Exhibit No. 16

Spire – Exhibit 16
Timothy Krick
Rebuttal Testimony
File No. GR-2021-0108

Exhibit No:	**___**
Issue:	**Cost Allocations** **Overhead Capitalization** **Pension Contributions** **Bad Debt & Uncollectibles**
Witness:	**Timothy W. Krick**
Type of Exhibit:	**Rebuttal Testimony**
Sponsoring Party:	**Spire Missouri, Inc.**
Case No.:	**GR-2021-0108**
Testimony Date:	**June 17, 2021**

SPIRE MISSOURI INC.

CASE NO. GR-2021-0108

REBUTTAL TESTIMONY

OF

TIMOTHY W. KRICK

JUNE 17, 2021

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REBUTTAL TESTIMONY OF TIMOTHY W. KRICK

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.

Q. ARE YOU THE SAME TIMOTHY W. KRICK WHO PREVIOUSLY FILED DIRECT TESTIMONY IN THIS PROCEEDING ON BEHALF OF SPIRE MISSOURI INC. ("SPIRE" OR "COMPANY")?

A. Yes.

I. PURPOSE OF TESTIMONY

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

A. The purpose of my Rebuttal Testimony is to respond to issues raised by Office of the Public Counsel ("OPC") witness Robert E. Schallenberg, portions of the Staff of the Missouri Public Service Commission's ("Staff") Staff Report – Cost of Service, as sponsored by Staff witnesses Matthew R. Young, Jared Giacone, Antonija Nieto, and Kimberly K. Bolin and Vicinity Energy Kansas City witness Greg R. Meyer. Specifically, I will respond to the testimony submitted by these parties relating to: (a) the purpose and function of Spire Services Inc. ("Spire Services"); (b) the allocation of costs for goods and services from Spire to other affiliates; (c) the capitalization of overhead costs to construction projects; (d) the funding levels for pension and post-employment benefits ("OPEB"); and (e) the level of bad debt expense for uncollectible accounts receivable.

II. SPIRE SERVICES COMPANY AND COST ALLOCATIONS

Q. OPC WITNESS SCHALLENBERG DISCUSSES THE ENTITY KNOWN AS SPIRE SERVICES INC. (SCHALLENBERG DIRECT, PAGE 9). WHEN WAS THAT ENTITY FORMED?

A. Spire Services Inc. ("Spire Services") was created in July of 2015. It was originally named Shared Services Corporation.

Q. WHEN DID SPIRE SERVICES BEGIN TO FUNCTION AS A PART OF THE ALLOCATIONS PROCESS?

A. In fiscal year 2016.

Q. WHAT IS THE PURPOSE OF THE SPIRE SERVICES ENTITY?

A. The entity was formed as the result of the Company's growth and the need for a formal platform to efficiently and cost effectively execute the allocation of shared costs to affiliates. The guiding principles followed during the formation and implementation 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; and,
- Flexibility for growth and creation of tighter integration to minimize manual effort.

Q. DO YOU BELIEVE THAT SPIRE SERVICES HAS FOLLOWED THESE PRINCIPLES?

A. Yes. In my opinion, the use of Spire Services met these objectives and continues to build upon these improvements to achieve additional benefits for Spire 's customers. In short, the entity is primarily used as an accounting vehicle to facilitate the allocation, affiliate cash settlement, and reporting of costs in one entity. Spire Services has provided efficiencies in administering the allocation process and better transparency of shared costs for both regulatory and financial reporting purposes.

Q. DID THE CREATION OF SPIRE SERVICES MEAN THAT "TRANSACTIONS BETWEEN SPIRE SERVICES AND NON-SPIRE MISSOURI AFFILIATES NO

LONGER MUST SATISFY THE REQUIREMENTS OF SPIRE MISSOURI'S CAM," AS ALLEGED BY MR. SCHALLENBERG (SCHALLENBERG DIRECT, PAGE 9)?

A. Setting aside the legal issue as to the applicability of the affiliate transaction rule to those transactions, I can say that Spire believes that its allocations continue to be made in accordance with the methodologies contained in Spire 's Cost Allocation Manual ("CAM").

