial reporting.

Q. WILL YOU BRIEFLY DESCRIBE YOUR EXPERIENCE AT LACLEDE PRIOR TO BECOMING CONTROLLER?

A. In 2014 I was hired as Director of Accounting. In that capacity, I was responsible for Missouri utility accounting and corporate financial reporting.

Q. **PLEASE DESCRIBE YOUR WORK EXPERIENCE PRIOR TO JOINING LACLEDE**.

A. I started my career in 1996 in the accounting department of the Dana Corporation, an automobile parts manufacturer. After serving as an internal auditor, I was promoted to Plant Controller for one of the company's largest plants, in Pottstown, PA. In 2000, I relocated to St. Louis and joined Sigma-Aldrich Corporation to help develop its newly formed internal audit department. Shortly after joining the company, I was given a special assignment to overhaul the inventory management and cost accounting of a troubled division. Subsequently, I was promoted to Global Cost Accounting Manager and worked in that capacity until 2006. In that role, I was responsible for developing and implementing the company's cost accounting strategy, policy, and underlying methods to allocate costs in the manufacturing process. In 2007, I was promoted to Director of Finance, Global Supply Chain and Cost Accounting. While managing the Company's cost accounting function, I also served on a cross functional strategy team that developed and executed an improved approach to global supply chain management. In 2009, I earned the Certified Management Accountant (CMA) certification. In 2012, I was promoted to Director of Finance North America, and Global Cost Accounting. In this role, I had regional controller responsibility for a dozen reporting locations and corporate financial reporting. I also worked closely with the shared services team on implementation of roles into the newly formed structure. At the same time, I continued to maintain responsibility for Global Cost Accounting which included the strategy, communication, and successful execution of the company's cost accounting approach globally. I served as the company expert for cost allocations with internal management and external auditors for the large majority of my career with Sigma-Aldrich.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I graduated from the University of Missouri-Columbia with a degree in Accounting in 1996. I earned my Certified Public Accountant (CPA) certification in 1997.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS COMMISSION?

A. No.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to present evidence to the Commission concerning the following items as they pertain to both Laclede's operating unit in Eastern Missouri ("LAC") and its operating unit in Western Missouri (Missouri Gas Energy or "MGE"):

1. Level and treatment of uncollectible accounts expense;
2. Methods used for allocation of costs among Laclede and its affiliates.

Q. ARE YOU SPONSORING ANY ADJUSTMENTS?

A. I am sponsoring adjustments listed on Schedule H-9 Bad Debt on Schedule MRN-D1 for MGE and MRN-D2 for LAC. Specific items are detailed later in my testimony.

UNCOLLECTIBLE EXPENSE

Q. PLEASE DESCRIBE YOUR CALCULATION FOR DETERMINING UNCOLLECTIBLE EXPENSES.

A. To determine a reasonable allowance for uncollectible expense for inclusion in base rates, I calculated the average annual level of uncollectible expense experienced by the Company for the three years ended August 2015.

Q. IS THIS CALCULATION BEING USED FOR BOTH LAC AND MGE?

A. Yes.

Q. HAS STAFF USED A THREE-YEAR AVERAGE IN THE PAST TO ESTIMATE UNCOLLECTIBLE EXPENSE?

A. Yes, the Staff used a three-year average to estimate uncollectible expense in MGE's last two rate case, Case Nos. GR-2014-0007 and GR-2009-0355.

Q. DOES THE COMPANY NORMALLY AGREE WITH THE USE OF A THREE-YEAR AVERAGE TO ESTIMATE UNCOLLECTIBLE EXPENSE?

A. We agree that using a three-year average is one of several valid methods for estimating uncollectible expense. Historically, LAC estimated uncollectible expense by multiplying an estimated percentage loss factor times normalized Company revenues, which is also a relevant method of estimating uncollectible expense.

Q. WHY THEN IS LACLEDE CHOOSING TO ESTIMATE UNCOLLECTIBLE EXPSENSE IN THESE CASES USING A THREE-YEAR AVERAGE OF ACTUAL UNCOLLECTIBLES RATHER THAN THE LOSS FACTOR RATIO?

