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Witness:	Timothy W. Krick
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SPIRE MISSOURI INC.
CASE NO. GR-2021-0108
SURREBUTTAL TESTIMONY
OF
TIMOTHY W. KRICK
JULY 14, 2021

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1 **SURREBUTAL OF TESTIMONY OF TIMOTHY W. KRICK**

2 **I. INTRODUCTION**

3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

4 **Q. ARE YOU THE SAME TIMOTHY W. KRICK WHO PREVIOUSLY FILED**
5 **DIRECT TESTIMONY AND REBUTTAL TESTIMONY IN THIS PROCEEDING**
6 **ON BEHALF OF SPIRE MISSOURI INC. (“SPIRE MISSOURI” OR**
7 **“COMPANY”)?**

8 A. Yes.

9 **II. PURPOSE OF TESTIMONY**

10 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS**
11 **PROCEEDING?**

12 A. The purpose of my Surrebuttal Testimony is to respond to issues raised by Office of the
13 Public Counsel (“OPC”) witness Robert E. Schallenberg; and Staff of the Missouri Public
14 Service Commission’s (“Staff”) witnesses Keith Majors, Matthew R. Young and Jared
15 Giacone;. Specifically, I will respond to the rebuttal testimony submitted by these parties
16 relating to: (a) the allocation of costs for goods and services from Spire Missouri to other
17 affiliates; (b) the capitalization of overhead costs to construction projects; and, (c) the
18 funding levels for pension and post-employment benefits (“OPEB”).

19 **III. COST ALLOCATIONS**

20 **Q. OPC WITNESS SCHALLENBERG DISCUSSES THE DIFFERENT TERMS**
21 **THAT HAVE BEEN USED IN THIS CASE IN REGARD TO CORPORATE**
22 **ALLOCATIONS AND AFFILIATE TRANSACTIONS. (Schellenberg Rebuttal, pg.**

1 **11.) TO WHAT DO YOU REFER WITH YOUR USE OF THE TERM**
2 **“CORPORATE ALLOCATIONS”?**

3 A. When I refer to “corporate allocations,” I am referencing the allocation of costs initially
4 incurred by Spire Missouri for services that benefit both Spire Missouri and its affiliates.
5 I would classify these cost allocations as a sub-set of affiliate transactions.

6 **Q. MR. SCHALLENBERG ALLEGES THAT COMPLIANCE WITH SPIRE**
7 **MISSOURI’S COMMISSION-APPROVED COST ALLOCATIONS MANUAL**
8 **(“CAM”) DOES NOT REPRESENT COMPLIANCE WITH THE COMMISSION’S**
9 **AFFILIATE TRANSACTION RULE (Schallenberg Rebuttal, pg. 10.) WHAT IS**
10 **THE BASIS FOR HIS ALLEGATION?**

11 A. He suggests that Spire Missouri “should be direct charging all affiliate transaction costs
12 which are incurred by or on behalf of a specific Spire Inc. entity (including Spire Inc. itself)
13 directly to the entity who has caused the cost to be incurred.” (Schallenberg Rebuttal, p.
14 13). His allegation seems to imply the Company should be performing a detailed analysis
15 of each and every transaction between Spire Missouri and its affiliates as to fully
16 distributed cost (FDC) and fair market value (FMV), which is not reasonable, practical or
17 cost effective. The Company uses the methods outlined in the Commission approved CAM
18 to determine the allocation of FDC.

19 **Q. WHAT IS THE PROCESS PRESCRIBED BY THE CAM FOR ALLOCATING**
20 **COSTS TO AFFILIATES?**

21 A. The CAM provides for the “three step” method. This method begins with the premise that
22 to the maximum extent practical, all costs that can be specifically attributed to a business
23 segment are direct charged. Secondly, indirect costs that cannot be directly charged are

1 allocated to business segments on the basis of a causal relationship. In the third step, any
2 remaining costs that cannot be reasonably associated with a specific, identifiable, causal
3 relationship shall be allocated using the general allocator outlined in the CAM. In my
4 opinion, the Company is compliant with the methods allowed by the CAM.

