Exhibit No:	
Issue:	**Cost Allocation Mechanics; Uncollectible Expense**
Witness:	**Timothy W. Krick**
Type of Exhibit:	**Rebuttal Testimony**
Sponsoring Party:	**Laclede Gas Company (LAC) Missouri Gas Energy (MGE)**
Case No.:	**GR-2017-0215 GR-2017-0216**
Date Prepared:	**October 17, 2017**

MISSOURI PUBLIC SERVICE COMMISSION

LACLEDE GAS COMPANY
MISSOURI GAS ENERGY

GR-2017-0215
GR-2017-0216

REBUTTAL TESTIMONY

OF

TIMOTHY W. KRICK

OCTOBER 2017

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REBUTTAL TESTIMONY OF TIMOTHY W. KRICK

Q. **WOULD YOU 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. **ARE YOU THE SAME TIMOTHY W. KRICK WHO PREVIOUSLY FILED DIRECT TESTIMONY IN THIS PROCEEDING?**

A. Yes, I submitted direct testimony on behalf of both Laclede Gas Company ("LAC") in Case No. GR-2017-0215 and Missouri Gas Energy ("MGE") in Case No. GR-2017-0216.

I. PURPOSE OF TESTIMONY

Q. **WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING?**

A. The purpose of my rebuttal testimony is twofold. First, I will to respond to the direct testimony and proposed adjustments from Public Counsel witness Ms. Azad and Staff witness Mr. Majors related to Shared Service Cost Allocations, and address the recommendations and findings outlined in the testimony. Second, I will respond to the direct testimony and proposed adjustments sponsored by Staff witness McClellan related to uncollectibles.

II. COST ALLOCATIONS

Q. **WERE THERE SIGNIFICANT DELAYS AND INADEQUACIES IN YOUR DIRECT REPONSES TO DISCOVERY REQUESTS?**

A. While some of the requests were delayed within the allowed extension period, I attempted to answer each request by the deadline and provided the level of detail available to satisfy the request. I was unaware until reading her testimony that Ms. Azad felt there were significant inadequacies in our responses. It seemed to me the level of detail we provided, particularly given the volume of requests we received from her, was more than adequate.

Q. **DO YOU BELIEVE IT IS NECESSARY FOR THE COMMISSION TO ORDER AN EXTERNAL AUDIT OF THE COMPANY'S COST ASSIGNMENT AND ALLOCATION PROCESSES AND PRACTICES?**

A. No, I do not. While the Company has grown significantly over the past several years and advanced the maturity of its shared services accounting structure and allocation processes, we have carefully implemented the changes and enhancements in a way that follows industry practices, and we have updated metrics for significant events, like acquisitions. We have also applied the most relevant allocation drivers in a way that fairly and accurately allocates costs throughout Spire, and does so in a cost-effective and administratively manageable manner. We have also been careful to ensure the enhanced process of cost allocations were compliant with our existing cost allocation manual ("CAM").

Q. **MS. AZAD INDICATED THAT AN EXTERNAL AUDIT IS NEEDED BECAUSE IT WOULD ADDRESS ISSUES RELATED TO COSTS AT A GREATER LEVEL OF DETAIL THAN IS APPROPRIATE OR FEASIBLE IN THE COURSE OF A RATE CASE PROCEEDING. DO YOU AGREE?**

A. No, I do not. I believe that a rate case proceeding does allow the time needed to review the cost allocation procedures and validate the accuracy of the calculations, but it depends on the scope, objective, and purpose of the review. Ms. Azad also noted that the purpose of her testimony was to "address the LAC and MGE cost allocations issues." Statements like this lead me to believe that her approach is focused on reviewing pre-conceived "issues" rather than gaining an understanding of the existing process related to cost allocation procedures.

Q. DO YOU AGREE WITH THE RECOMMENDATION THAT LAC/MGE SHOULD FILE FOR A NEW COMMISSION-APPROVED CAM TO REFLECT CHANGES THAT HAVE OCCURRED AT SPIRE, INCLUDING THE CREATION OF THE SPIRE SHARED SERVICE COMPANY?