A. In fiscal 2016, the Company made a significant change to its write-off policy for both LAC and MGE. This change precludes a comparison of net write-off levels in 2016 to those experienced before 2016.

Q. WHAT CHANGE DID LACLEDE MAKE TO ITS WRITE-OFF POLICY?

A. Laclede decided to expand its gross write-off period to 360 days, or approximately one year, for both LAC and MGE. The previous write-off period for LAC was 180 days from final billing following disconnection of service. The previous write-off period for MGE was 30-45 days. This means that LAC would consider a debt to be uncollectible if it was not paid within six months after the final bill was issued following disconnection, while MGE would consider it uncollectible after 30-45 days. The policy change results in the past due accounts not going to gross write-off for 360 days after final billing.

Q. WHY DID LACLEDE MAKE SUCH A SUBSTANTIAL CHANGE TO ITS WRITE-OFF POLICY?

A. The Company's experience has been that customers who are disconnected in the spring and summer months frequently make a payment and reconnect during the upcoming winter period. However, a customer whose service has been off for a year has gone through an entire heating season without gas service, and is very unlikely to pay the debt. Accordingly, Laclede believes its write-offs will be less volatile and more reflective of bona fide bad debt by filtering out the effects of those customers who bounce back-and-forth between uncollectible and receivable.

Q. WILL THE CHANGE IN THE COMPANY'S WRITE-OFF POLICY PRODUCE ANY OTHER BENEFITS?

A. In addition to providing more accurate and predictable write-off levels, the new policy will also reduce administrative burdens and costs by eliminating many unnecessary transactions. It will also create efficiencies by standardizing write-off practices between LAC and MGE. Finally, it will enhance our ability to serve customers by providing service representatives with a better and more complete view of the customer's account history by eliminating the impact that write-offs have on reducing the scope of the information available for them to readily view. However, until Laclede has more experience under the new policy, the results in 2016 cannot reliably be compared to prior years.

Q. WHY DID LACLEDE CHOOSE THREE YEARS ENDING IN AUGUST 2015 FOR ITS ESTIMATE OF UNCOLLECTIBLES?

A. In September 2015, Laclede converted MGE from its legacy billing system to Laclede's Customer Care & Billing ("CC&B") system. The disruption that accompanies such an event can affect the comparability of data such as uncollectible expense. Since Laclede had already determined not to use fiscal 2016 because of the write-off policy change, I decided that ending the write-off period prior to the CC&B conversion produced the cleanest results.

Q. BY BASING UNCOLLECTIBLE EXPENSE ON A THREE-YEAR AVERAGE RATHER THAN ON NORMALIZED REVENUES, IS LACLEDE FOREGOING AN INCREASE IN UNCOLLECTIBLE EXPENSE RESULTING FROM HIGHER REVENUES ASSOCIATED WITH THIS RATE REQUEST?

A. Although the Company is entitled to recognition of increased bad debt expense from the higher revenues associated with this rate request, it has chosen to use the three-year average for the reasons set forth above.

Q. ARE YOU AWARE OF ANY OTHER FACTORS THAT COULD AFFECT LACLEDE'S UNCOLLECTIBLE EXPENSE IN THE FUTURE?

A. In general, the Commission's rules regarding service disconnection and restoration can have a significant impact on the level of uncollectible expense incurred by the Company. Experience has shown that more lenient disconnection and restoration rules will result in greater uncollectible expense to the Company and its paying customers. Other factors include the economy in the service area, the collection policies of the Company, and the level of energy assistance (heat grant) payments. A major cut in heat grant payments, or a shortfall between the level of energy assistance available and the amount required by customers, would have a significant adverse impact on the level of uncollectibles experienced by LAC and MGE. All of these factors, in addition to increases and decreases in gas prices, have historically caused significant volatility in uncollectible accounts.

Q. PLEASE EXPLAIN THE IMPACT OF THE FEDERAL LOW-INCOME HOME ENERGY ASSISTANCE PROGRAMS ("LIHEAP") ON LACLEDE.

A. LIHEAP funds meaningfully impact the net write-offs and overall bad debt expense for LAC and MGE. The LIHEAP funding for LAC peaked in recent years at $12.2 million in 2009, and for MGE at $11.3 million, or a combined total of $23.5 million. Since that high mark in 2009, it has decreased by -53% to a combined total of $11.1 million in fiscal year 2016. And now, President Trump has proposed to cut LIHEAP from the budget altogether.