Q. OPC WITNESS SCHALLENBERG SUGGESTS THAT AS A RESULT OF THE CREATION OF SPIRE SERVICES, "SPIRE MISSOURI IS NO LONGER OPERATING AS JUST A MISSOURI NATURAL GAS UTILITY" AND THAT "NOW ALSO THE PRIMARY SUPPORT SERVICE PROVIDER TO NON-REGULATED AFFILIATES AND THE HOLDING COMPANY" (SCHALLENBERG DIRECT, PAGE 9). DO YOU AGREE WITH THESE ALLEGATIONS?

A. No. The addition of Spire Services did not change the Spire Missouri operations. The only thing that has changed over time is that a fair and reasonable allocation of shared activities that benefit other affiliates are charged to those companies through Spire Services, resulting in a savings over recent years for the customers of Spire Missouri.

Q. DID THE USE OF SPIRE SERVICES CREATE A DIFFERENT ALLOCATION OR PRICING METHODOLOGY FOR SPIRE OR ITS AFFILIATES?

A. No. Both the allocations methodology and the pricing methodology remain consistent with those found in the approved CAM. As stated above, Spire Services provides a formal platform to efficiently and cost effectively execute the allocation of shared costs to affiliates. It does not change the methodologies used.

Q. OPC WITNESS SCHALLENBERG RECITES THE FACT THAT SPIRE SERVICES WAS FORMED WITH THE MISSOURI SECRETARY OF STATE AS

A "FOR PROFIT" CORPORATION (SCHALLENBERG DIRECT, PAGE 9). DOES SPIRE SERVICES HAVE ANY NET INCOME OR "PROFIT"?

A. No, Spire Services has no net income, all costs charged and allocated to Spire Services are re-allocated to other affiliates. I am not an attorney, however, it is my understanding that the "for profit" designation is a result of the options presented by the business organization statutes, not a statement of profitability.

Q. IT IS ALLEGED THAT SPIRE "REFUSED TO PROVIDE ITS POLICIES, PROCEDURES AND PRACTICES" AND "DID NOT PRODUCE ANY DOCUMENTATION REGARDING ITS THINKING AS TO WHY THE SERVICE COMPANY WAS FORMED" (SCHALLENBERG DIRECT, PAGE 11). DO YOU AGREE WITH THIS CHARACTERIZATION?

A. No, the Company provided documentation regarding the formation of the service company in response to DR 1027 on May 14, 2021, which was after the date of OPC direct testimony. We also subsequently met with OPC on two separate occasions to discuss the formation of the shared services company - once in a technical conference and again in a meeting with OPC personnel and Spire's Chief Governance Officer and Corporate Secretary. I believe we have provided a timely response to all of OPC's questions regarding the formation of Spire Services and the CAM.

Further, we provided responses to several requests related to policies, procedures, and practices of Spire Services and Cost Allocations. Below is a list of the key items provided:

- Staff DR0249 – response included a copy of the capitalization policy and charging assessment documents
- Staff DR0250 – response included documentation outlining payroll and cost charging guidance/review
- Staff DR0223 – response included copies of departmental "cheat sheets"/charging guidance for employees

- Staff DR0225 – response included a payroll charging narrative and information regarding default time/exception, etc. and reiterated the same in the OPC DRs1088-1092
- Staff DR0224 contains monthly departmental analysis files referenced in DR0223 as part of procedures for reviewing shared services department costs/allocation
- OPC DR1029 – provided documentation of processing allocations in both the PowerPlan system and Profitability and Cost Allocation subledger
- OPC DR1063 – response included a copy of the Profitability and Cost Allocations User guide including detailed program and configuration procedure for our cost allocation process
- Staff DR0017 – response contains allocation factor information and support for development of factors and use in the allocations process
- Annual CAM report provided contains information about the allocation process and functions included in shared service allocations

Q. MR. SCHALLENBERG STATES THAT SPIRE SERVICES HAS NO EMPLOYEES (SCHALLENBERG DIRECT, PAGE 12). IS THAT CORRECT?

A. Yes. Spire Services has no employees at this time. All employees work for and are paid directly by the operating companies or other affiliates, and charge time and expenses to the Spire Services for shared costs and activities.