A. No, I do not agree that there is a need to file an entirely new CAM, but I do support reviewing the current CAM to determine if there are better ways to reflect the changes in the organization and allocation of shared service costs in the near future, perhaps after the conclusion of the current rate case proceedings.

Q. DO YOU AGREE WITH THE CLAIM THAT SPIRE'S WRITTEN COST ALLOCATION TRAINING MATERIALS ARE INADEQUATE AND ITS CAM IS NOT ENFORCED?

A. No. While the "written" materials could benefit from updating, which we plan to do in FY 2018, that does not mean that employees have not been trained and received communication regarding cost allocation processes and the importance of charging time correctly. As noted in my direct testimony, there are analysts who have a thorough understanding of the cost allocation process that work with each department to analyze costs including payroll charges and variances to budget. In addition, forecasts are monitored monthly to assess compliance and identify potential issues.

In support of her contention that the CAM is not enforced, on page 40 of her testimony, Ms. Azad quotes from the Commission approved CAM in what she feels is an inconsistency with positive time reporting; however, this is merely a misunderstanding on her part. Her concern dwells on the words "direct labor shall be charged to the service under an exception time reporting methodology" but then she doesn't square this with the related part of the quote she also notes, which shows this is related to departments that "provide a recurring, predictable level of services to a Party." Essentially, these quotes mean that employees who work in an area with a consistent type of work that has been captured in an allocation, should direct charge for exceptions to that recurring work, say for a significant project. In this case, both times are reported using positive time reporting – one set of hours is entered using positive time reporting for hours related to the recurring work, and one set of hours is entered using positive time reporting to a different account for the exception work.

Q. WOULD YOU COMMENT ON MS. AZAD'S ASSERTION THAT NEARLY ONE-HALF OF THE CORPORATE ENTITIES WITHIN SPIRE'S HOLDING COMPANY STRUCTURE DO NOT RECEIVE SHARED SERVICES COSTS?

A. The cost allocation process was established to enable the allocation of shared service costs to entities that benefit from those services. There are entities in the organization that are holding companies and therefore do not receive any measurable incremental benefit from the shared service organization beyond what their subsidiary receives as they act primarily as a wholly owned parent company of other subsidiaries. These entities are Spire Resources LLC, Spire Midstream

LLC, and EnergySouth Inc (now Spire EnergySouth Inc.). These companies are direct charged for any costs where applicable. The other entities that were noted as not receiving allocations are set forth below, together with an explanation of why charges were or were not allocated to them:

a) Laclede Investment LLC – this entity <u>did</u> receive allocations. Note that this entity was subsequently dissolved as of September 30, 2017.

b) Laclede Gas Family Services, Inc – this entity was dissolved effective September 30, 2016.

c) Spire Storage Services, Inc – this entity is wholly owned by Spire Marketing, and is already included in allocations to Spire Marketing.

d) Laclede Gas Company (now Spire Missouri) – has two operating units, LAC and MGE, but it is only one corporate entity; and both operating units within that entity receive allocations. There are not three separate entities.

e) Spire Inc – the holding company has no Property, Plant, and Equipment, no revenue, and no employees, which are the primary basis of the allocations utilized for shared services. Costs that occur for the direct benefit of Spire Inc are direct charged.

f) Spire STL Pipeline LLC – although originally planned for integration into the allocations process mid-year 2017, this entity will begin receiving allocations effective October 2017. While this entity has been ramping up throughout FY 2017 it has received direct charges by employees involved in business activities of the operations, and has received limited shared service support to date.

Q. DO YOU AGREE WITH MS. AZAD'S CONCLUSIONS RELATED TO ALLOCATION FACTOR INCONSISTENCIES?

A. No, if I understand how she arrived at her conclusion, I do not agree with her conclusion that 7 of the 25 allocation factors were used inconsistently. Five of the factors she noted were new to FY 2017, and therefore were obviously not used in the months prior to the establishment of these factors. Two other allocation factors on her schedule are depicted as not being used in the month of October 2016, Corporate Wide Payroll and Gas Utility System Miles. She is incorrect, however, as both factors were used, as shown by the reports provided through data requests.