Q. WHAT EFFECT WOULD ELIMINATING LIHEAP HAVE ON LAC AND MGE CUSTOMERS?

A. A decision like that is likely to wreak havoc on our lower income customers and severely impact their ability to pay heating bills and maintain or restore gas service. A corresponding reduction to the State-funded Utilicare program, as currently proposed, would further exacerbate such a troubling situation.

Q. HOW WOULD THIS AFFECT LAC AND MGE?

A. An adverse event of this magnitude would result in a significantly higher level of uncollectible expense than estimated using any type of average of past performance. The Company would likely need to request an Accounting Authority Order ("AAO") to defer these expenses for later recovery, in order to more fairly match the cost of uncollectible expense in rates with the actual experience. In the end, an elimination or severe reduction of federal and state heat grant assistance would simply shift the cost of assisting lower income customers to maintain or restore utility service from the government to the utility and its customers.

Q. WHY WOULD AN AAO BE APPROPRIATE UNDER THESE CIRCUMSTANCES?

A. Because in contrast to other costs, factors beyond the Company's control impact the level of uncollectible expense it ultimately incurs to a far greater degree than any actions or policies the Company could possibly undertake within the relatively narrow confines of the Commission's rules. While Laclede certainly understands the important public policy considerations underlying the Cold Weather Rule, and supports a variety of programs aimed at helping customers to maintain service, the fact remains that the Rule has a significant impact on Laclede's ability to control bad debt. Among other things, the service restoration requirements and the temperature threshold for disconnection prevent the Company from both collecting arrearages and from stopping the snowballing of debt during high use periods. The Company is also unable to condition restoration of service upon full payment, to collect a deposit, or to disconnect service during cold spells. As such, the Company's uncollectible expense is largely hostage to the vagaries of weather, natural gas prices, the economy, the amount of energy assistance provided to those in need, and regulatory restrictions affecting its ability to limit its exposure to such factors. Given all of these considerations, special accounting treatment would be appropriate should such events occur.

COST ALLOCATION MECHANICS

Q. PLEASE DESCRIBE THE COMPANY'S OVERALL PHILOSOPHY FOR RECORDING AND ALLOCATING COSTS.

A. Consistent with its Commission-approved Cost Allocation Manual ("CAM"), the Company's goal is to directly assign costs to the utility operating companies and affiliates to the extent it is possible and practical to do so. For costs that are not direct charged, the Company utilizes cost causation factors that most closely align with the business driver of the costs and the benefiting entities. In the absence of direct charge or cost causation, the Company commonly uses a general allocator known as the Modified Massachusetts Formula ("MMF"), which allocates costs based on an average of fixed assets, revenue, and payroll.

Q. WHAT LED TO THE DECISION TO CREATE THE SHARED SERVICES COMPANY?

A. The Shared Services Company ("SSC") was created as the result of an assessment of Spire's shared service functions, activities and organizational structure. The assessment was performed in coordination with PwC's consulting company, Strategy&, which included a comparison of the existing structure and approach to cost allocations with industry peers. As a result of this analysis, the Company decided to create a shared services entity and adopt a more formal shared services model for the allocation of shared costs.

Q. WHEN WAS THE SSC CREATED?

A. The SSC was incorporated in the State of Missouri on July 15, 2015, and is a wholly owned subsidiary of Spire Inc.

Q. WHAT IS THE PURPOSE OF THE SSC?

A. The initial purpose of the SSC was to adopt a more formal shared services model to facilitate, simplify, and provide transparency to the allocation of shared costs between operating companies and affiliates. This was the first step of an ongoing, longer-term initiative to evaluate, design, and implement a mature shared service model.

Q. ARE ANY SPIRE EMPLOYEES FORMALLY EMPLOYED BY THE SSC?

A. No, not at this time. All employees are employed directly by the operating companies or other affiliates, and only charge time and expenses to the SSC for shared costs and activities. In short, the SSC is primarily used at this point as an accounting vehicle to ensure costs are properly tracked and allocated to each entity in an appropriate manner.