Q. IS IT INTENDED THAT CERTAIN EMPLOYEES WILL EVENTUALLY WORK FOR SPIRE SERVICES?

A. Yes. However, an evaluation performed to assess the scope and effort required to implement this change highlighted the need to further study the consolidation of benefit plans before developing an implementation plan and timeline. Spire does not want to create a situation where such a change has the collateral consequence of increasing the total cost of administering employee payroll and benefits.

Q. YOU MENTIONED THAT ALL EMPLOYEES WORK FOR, AND ARE PAID DIRECTLY BY, THE OPERATING COMPANIES OR OTHER AFFILIATES.

Example Using Spire Services				
	Spire Missouri	Spire Services	Other Affiliates	Total
Payroll Cost	$ 100,000			$ 100,000
Time charged to Spire Services	$ (100,000)	$ 100,000		$ -
Monthly Allocation Processing - utilizing 3 factor (test year allocation factor of 64.6% to Spire MO, balance to other affiliates)	$ 64,600	$ (100,000)	$ 35,400	$ -
Final Cost Allocation utilizing Spire Services	$ 64,600	$ -	$ 35,400	$ 100,000
Example if Spire Services did not exist				
	Spire Missouri		Other Affiliates	Total
Payroll Cost	$ 100,000			$ 100,000
Monthly Allocation Processing - utilizing 3 factor (test year allocation factor of 64.6% to Spire MO, balance to other affiliates)	$ (35,400)		$ 35,400	$ -
Illustration of allocation not utilizing Spire Services	$ 64,600		$ 35,400	$ 100,000
Difference in Allocation with/without Spire Services	**$ -**	**$ -**	**$ -**	**$ -**

HOW MANY EMPLOYEES ARE THERE AND HOW MANY OF THOSE WORK FOR SPIRE MISSOURI?

A. As of September 30, 2020, Spire had 3,583 employees, including 2,424 for Spire Missouri, 947 for Spire Alabama, 123 for Spire Gulf, 34 for Spire Mississippi, 27 for Spire Marketing, and 28 for Spire Storage West.

Q. IS THERE A FINANCIAL ADVANTAGE PROVIDED TO AFFILIATES BECAUSE A HIGH PERCENTAGE OF THE EMPLOYEES WORK FOR SPIRE MISSOURI?

A. No. Holding all other things equal, the creation of Spire Services has absolutely no impact on the amount of shared costs Spire Missouri is allocated or are retained. To illustrate this point, I have prepared the below table to show how the wages from Spire Missouri are allocated utilizing the general 3 factor method, before and after the creation of Spire Services.

Q. MR. SCHALLENBERG DESCRIBES AN AMENDMENT TO THE SHARED FACILITY AGREEMENT ("SFA") THAT TOOK PLACE IN 2016 (SCHALLENBERG DIRECT, PAGE 9). WHAT WAS THE PURPOSE OF THAT AMENDMENT?

A. The purpose of the SFA amendment in 2016 was to add new affiliates acquired that year: EnergySouth, Mobile Gas, and Willmut Gas.

Q. MR. SCHALLENBERG ALSO ALLEGES THAT THE COMPANY'S CAM "NEARLY DOUBLED IN SIZE" AT THAT TIME (SCHALLENBERG DIRECT, PAGE 9). IS THIS ACCURATE?

A. In terms of the number of pages, the CAM did grow because we added additional documentation in an effort to provide more clarity in this report on cost allocations and the integration of Spire Services as the company has grown and changed since the CAM was approved.

Q. DO YOU BELIEVE THAT AS A RESULT OF THE AMENDMENTS TO THE SFAS SPIRE MISSOURI'S AFFILIATE TRANSACTIONS ARE NO LONGER IN COMPLIANCE WITH SPIRE MISSOURI'S APPROVED CAM?

A. No. The addition of these affiliates was consistent with the allocations concepts described in the CAM and resulted in a reduction of costs allocated to Spire Missouri for certain shared costs.

Q. OPC WITNESS SCHALLENBERG ALLEGES THAT THROUGH THE ALLOCATIONS PROCESS SPIRE MISSOURI IS PROVIDING A FINANCIAL ADVANTAGE TO THE HOLDING COMPANY, SPIRE INC. ("HOLDING COMPANY") (SCHALLENBERG DIRECT, PAGES 15-17). DO YOU AGREE WITH THIS ALLEGATION?