Q. ARE 25 ALLOCATION FACTORS ACTUALLY USED BY THE COMPANY, AS NOTED BY MS. ASAD?

A. Her claim is misleading and implies more complexity in the cost allocation processes than exists. In my direct testimony, I explained how a second tier/category for most primary allocation factors is used to streamline how costs are allocated for functions that support multiple entities within one state, jurisdiction, or a combination of both. This second tier ensures that only the benefiting organizations are charged, rather than simply broadly spreading costs to entities whether there was any benefit or not. The example provided in my testimony explains that we have multiple secondary factors for Human Resources based on the primary allocator of headcount. I characterize the primary allocation method of headcount as one allocation factor, not multiple when accounting for all of the secondary charge codes that utilize headcount.

Q. DO YOU AGREE WITH THE FINDING THAT SPIRE FAILED TO ALLOCATE THE COSTS OF THE COMPANY'S ENTERPRISE MANAGEMENT SYSTEM AMONG THE ENTITIES THAT BENEFIT FROM THE SYSTEM?

A. No, Ms. Azad is apparently unfamiliar with which of Spire's businesses actually use this system. As explained by Company witness Ryan Hyman, the system is used for its Missouri entities, but not for its utility operations in Alabama and Mississippi which utilize their own systems. A copy of the worksheet that shows the monthly allocations of depreciation is provided as part of this rebuttal testimony, (Schedule TWK-R2). One point of clarification worth noting is that the allocation of the depreciation for these costs does not flow through the shared service company, rather it is a direct allocation from LAC to MGE and other Missouri entities that benefit from the system. This allocation was in place prior to the implementation of the shared service company, and since it does not impact entities that are not operating on the system, there was no need to re-design the flow of this allocation through the shared service company.

Q. WILL YOU EXPLAIN WHY LAC AND MGE WERE ALLOCATED COSTS FOR SHARED SERVICES IN ALABAMA?

A. Yes, just as there are shared services performed by Missouri employees that benefit Alabama customers, there are also shared services performed by employees in Alabama for the benefit of Missouri customers. One example is the accounts payable function which is performed for the entire company by employees based in Alabama. There are eighteen departments to date that provide some level of shared service support to Missouri customers. A detailed schedule of these charges for each department was provided through data requests.

III. <u>UNCOLLECTIBLES EXPENSE</u>

Q. DO YOU AGREE WITH STAFF'S OPINION THAT IT IS APPROPRIATE TO USE ONLY THE MOST CURRENT DATA AVAILABLE TO

REPRESENT ONGOING LEVELS OF UNCOLLECTIBLE EXPENSE FOR LAC AND MGE?

A. No, a twelve-month period is not long enough to fairly represent bad debt write off trends and fairly project future expense. An average over at least three-years normalizes unusual variances that can occur in a shorter period such as twelve-months. The Staff used a three-year average to estimate uncollectible expense in MGE's last two rate cases, Case Nos. GR-2014-0007 and GR-2009-0355 and it should do so here.

Q. DO THE CHANGES IMPLEMENTED TO WRITE-OFF POLICIES IN SEPTEMBER 2015 PREVENT THE CALCULATION OF A MULTI YEAR AVERAGE OF UNCOLLECTIBLES USING THE MOST RECENT DATA?

A. No. Data is available that can replicate the timing of the gross write off under the policy prior to September 2015 for both LAC and MGE.

Q. WHY DID THE COMPANY ELECT TO USE A THREE-YEAR AVERAGE BASED ON DATA UP THROUGH AUGUST 2015 RATHER THAN NORMALIZING WRITE-OFFS FOR THE CHANGE IN POLICY AND USE THE MOST RECENT DATA?