5 **Q. PLEASE EXPLAIN HOW THE COMPANY DETERMINES THE FDC FOR**
6 **DEPARTMENTS THAT NORMALLY DO NOT DIRECT CHARGE AND**
7 **PROVIDE A PREDICTABLE LEVEL OF SERVICE.**

8 A. As allowed by the CAM:

9 Some departments or organizations are expected to provide a recurring,
10 predictable level of services to a Party or Parties. For these departments or
11 organizations, annual reviews shall be performed and documented to
12 determine a normal distribution of time to such services. The distribution
13 percentages derived from such reviews shall then be used to allocate time
14 with respect to each pay period. For these departments or organizations,
15 direct labor shall be charged to the service under an exception time reporting
16 methodology.

17 (Spire CAM, p. 13-14). In my opinion, the Company has procedures and controls to execute
18 the allocation of costs of this nature and are in compliance with the Commission approved
19 CAM.

20 **Q. WOULD YOU EXPLAIN HOW THE COMPANY PROVES COMPLIANCE WITH**
21 **THE TRANSFER PRICING/COSTING METHODOLOGY REQUIRED BY THE**
22 **CAM FOR CORPORATE SUPPORT SERVICES?**

1 A. Yes, the majority of costs allocated for corporate support services are labor related, or, in
2 other words, the salaries and benefits of the employees who provide those services. The
3 Human Resources team performs market studies when setting compensation ranges for all
4 of the Company's positions and relies on these studies and analysis to ensure employees
5 are receiving a salary and benefits consistent with the market. Also, when goods or services
6 are procured from third parties by Spire Missouri on behalf of other affiliates, the Supply
7 Chain department has processes that are relied upon to ensure the Company is receiving
8 these goods or services consistent with market prices.

9 **Q. DOES SPIRE MISSOURI TRACK ANY TRANSACTIONS WITH THE DETAIL**
10 **SUGGESTED BY OPC WITNESS SCHALLENBERG?**

11 A. Yes. For certain energy related transactions, such as those generally subject to PGA/ACA
12 recovery, the Company follows the requirements set in Appendix 2 of the CAM, Gas
13 Supply and Transportation Standards of Conduct.

14 **Q. ARE THERE OTHER COSTS THAT ARE DIRECT CHARGED?**

15 A. Yes, there are costs that get direct charged when the employee performing or providing the
16 service can accurately determine the portion attributable to another affiliate. In these
17 instances, 100% of the costs are usually direct charged.

18 **Q. IS THERE RECOGNITION IN THE AFFILIATE TRANSACTIONS RULE THAT**
19 **TRANSACTIONS MAY BE ADDRESSED THROUGH A COMMISSION-**
20 **APPROVED CAM?**

21 A. Yes. Commission Rule 20 CSR 4240-40.015(3)(D) states as follows:

22 In transactions involving the purchase of goods or services by the regulated
23 gas corporation from an affiliated entity, the regulated gas corporation will

1 use a commission-approved CAM which sets forth cost allocation, market
2 valuation and internal cost methods. This CAM can use benchmarking
3 practices that can constitute compliance with the market value requirements
4 of this section if approved by the commission.

5 **Q. OPC WITNESS SCHALLENBERG FURTHER ARGUES THAT “SPIRE**
6 **MISSOURI CANNOT PARTICIPATE IN AN AFFILIATE TRANSACTION**
7 **WHERE THE COMPANY IS PROVIDING FINANCIAL OR PREFERENTIAL**
8 **ADVANTAGES TO ITS AFFILIATE.” (Schallenburg Rebuttal, pg. 10.) ARE**
9 **THERE ANY TYPES OF TRANSACTIONS THAT ARE PERMITTED BY THE**
10 **RULE WITHOUT REGARD TO PREFERENTIAL TREATMENT?**

11 A. Yes. Commission Rule 20 CSR 4240-40.015(2)(B) provides that corporate support
12 functions may be provided to an affiliate without regard to preferential treatment:

13 Except as necessary to provide corporate support functions, the regulated
14 gas corporation shall conduct its business in such a way as not to provide
15 any preferential service, information or treatment to an affiliated entity over
16 another party at any time.

17 “Corporate support” is defined as “joint corporate oversight, governance, support systems
18 and personnel, involving payroll, shareholder services, financial reporting, human
19 resources, employee records, pension management, legal services, and research and
20 development activities.” (20 CSR 4240-40.015(1)(D)).