A. No.

Q. IS THE HOLDING COMPANY ASSIGNED COSTS?

A. Yes. The Holding Company is direct charged for joint and common costs that are determined to provide no direct or indirect benefit to affiliates.

Q. ARE THERE TYPES OF COSTS FOR WHICH THE HOLDING COMPANY GETS NO ALLOCATION?

A. Yes. There are certain categories of costs, as OPC has highlighted (Schallenberg Direct, pages 16-17), where the Holding Company does not receive an allocation. Examples of these are Directors & Officers and Outside Audit fees.

Q. WHY IS THAT?

A. The CAM specifies that these costs should be allocated based on the three-factor formula, which is comprised of fixed assets, revenues, and direct payroll, of which the Holding Company has none as it does not produce or consume goods or services. The Holding Company's purpose is to merely own shares of other companies. Therefore, it receives no allocation of such costs.

Q. DOES THAT MEAN THAT ALL OF THE COST CATEGORIES FOR WHICH THE HOLDING COMPANY RECEIVES NO ALLOCATION ARE COMPLETELY BORNE BY SPIRE MISSOURI?

A. No. Although the Holding Company is not allocated a portion of these costs, other affiliates are allocated a portion in compliance with the methods described in the CAM. The OPC's position does not appear to take into account allocation of those costs to entities other than Spire Inc.

Q. OPC WITNESS SCHALLENBERG ALLEGES THAT NO COSTS RELATED TO THE COMPANY'S BUILDING LOCATED AT 700 MARKET STREET ARE CHARGED OR ALLOCATED TO EITHER SPIRE, INC. OR SPIRE SERVICES (DIR, P. 18-19). IS THIS ACCURATE?

A. No. This conclusion reached by OPC is not accurate. The lease and operating costs of 700 Market Street are charged to Spire Services in full, and then allocated to affiliates based on a square footage study as defined by the approved CAM.

Q. ARE ANY COSTS RELATED TO 700 MARKET STREET RETAINED BY SPIRE SERVICES?

A. No.

Q. WHY NOT?

A. All costs allocated to Spire Services are re-allocated to other affiliates.

Q. ARE ANY OF THE 700 MARKET STREET BUILDING COSTS ALLOCATED TO SPIRE, INC.?

A. No.

Q. MR. SCHALLENBERG ALLEGES THAT THIS RESULT INDICATES THE TRANSACTIONS ARE NOT CONSISTENT WITH THE AFFILATE TRANSACTIONS RULES BECAUSE SPIRE MISSOURI IS PROVIDING GOODS AND SERVICES TO AFFILIATES AT NO COST (SCHALLENBERG DIRECT, PAGE 19). DO YOU AGREE WITH THAT POSITION?

A. No. Because of the nature of their role, neither Spire Inc. nor Spire Services make any use of the building at 700 Market Street. Accordingly, because they receive no "goods or services" associated with the building, there are no costs to be allocated to them.

Q. OPC WITNESS SCHALLENBERG RECOMMENDS AN ADJUSTMENT OF $84 MILLION ASSOCIATED WITH SPIRE MISSOURI COSTS HE BELIEVES SHOULD BE ALLOCATED TO OTHER ENTITIES (SCHALLENBERG DIRECT, PAGE 3). SHOULD THERE BE ANY SUCH ADJUSTMENT?

A. No. The costs reflected in Spire 's filing are consistent with the Missouri affiliate transactions rule and the Company's approved CAM. The Company's Missouri customers benefit from the way Spire 's costs are shared by the affiliates and are protected by the Company's adherence to the methodologies reflected in its CAM. No adjustment is reasonable or appropriate on this basis.

III. OVERHEAD CAPITALIZATION

Q. DO YOU AGREE WITH THE ADJUSTMENTS OPC WITNESS SCHALLENBERG HAS PROPOSED FOR OVERHEAD ALLOCATIONS (SCHALLENBERG DIRECT, PAGES 22-26)?

A. No, I do not. The adjustments proposed by OPC are arbitrary and lack a basis or foundation in fact.

Q. ARE THE METHODS USED BY SPIRE MISSOURI TO ALLOCATE OVERHEAD TO CONSTRUCTION PROJECTS CONSISTENT WITH THE UNIFORM SYSTEM OF ACCOUNTS ("USOA")?