A. Given the timing of the significant change in uncollectible policy, we believed that a sensible and practical solution was to use the three-year average for the period immediately prior to the change. We had every reason to believe that such a three-year average would provide a representative view of uncollectible expense, and would be similar to an overlapping period. Therefore, we originally elected to use an approach that would be easily understood and did not require providing detailed and complex workpapers to reconcile and normalize the post-change data to be comparable to the historical policy.

Q. HAVE YOU NORMALIZED THE WRITE-OFF DATA IN A WAY THAT IS COMPARABLE TO PERIODS BEFORE THE CHANGE IN POLICY?

A. Yes, see Rebuttal Schedule TWK-R1. Normalizing the data up through September 2017 results in a three-year (fiscal year) average of $9.7M for LAC and $4.3M for MGE.

Q. DID YOU CONSIDER ANY SCENARIOS OTHER THAN A THREE-YEAR AVERAGE?

A. Yes, I calculated normalized averages for two, three, four, and five years for both LAC and MGE. Of these calculations, in my opinion a five-year average is the best predictor of future write-offs because it includes the most data points, which reduces the standard deviation in statistical terms. Likewise, a three-year average is certainly superior to using a single year's worth of data. Since using three years was also consistent with the approach taken by Staff in MGE's two prior rate cases, I chose to use it.

Q. CAN YOU EXPLAIN HOW YOU NORMALIZED THE WRITE-OFF DATA

A. Under the historical LAC policy after disconnect and final billing, a customer account balance was assigned a systematic write-off date 180 days in the future. If the customer did not pay the balance or make other arrangements, the systematic write-off occurred in the future based on the established date. Under the new policy, the systematic write-off date is set to 360 days in the future. To normalize the write-off data in historical terms, I generated a list of all customer balances that currently have write-off dates scheduled on or after 10/1/2017. For each record, I subtracted 180 days to estimate when the balance would have systematically been written off under the old policy. For LAC there are $4.4M of customer balances that would have been written off in FY17 under the historical method. (Reference Rebuttal Schedule TWK-R1).

Q. HOW ABOUT FOR MGE?

Under the historical MGE policy after disconnect and final billing, a customer account balance was typically written off systematically within 30 days. Following the same process as above for LAC, I generated a list of each record and subtracted 330 days to estimate when the balance would have systematically been written off under the old policy. For MGE there are $8.1M of customer balances that would have been written off in FY17 under the historical method. Reference Rebuttal Schedule TWK-R1.

Q. THE ADJUSTMENTS TO NORMALIZE THE DATA SEEM LARGE RELATIVE TO ANNUAL WRITE-OFFS, IS THERE OTHER DATA YOU CAN POINT TO THAT HELPS EXPLAIN THE VARIANCE?

A. Yes, using MGE as an example, in FY 16 the net write-offs were negative -$4.2M because activity for the year primarily consisted of recoveries and payments of amounts previously written off, the gross write-off activity that would have occurred that year was delayed for approximately 330 days, which is the new policy (360 days) less the historical policy (30 days). Therefore, when calculating an historical average logically the delay must be accounted for to perform an "apples to apples" comparison. The calculation of the two-year average with this adjustment of $4.1M is further evidence that this adjustment is valid when calculating the historical average, as it is in line with historical annual levels.

Q. HOW HAS THE CUSTOMER BEEN IMPACTED BY THIS CHANGE?

A. The customers were not impacted by the change in this policy, it was transparent from their perspective.

Q. DID THE CHANGE IN POLICY IMPACT THE EXPENSE RECORDED FOR U.S. GAAP PURPOSES?

A. No, this was simply a delay in the gross write-off of the customer level balance in the Company's Customer Care & Billing (CC&B) system.