21 **Q. HAS STAFF ALSO ADDRESSED THE CORPORATE ALLOCATIONS ISSUE?**

22 A. Yes. Staff witness Keith Majors has also addressed Mr. Schallenburg’s testimony.

23 **Q. WHAT WAS STAFF’S POSITION ON THE ISSUE?**

1 A. Staff witness Majors indicated that Staff neither supported Mr. Schallenberg’s \$84 million
2 adjustment to Spire Missouri’s revenue requirement associated with Spire Inc. and Spire
3 Services, nor his adjustment to account for alleged value received by Spire Inc. and its
4 affiliates. (Majors Rebuttal, pgs. 5-7.) Mr. Majors concluded the statement of Staff’s
5 position by indicating that it is Staff’s position “that the current cost assignment and
6 allocation procedures in effect for Spire Missouri and its affiliates are reasonable and result
7 in equitable compensation to Spire Missouri for affiliate services provided.” (Majors
8 Rebuttal, p. 7.)

9 **IV. OVERHEAD CAPITALIZATION**

10 **Q. STAFF WITNESS YOUNG REITERATES STAFF’S RECOMMENDATION**
11 **THAT “ON A GOING FORWARD BASIS, THE COMMISSION SHOULD ORDER**
12 **SPIRE TO CEASE CAPITALIZING NON-OPERATIONAL OVERHEAD COSTS,**
13 **OR AS AN ALTERNATIVE ORDER SPIRE TO CEASE CAPITALIZING COSTS**
14 **RECEIVED FROM SPIRE SERVICES, UNTIL SUCH TIME THAT SPIRE CAN**
15 **DEMONSTRATE ITS COMPLIANCE WITH THE USOA.” (Young Rebuttal, pg.**
16 **5.) IS THIS A NECESSARY STEP?**

17 A. No. As explained in my Rebuttal Testimony, in my opinion the methods used by Spire
18 Missouri to allocate overhead to construction projects is consistent with the uniform system
19 of accounts (“USOA”), and is consistent with the approach used for many years by Spire
20 Missouri, as well as is consistent with the approach approved by the Commission in prior
21 cases.

22 **Q. IS THERE AN ISSUE IN THIS CASE AS TO THE PRUDENCE OF THE**
23 **UNDERLYING COSTS?**

1 A. No. Staff witness Majors stated in his Rebuttal Testimony, “that the current cost
2 assignment and allocation procedures in effect for Spire Missouri and its affiliates are
3 reasonable and result in equitable compensation to Spire Missouri for affiliate services
4 provided.” Thus, it is not a question about the prudence of these expenses, only whether
5 they are recovered as part of construction overheads or O&M expense.

6 **Q. WHAT IS AN ESTIMATE OF THE IMPACT ON CUSTOMER RATES IN THIS**
7 **CASE IF SPIRE CEASED CAPITALIZING NON-OPERATIONAL OVERHEAD**
8 **COSTS?**

9 A. Assuming the Staff definition of “non-operational overheads” is limited to A&G costs, and
10 the Company were to cease capitalization of all of these A&G overheads, as illustrated in
11 the chart below, it would increase the revenue requirement by nearly \$115 million; about
12 \$50 million attributable to General Overheads, and the remaining \$65 million Employee
13 Benefit and Pension Costs. In this example, there would also be an offset of future rate
14 base for a comparable amount net of deferred taxes, as costs would be collected annually
15 in rates rather than over the useful life of the asset.

A&G Transfers to Construction - Test Year			
<i>(millions)</i>			
<u>General Overheads</u>	<u>East</u>	<u>West</u>	<u>Total</u>
FERC 920 A&G Salaries	10.3	7.1	17.4
FERC 921 Office and general supplies and expense	6.6	4.4	11.0
FERC 925 Injuries and Damages	5.2	3.5	8.7
FERC 930 General Expense	0.2	0.1	0.3
Subtotal - General Overheads:	\$ 22.3	\$ 15.1	\$ 37.4
<u>Benefit Overheads</u>	<u>East</u>	<u>West</u>	<u>Total</u>
FERC 926 - Pension	24.7	4.2	28.9
FERC 926 - Group Insurance/OPEB/Other	15.3	4.2	19.5
FERC 408 - Payroll Taxes	0.9	0.5	1.4
Subtotal - Benefit Overheads:	\$ 40.9	\$ 8.9	\$ 49.8
Total - A&G Overheads Charged to Construction	\$ 63.2	\$ 24.0	\$ 87.2
Tax Gross Up Factor	1.31735	1.31735	1.31735
<u>Revenue Requirement Impact</u>			
General Overheads Impact:	29.4	19.9	49.3
Benefit Overheads Impact:	53.9	11.7	65.6
Total Estimated Impact:	\$ 83.3	\$ 31.6	\$ 114.9