Q. PLEASE EXPAND ON THE EVOLUTION OF THE SSC FROM ITS INCEPTION TO HOW IT IS USED FOR COST ALLOCATIONS TODAY.

A. Shortly after deciding on the creation of a shared services entity in 2015, a cross functional team was organized to develop the initial implementation of the entity and scope of use for allocating FY2016 costs through a four-step process. The first step was creation of the entity in our accounting systems prior to the beginning of FY2016.

Q. WHAT WAS THE SECOND STEP OF THE PROCESS?

A. The second step involved the design, scoping, and planning of the new approach, which began as part of the annual budget process. The Finance team met with all the shared service department heads, communicated the new approach for cost allocations to be used in FY2016, and interviewed relevant employees to understand the type of work activities being performed with the goal of determining the most appropriate and practical technique for allocating the department costs and expenses. Included in the evaluation were shared service functions and activities performed by employees outside of Missouri for the benefit of Spire, primarily in Alabama.

Q. WHAT WAS THE THIRD STEP?

A. The third step involved the development of an approach to systematically collect costs in the shared services entity through use of the existing work order management process, and then allocate those costs to operating units and affiliates. A few of the guiding principles followed throughout this step were:

- Adherence to existing regulatory requirements while striving for added transparency, traceability and simplicity.
- Development of cost allocation processes that are scalable across multiple jurisdictions.
- Flexibility for growth and creation of tighter integration to minimize manual effort and increase adherence.

Q. WHAT WERE THE RESULTS OF THIS STEP OF THE PROCESS?

A. Based on the analysis performed we determined the allocation types needed for FY16 were a general allocator (MMF), # of customers, # of employees or payroll, square footage, net assets, system miles, and accounts payable activity. Additionally, we created a second tier/category for each scenario specifying the operating units and affiliates benefitting from the service. In instances where an employee does not direct charge, the employee charges a project for the most relevant cost driver and the entities. The majority of shared service projects established for allocations were setup to charge specific entities (*e.g.*, all entities, all Missouri entities, all Missouri utilities, all utility companies). For example, a Human Resources employee that supports recruiting for Spire in total will charge a project that allocates costs to all subsidiaries based on headcount/payroll, while a Human Resources employee that supports organized labor negotiations in all our utility service territories would charge a Utility Company allocator, and an employee who supports only one utility will direct charge. Of note, because of the significant amount of work that is done that relates to both LAC and MGE, we have created shared service projects for those operating units as an allocator for employees to charge costs for activities performed for the benefit of both operating units. One example is a Human Resources employee who trains employees for both LAC and MGE at the same time. A project can be charged that automatically allocates costs between the two operating units based on a causal or general factor.

Q. WHAT WAS THE FOURTH STEP OF THE PROCESS?

A. The fourth step of the process involved the re-design of the allocations process utilizing the SSC entity as the primary collector of costs that would then be pooled into allocation buckets for re-distribution to operating units and affiliates. We carefully planned the architecture and design of this initial process over 6 months, and fully implemented the automated solution in April 2016. In the interim period, manual allocations were calculated outside of the system to replicate what was being designed for the automated solution. Results of the calculation were recorded monthly to operating companies and affiliates. In FY2017 we added additional enhancements to the allocations process to integrate EnergySouth (Mobile Gas and Willmut Gas) into the process. I should note that in addition to these four steps, we have ongoing reporting and analysis to ensure everything is working as intended.

Q. HOW WERE SHARED SERVICE EXPENSES ALLOCATED PRIOR TO THE CREATION OF THE SSC?

A. Expenses were charged to Spire Inc. (previously The Laclede Group), and allocated primarily using the MMF general allocator with few exceptions.

Q. WHAT FUNCTIONS CHARGE COSTS TO THE SSC?

A. Functions generally fall into two categories: Corporate shared services and Operations shared services. Corporate shared services include: finance, legal, strategic planning, supply chain, facilities, human resources, corporate communications and marketing, internal audit, enterprise risk & continuous improvement, executive, and IT services. Operations shared services include customer experience, external affairs, gas supply & operations, operations controller, operations services, and organic growth & sales.