Q.. **DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

A. Yes it does.

LAC
Uncollectibles Historical Data

Fiscal Year 12-mos ending September 30th

Month	2013	2014	2015	2016	2017
October	1,849,471	(242,659)	2,711,475	2,805,768	654,132
November	326,923	(781,075)	1,183,864	967,005	(161,657)
December	(194,316)	(456,650)	2,202,940	776,704	50,820
January	(107,844)	(420,619)	314,442	237,991	167,784
February	24,802	5,245,431	383,616	(1,154,072)	309,789
March	(76,498)	(249,017)	1,190,817	(578,038)	942,346
April	47,693	401,369	506,221	(193,920)	825,763
May	197,368	537,367	394,477	(177,636)	1,628,135
June	115,345	621,165	396,446	(211,286)	1,095,015
July	(61,962)	460,775	503,408	(192,220)	984,614
August	(84,126)	482,559	782,109	1,214,953	884,297
September	3,185,163	1,589,655	2,084,423	784,090	478,854
Total	**5,222,020**	**7,188,301**	**12,654,239**	**4,279,340**	**7,859,892**

Adjustment for change in policy[1]	4,436,691
Total including policy change impact	12,296,583
2 year average	8,287,962
3 year average	9,743,387
4 year average	9,104,616
5 year average	8,328,097

[1]Subsequent to final bill after disconnect LAC scheduled a gross write off in the AR system historically after 180 days of final billing, this policy was changed to 360 days effective 9/1/2015

Spire - LAC Scheduled Bad Debt Gross Write-Offs from AR System
Timing under Old vs. New Policy

	Under Old Policy	Under New Policy
2017Apr	$ 553,529.11	$ -
2017May	$ 521,640.94	$ -
2017Jun	$ 682,302.67	$ -
2017Jul	$ 584,316.18	$ -
2017Aug	$ 1,006,300.80	$ -
2017Sep	$ 1,088,601.52	$ -
2018Oct	$ 1,347,540.75	$ 655,982.23
2018Nov	$ 1,649,810.38	$ 443,365.31
2018Dec	$ 2,020,195.06	$ 658,125.18
2018Jan	$ 2,149,405.59	$ 728,982.82
2018Feb	$ 1,417,762.76	$ 903,444.93
2018Mar	$ 544,778.67	$ 1,046,790.75
2018Apr	$ -	$ 1,532,398.63
2018May	$ -	$ 1,608,277.70
2018Jun	$ -	$ 1,876,869.86
2018Jul	$ -	$ 2,192,772.09
2018Aug	$ -	$ 1,559,730.88
2018Sep	$ -	$ 359,444.05
Total	$ 13,566,184.43	$ 13,566,184.43
Amount to included in FY17 to normalize average with prior years	$ 4,436,691.22	

MGE
Uncollectibles Historical Data

Fiscal Year 12-mos ending September 30th

Month	2013	2014	2015	2016	2017
October	(496,788)	(415,805)	(294,421)	(583,093)	192,584
November	(1,267,359)	(1,272,390)	(1,635,684)	(1,240,868)	(6,625)
December	(603,280)	(729,649)	(439,556)	(883,602)	22,008
January	(203,884)	(204,662)	(199,304)	(494,201)	142,826
February	(201,507)	(295,891)	(249,375)	(474,674)	272,144
March	107,445	25,500	290,513	(288,835)	525,160
April	356,762	761,259	1,533,470	(164,702)	729,819
May	1,894,886	2,480,180	2,640,746	(94,330)	951,013
June	1,948,214	2,222,149	1,942,976	(136,122)	469,925
July	1,347,320	1,616,913	1,061,241	(77,551)	492,956
August	1,030,821	813,397	38,829	285,812	202,718
September	599,324	255,166	25,339	(5,222)	232,810
Total	**4,511,954**	**5,256,168**	**4,714,774**	**(4,157,387)**	**4,227,338**

Adjustment for change in policy[1]	8,131,764
Total including policy change impact	12,359,101
2 year average	4,100,857
3 year average	4,305,496
4 year average	4,543,164
5 year average	4,536,922

[1]Subsequent to final bill after disconnect MGE scheduled a gross write off in the AR system historically after 30 days of final billing, this policy was changed to 360 days effective 9/1/2015

Spire - MGE Scheduled Bad Debt Gross Write-Offs from AR System
Timing under Old vs. New Policy