1

2 **Q. DID STAFF WITNESS YOUNG PROVIDE AN ESTIMATE OF THIS IMPACT?**

3 A. No. Staff witness Young did not calculate an adjustment because in his opinion “Staff
4 found that the definition, identification, and quantification of capital overhead costs is not
5 readily identifiable in Spire’s books and records, and, therefore, its rate base.” (Young
6 Rebuttal, pg. 4.) I vigorously disagree with his conclusion that the Company does not have
7 adequate books and records to identify these costs. However, I am most concerned that
8 Mr. Young has formed his position in this case without further identifying the potential
9 large impact on the customer rates resulting from this approach.

10 **Q. PLEASE EXPLAIN WHY YOU DISAGREE WITH MR. YOUNG’S GENERAL**
11 **CONCLUSION?**

12 A. In my opinion, his allegation that capital overheads are not readily identifiable in Spire’s
13 books and records is not supported by any facts or evidence, rather a far reaching
14 conclusion based on the wording of a response to an OPC DR. As initially explained in

1 my Rebuttal Testimony (page 12 starting on line 9), it appears to me that both Staff and
2 OPC have used the Company's response to OPC Data Request (DR) 1009-2 to form their
3 opinion and have ignored other evidence provided on the matter. The general ledger, of
4 which the Company provided a copy during this case, contains transaction level support
5 for all of these costs. To my knowledge, we have answered all DR's on this topic and
6 provided support. To further explain the Company's position and data to support
7 overheads, we also met with both OPC and Staff on June 9, 2021 to provide additional
8 evidence and clear up any misunderstandings,

9 **Q. DID MR. YOUNG SUBMIT ANY DATA REQUESTS ON THIS MATTER AFTER**
10 **YOU MET WITH STAFF AND OPC ON JUNE 9, 2021?**

11 A. Not to my knowledge.

12 **Q. OPC WITNESS SCHALLENBERG RECOMMENDS THAT "SPIRE SHOULD BE**
13 **EXPRESSLY ORDERED TO CEASE CAPITALIZING OVERHEAD WHERE IT**
14 **CANNOT SHOW A DEFINITE RELATIONSHIP TO**
15 **CONSTRUCTION." (Schallenberg Rebuttal, pg. 22.) DO YOU BELIEVE**
16 **SPIRE MISSOURI HAS CAPITALIZED ANY OVERHEADS WITHOUT A**
17 **"DEFINITE RELATIONSHIP TO CONSTRUCTION"?**

18 A. Not in my opinion, which I explained previously in response to a similar observation made
19 by Staff witness Young. To further elaborate on that response, direct labor is one of the
20 key variables that is used to allocate a part of the overheads, both direct and indirect in
21 nature, that have a relationship to construction and capital spend activities, including
22 Administrative and General (A&G) expenses. In my opinion, the ratio of direct labor is a

1 reasonable method to determine and estimate the costs associated with construction activity
2 for certain A&G expenses.

3 **Q. ARE THERE OTHER METHODS YOU ARE AWARE OF THAT COULD BE**
4 **USED TO DETERMINE IF OVERHEADS HAVE A DEFINITIVE**
5 **RELATIONSHIP TO CONSTRUCTION ACTIVITIES?**

6 A. Yes. An example is a study performed by a third party. But even if a study is performed
7 by a third party, the calculation will always be based on a set of assumptions and include
8 estimates, and it would never be practical for Spire Missouri to attempt to direct charge
9 overhead costs to individual projects at a transaction level. Obviously, there will be a cost
10 to a study and it would need to be updated periodically, likely between rate proceedings.
11 In my opinion, I'm skeptical that a study will result in a more accurate or reasonable
12 method in allocating indirect overheads.