A. Yes. The Company's approach to determine what overheads are eligible for capitalization is compliant with the requirements of USOA. It is also a reasonable and acceptable approach and is consistent with historical practice. Direct labor is one of the key variables that is used to allocate a part of the overheads, both direct and indirect in nature, that have a relationship to construction and capital spend activities, including G&A. The USOA allows these types of methods for the allocation of overhead because it would not be practical or administratively cost effective and beneficial to review each and every source document to estimate the allocation. In my experience with cost allocations throughout my career, the methods used by the Company are very common and are widely used throughout many industries.

Q. HAVE THERE BEEN CHANGES TO THESE METHODS THAT COULD SKEW THE COST OF SERVICE SOUGHT OR RESULT IN A BENEFIT TO THE COMPANY OR A DETRIMENT TO ITS CUSTOMERS?

A. No. Although the process and systems used to capitalize overheads has changed in recent years, the underlying and fundamental approach is consistent with the practice used for decades. The methods are also consistent with how cost of service was determined by the

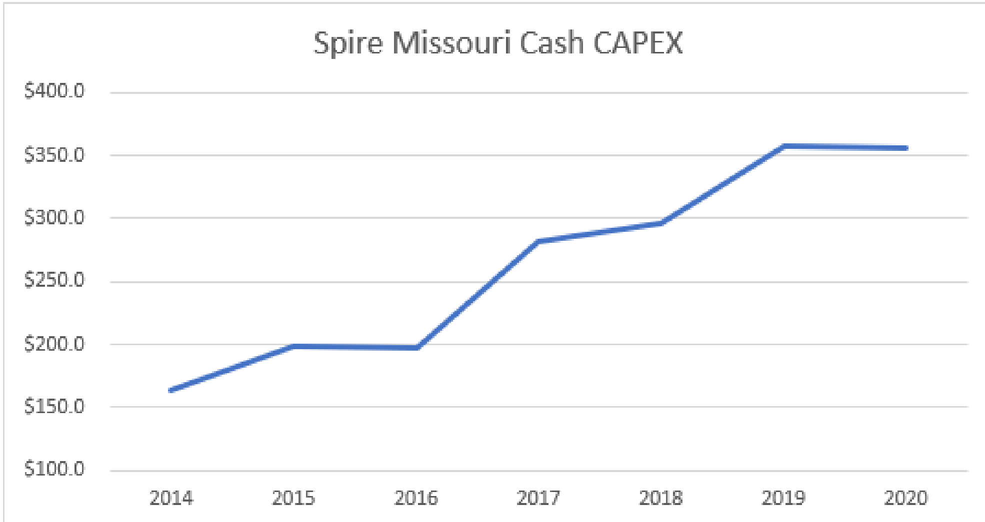
Company in filing the current case and the 2017 rate case and, I suspect, for cases going back for many years.

Q. DOES SPIRE REGULARLY CHANGE ALLOCATION METHODS OF OVERHEADS?

A. No, changing allocation methods year to year would violate one of the key accounting principles: consistency. The Financial Accounting Standards Board (FASB) requires adherence to the consistency principle with the objective of limiting management's ability to manipulate financial statements by inconsistently applying or changing certain policies. It is important to note that we do update the calculations of the methods and review them for accuracy and reasonableness on a regular basis, but we do not, and would not, change the methodology approach unless a change in the business occurred that fundamentally altered the cost drivers of our business.

Q. PLEASE RESPOND TO THE ASSERTION MADE IN THE STAFF REPORT-COST OF SERVICE (YOUNG, PAGE 32) THAT "IT IS NOT A REASONABLE EXPECTATION FOR HALF OF SPIRE EAST'S CONSTRUCTION PROJECTS TO BE COMPRISED OF COSTS THAT ARE NOT DIRECTLY RELATED TO ANY PARTICULAR CONSTRUCTION PROJECT"?