	Under Old Policy	Under New Policy
2017Oct	$ -	$ -
2017Nov	$ 292,683.49	$ -
2017Dec	$ 159,750.98	$ -
2017Jan	$ 232,755.59	$ -
2017Feb	$ 282,987.55	$ -
2017Mar	$ 453,009.08	$ -
2017Apr	$ 860,121.41	$ -
2017May	$ 1,227,374.41	$ -
2017Jun	$ 1,114,478.21	$ -
2017Jul	$ 1,400,545.60	$ -
2017Aug	$ 1,098,252.29	$ -
2017Sep	$ 1,009,805.09	$ -
2018Oct	$ 524,833.91	$ 333,655.33
2018Nov	$ -	$ 159,867.53
2018Dec	$ -	$ 191,745.98
2018Jan	$ -	$ 405,147.82
2018Feb	$ -	$ 525,277.66
2018Mar	$ -	$ 799,998.33
2018Apr	$ -	$ 1,215,268.25
2018May	$ -	$ 1,434,497.68
2018Jun	$ -	$ 1,003,036.64
2018Jul	$ -	$ 1,293,509.99
2018Aug	$ -	$ 1,090,830.20
2018Sep	$ -	$ 203,762.20
Total	$ 8,656,597.61	$ 8,656,597.61

Amount to included in FY17 to normalize average for change in policy at 9/1/16	$ 8,131,763.70

CAM DEPRECIATION ALLOCATION FY2016

Apply percent of payroll (non-LGC) factor to each affiliate or line of business

Company	% of Payroll		Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	TOTAL
GRP	0.00%		-	-	-	-	-	-	-	-	-	-	-	-	-
INV	0.00%		-	-	-	-	-	-	-	-	-	-	-	-	-
SSV	0.00%		-	-	-	-	-	-	-	-	-	-	-	-	-
OIL	0.07%		771.13	768.94	765.87	769.56	770.26	766.77	772.72	777.74	774.85	768.21	759.30	-	8,465.35
LIR	0.00%		-	-	-	-	-	-	-	-	-	-	-	-	-
DEV	0.00%		-	-	-	-	-	-	-	-	-	-	-	-	-
VEN	0.56%		6,169.06	6,151.51	6,126.96	6,156.51	6,162.05	6,134.19	6,181.73	6,221.89	6,198.81	6,145.72	6,074.39	-	67,722.82
PLC	0.13%		1,432.10	1,428.03	1,422.33	1,429.19	1,430.48	1,424.01	1,435.04	1,444.37	1,439.01	1,426.68	1,410.13	-	15,721.37
LER	0.14%		1,542.26	1,537.88	1,531.74	1,539.13	1,540.51	1,533.55	1,545.43	1,555.47	1,549.70	1,536.43	1,518.60	-	16,930.70
LGC - Propane	0.00%		-	-	-	-	-	-	-	-	-	-	-	-	-
MGE	26.37%		290,496.49	289,670.29	288,513.97	289,905.83	290,166.69	288,854.74	291,093.16	292,984.48	291,897.46	289,397.34	286,038.56	-	3,189,019.01
LGC	72.73%		801,206.27	798,927.59	795,738.37	799,577.22	800,296.67	796,678.25	802,851.93	808,068.30	805,070.23	798,174.77	788,911.07	-	8,795,500.67
TOTAL	100.00%	Total Depr Subj to CAM	1,101,617.31	1,098,484.24	1,094,099.24	1,099,377.44	1,100,366.66	1,095,391.51	1,103,880.01	1,111,052.25	1,106,930.06	1,097,449.15	1,084,712.05	-	12,093,359.92
		Depr Trf'd to Affliates	300,411.04	299,556.65	298,360.87	299,800.22	300,069.99	298,713.26	301,028.08	302,983.95	301,859.83	299,274.38	295,800.98	-	3,297,859.25

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 rebuttal 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.

[signature]
Timothy W. Krick

Subscribed and sworn to before me this 17th day of OCTOBER 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