13 **Q. WHY IS THAT?**

14 A. By definition, indirect costs and general overheads rarely can be associated with a discrete
15 specific activity or project, and therefore developing a method to determine a definitive
16 relationship to the activities they support requires a high degree of estimates, subjectively, and
17 judgement. If we hired ten different firms to perform a study, I suspect we would get ten
18 different outcomes.

19 **Q. ARE YOU OPPOSED TO PERFORMING A STUDY PRIOR TO FILING A**
20 **FUTURE RATE CASE?**

21 A. No, especially if it will address the concerns raised by Staff and OPC in this case.

22 **Q. WOULD A STUDY SUCH AS THIS ULTIMATELY INCREASE OR DECREASE**
23 **RATES FOR CUSTOMERS?**

1 A. It would be impossible to estimate an impact on customers without performing the study.
2 It could lead to a rate increase, decrease, or no material change. Therefore, if the
3 Commission orders a study be performed, I recommend the results of such a study be
4 brought forward in the filing of the next rate case, and any changes to indirect overhead
5 allocations be implemented on a prospective basis during that future case when establishing
6 rates.

7 **Q. OPC WITNESS SCHALLENBERG ALLEGES THAT “SPIRE MISSOURI DOES**
8 **NOT HAVE OR REFUSES TO PROVIDE THAT ALL THE OVERHEADS THAT**
9 **THE COMPANY CAPITALIZES HAS A DEFINITE RELATIONSHIP TO**
10 **CONSTRUCTION AS EVIDENCED BY TIME SHEETS AND SPECIAL COST**
11 **STUDIES.” (Schallenberg Rebuttal, pg. 21.) HAS SPIRE MISSOURI “REFUSED**
12 **TO PROVIDE” ANY INFORMATION RELATED TO THE OVERHEADS ISSUE?**

13 A. No, I believe the Company has provided adequate responses to all data requests and access
14 to all detail associated with these requests. The Company also met with both Staff and
15 OPC on this matter to further explain its position.

16 **Q. DOES SPIRE MISSOURI HAVE TIME SHEETS AND SPECIAL COST STUDIES?**

17 A. Yes, the Company maintains records of time charged by each employee within the
18 Company’s time keeping systems. There are areas where costs studies are performed, such
19 as square footage allocations.

20 **Q. OPC WITNESS SCHALLENBERG FURTHER RECOMMENDS THAT AN**
21 **ORDER DIRECTING SPIRE MISSOURI TO CEASE CAPITALIZING NON-**
22 **OPERATIONAL OVERHEAD COSTS “SHOULD BE EFFECTIVE OCTOBER 1,**
23 **2019, THE BEGINNING OF THE TEST YEAR.” (Schallenberg Rebuttal, pg. 22.)**

1 **WHAT FINANCIAL IMPACT WOULD MR. SCHALLENBERG'S**
2 **RECOMMENDATION HAVE ON THE CUSTOMERS AND THE COMPANY?**

3 A. In terms of customers, all else being equal, shifting amounts from capital to expense, in the
4 near term, will increase Spire Missouri's revenue requirement and therefore increase future
5 customer rates. As illustrated in a table provide earlier in this Surrebuttal Testimony,
6 assuming no capitalization of A&G overheads based on the test year would increase
7 customer rates by nearly \$115 million. Further, a retrospective order regarding capitalized
8 amounts back to October 1, 2019, would result in a write-off of overhead costs capitalized
9 to plant in service during the test year of approximately \$87 million.

10 **Q. DO YOU HAVE ANY COMMENT IN REGARD TO THE OPC AND STAFF**
11 **IMPLICATION THAT SPIRE MAY BE INCENTIVIZED TO OVER-**
12 **CAPITALIZE COSTS TO MAXIMIZE THE RATE OF RETURN?**

13 A. Yes, Staff witness Young's Rebuttal Testimony, suggests that Spire can "alter its net
14 income through changes to its methodology for accounting for overheads." (Young
15 Rebuttal, pg.2, beginning on line 19.) However, contrary to the process described by Staff
16 witness Young, the Company has fundamentally used the same methods for many years
17 and in the past two general rate cases in which I have been involved. Since the Company's
18 methods have been consistent, there have obviously been no changes to methodologies for
19 the purpose of altering net income.