Q. HOW IS THE DETERMINATION MADE REGARDING WHETHER THE COSTS OF A PARTICULAR DEPARTMENT OR FUNCTION SHOULD BE DEFINED AS DIRECT OR ALLOCATED?

A. Each year during the budgeting process we evaluate actual results for the current year and plans for the next year with department heads. During this review it is determined if any department functions or activities have significantly changed and whether the allocation factors and approach are appropriate for the following year. On an ad hoc basis, employees may perform a significant amount of work supporting a specific project or an entity that is outside their typical ongoing work, and would then charge that project or entity for those costs.

Q. HOW ARE COSTS MONITORED TO ENSURE INDIVIDUALS ARE CHARGING THE CORRECT PROJECTS SO THAT EXPENSES ARE NOT BEING ERRONEOUSLY ALLOCATED?

A. The Company provides instruction to employees on how to enter payroll information so that time is charged to the proper allocator or operating unit. In addition, payroll and other expenses are budgeted at the project level in Shared Services, and as part of the budget process we run through the allocations process that is similar to the actual process, which sets the primary basis for comparison and variance analysis throughout the year. As noted above, each month a rigorous process is performed to review expenses incurred to date versus budget, forecast, and prior year for all shared service functions with department heads in coordination with the Financial Planning & Analysis ("FP&A") team. During this review, variances and trends are analyzed and discussed as well as projects and activities planned for the remaining months of the year and the impact on expenses. Each month department heads in coordination with the FP&A re-forecast expenses and spend for the remaining months of the year, and the cycle repeats in subsequent months. The variances and future forecasts are presented and discussed in monthly business review meetings for each operating unit that include participants from finance and operations management, including the CFO and COO. Additionally, reporting that includes explanations for relevant variances are distributed to executive management and the BOD monthly.

Q. HOW ARE CAUSAL AND GENERAL ALLOCATION FACTORS CALCULATED, AND HOW OFTEN ARE THEY UPDATED?

A. The factors used for allocations are set at the beginning of the year based on budget, and monitored periodically throughout the year. If business circumstances have resulted in a significant change to allocation factors during the fiscal year, management will review and determine if a prospective change is needed based on materiality.

Q. HOW ARE OPERATING COMPANIES REIMBURSED FOR THE COST OF SHARED SERVICES PROVIDED TO OTHER OPERATING COMPANIES AND AFFILIATES?

A. During the financial closing of each month the accounting teams reconcile the amounts due from and payable to the SSC. In total, the SSC will have inter-company accounts receivables and accounts payables with affiliates that, in total, fully offset each other. Balances are fully settled with cash payments in each subsequent month. The shared services entity holds no cash at the end of each month, as 100% of the amount received by affiliates is fully distributed to others through the inter-company settlement process.

Q. WHAT ACTIONS HAS SPIRE TAKEN TO ENSURE THAT ITS SSC IS OPERATING AS DESIGNED AND THAT COSTS ARE BEING APPROPRIATLY ALLOCATED?

A. Spire continually evaluates the performance of its SSC to ensure that it is facilitating and simplifying the appropriate allocation of shared services costs between operating companies. Company witness Flaherty from Strategy& has provided testimony substantiating that the practices of the SSC are necessary, appropriate, effective and in line with industry standards, and which has also resulted in overall cost savings through the implementation of a shared services model.

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 Laclede Gas Company's Request to Increase its Revenues for Gas Service	)))	File No. GR-2017-0215
In the Matter of Laclede Gas Company d/b/a Missouri Gas Energy's Request to Increase its Revenues for Gas Service	)))	File No. GR-2017-0216

AFFIDAVIT

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Timothy W. Krick, of lawful age, being first duly sworn, deposes and states:

1. My name is Timothy W. Krick. I am Managing Director, Controller for Spire Inc. and Controller for Laclede Gas Company. My business address is 700 Market St., St Louis, Missouri, 63101.

2. Attached hereto and made a part hereof for all purposes is my direct testimony on behalf of Laclede Gas Company and MGE.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Timothy W. Krick

Subscribed and sworn to before me this 3rd day of April 2017.

Marcia A. Spangler
Notary Public

MARCIA A. SPANGLER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: Sept. 24, 2018
Commission # 14630361