20 **V. PENSIONS AND POST EMPLOYMENT BENEFITS (OPEB) FUNDING**

21 **Q. WHAT IS RECOMMENDED BY STAFF WITNESS GIACONE?**

22 A. Similar to the earlier Staff Report recommendation, Staff witness Giacone suggests a
23 funding level only sufficient to maintain compliance with the minimum requirements of

1 the Employee Retirement Income Security Act (“ERISA”), or what he refers to as the
2 “statutorily required funding level.” (Giacone Rebuttal, p. 2.)

3 **Q. WHAT IS THE STATUTORILY REQUIRED LEVEL?**

4 A. ERISA requires private industry retirement plans to maintain an 80% minimum Funding
5 Target Attainment Percentage (“FTAP”).

6 **Q. WHAT HAS SPIRE MISSOURI RECOMMENDED?**

7 A. Spire Missouri recommends funding annually at a level that is projected to achieve 100%
8 pension benefit obligation (“PBO”), or market-based funding levels, in five 5 years for the
9 pension plans.

10 **Q. STAFF WITNESS GIACONE POINTS OUT THAT SPIRE MISSOURI EAST HAS**
11 **RECENTLY CONTRIBUTED EVEN LESS THAN THE ANNUAL FUNDING**
12 **ALLOWANCE ESTABLISHED IN THE LAST CASE. WOULD YOU PROVIDE**
13 **SOME CONTEXT FOR THAT SITUATION?**

14 A. Funding levels have been based on the ERISA minimum each year, which in some periods
15 was actually lower than the annual funding established in the last case. The Company has
16 historically funded at the ERISA minimum level to follow the approach set by the
17 Commission. In future years, the Company will plan on funding at levels higher than
18 minimum, at least up to the allowance set in rates, now that there is certainty of recovery
19 through the tracker mechanism.

20 **Q. WHAT IS MR. GIACONE’S PRIMARY CONCERN?**

21 A. He suggests that this is the proper approach because “staff’s position requires the least
22 amount funding in rates from customers.” (Giacone Rebuttal, pg. 5.)

1 **Q. ARE THERE OTHER FACTORS THAT THE COMMISSION SHOULD ALSO**
2 **CONSIDER?**

3 A. Yes. The Pension Protection Act’s (PPA) original intent in 2006 was to require funding of
4 the market value of liabilities over seven years, but since that time there have been a series
5 of legislative changes to the PPA that have required lower funding levels that distance the
6 current rules from the original intent:

- 7 • In the wake of the 2008 financial crisis, Congress enacted a series of “funding
8 reliefs”, reducing minimum required contributions, to provide plan sponsors
9 additional flexibility in managing corporate cash flow;
- 10 • Additional rounds of “funding relief” in the mid 2010s were included in legislation
11 to increase government revenue as reductions in contributions reduced corporate
12 tax deductions;
 - 13 ○ At the same time, Congress increased Pension Benefit Guaranty
14 Corporation (PBGC) premiums, especially the variable rate premium
15 which is essentially a ‘tax’ on pension deficits (which is 4.6% of pension
16 deficit for 2021). This deficit is determined on the original PPA market
17 value of liabilities, resulting in a higher tax on larger deficit. The PBGC
18 premiums paid for the most recent completed plan year for Spire Missouri
19 were \$2.5 million, of which \$2.2 million were due to the variable formula
20 explained above due to funding deficits.

21 **Q. IS THERE A VIABLE ALTERNATIVE TO THE MINIMUM FUNDING**
22 **APPROACH THAT YOU RECOMMEND?**

1 A. Yes, I recommend a level of contribution that aligns with the PPA’s original intent to
2 achieve a higher level of plan funding on a market value basis over a reasonable period in
3 order to:

- 4 • Minimize long term costs to customers, while balancing against excessive short-term
5 cost increases;
- 6 • Improve intergenerational equity by better aligning pension costs to customers
7 receiving the services;
- 8 • Carry out fiduciary duties in a more responsible manner on behalf of the plan
9 participants and their beneficiaries.

10 **VI. CONCLUSION**

11 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

12 A. Yes, it does.