A. As explained above, the Company has not changed the methods used to define and calculate construction overhead costs or allocate them to particular projects. The level of absolute dollars charged to capital and ratios used to allocate overheads has increased over the past several years due to a higher level of construction activity, in large part by our Missouri field operations workforce. As noted above, one of the primary methods used to allocate overhead is the ratio of direct labor to total labor, and therefore it makes sense that the level of overheads that support construction and capital investment has increased. The chart below shows the trend of capital spend over the past several years:



	2014	2015	2016	2017	2018	2019	2020
Cash CAPEX	$ 163.0	$ 198.6	$ 197.8	$ 282.2	$ 295.8	$ 356.9	$ 356.0
Annual Change		21.8%	-0.4%	42.7%	4.8%	20.7%	-0.3%
CAGR FY14		21.8%	10.2%	20.1%	16.1%	17.0%	13.9%
CAGR FY17					4.8%	12.5%	8.1%

Q. WHAT INFORMATION HAS SPIRE PROVIDED AS TO THE OVERHEADS CAPITALIZED AND METHODS USED?

A. In addition to all of the detailed financial information provided in filing the rate request around capitalization and overheads and a copy of the general ledger for the test year and true-up period, the company has responded to several DR's on this topic and provided a presentation and answered additional questions in a technical conference on June 9, 2021. Other notable information on overheads was provided in response to Staff DRs 250 through 255 and OPC DRs 1039, 1040, and 1041.

Q. BOTH STAFF (STAFF REPORT-COST OF SERVICE, YOUNG, P. 32) AND THE OPC (SCHALLENBERG DIRECT, PAGE 24) HAVE ASSERTED THAT SPIRE DOES NOT MAINTAIN ADEQUATE RECORDS OR HAVE POLICIES AND PROCEDURES THAT GOVERN THESE PROCESSES. IS THAT THE CASE?

A. No. I believe parties may have misinterpreted parts of data responses or did not view responses in the same context we considered when responding. One example is OPC DR

1009-2 that asked for "the Spire Missouri employee, title, and position description **<u>for each position</u>** that capitalize a portion of their time and benefits as construction overheads during this period." The response was that "we do not maintain such information in the format requested but will work with OPC to provide further explanation and, if appropriate, a representative sampling of the requested employee information." It is possible to provide this level of detail for each employee, but our response was meant to imply it is not practical to provide as broadly as requested through this data request. The Company has proactively worked with all parties throughout this proceeding, especially on this matter, and recently had a technical conference meeting with those parties to provide any clarity needed in the data request responses already provided and to offer additional information as requested.

Q. OPC WITNESS SCHALLENBERG PROPOSES THAT 1) "A TRACKER BE AUTHORIZED TO ENSURE THAT SPIRE MISSOURI'S GENERAL OVERHEAD IS NOT ALLOWED TO BE OVER-RECOVERED. . ."; 2) THAT "SPIRE MISSOURI BE ORDERED TO CREATE POLICIES AND PROCEDURES THAT TRACK IN THE GREATEST DETAIL THE COMPANY'S PRACTICE FOR SELECTION OF OVERHEADS FOR CAPITALIZATION, THE CRITERIA NEEDED TO PROVE A DEFINITE RELATIONSHIP, AND WHY THE BASIS OF THE RELATIONSHIP IS NOT BEING USED TO ASSIGN COSTS; 3) "SPIRE MISSOURI REPORT QUARTERLY INFORMATION REGARDING OVERHEAD CAPITALIZATION TO ALLOW MONITORING OF THE DOLLAR IMPACT OF SPIRE MISSOURI'S PRACTICES"; AND, 4) "THAT SPIRE MISSOURI REPORT EACH FISCAL YEAR THE AMOUNT OF OVERHEAD CAPITALIZATION THAT THE COMPANY CANNOT SHOW THE DEFINITIVE RELATIONSHIP TO CONSTRUCTION . . ." (SCHALLENBERG DIRECT, PAGES 25-26). HOW DO YOU RESPOND TO THESE PROPOSALS?

A. My responses to these proposals follow:

1) The amount of overhead included in cost of service is measured by the test year and any applicable items through the true-up period. I am not clear how a tracker for overheads would be applicable to this situation or could be reasonably measured and implemented.

2) The Company already has appropriate policies, procedures, processes and internal controls over financial reporting. The general ledger already tracks these processes in "the greatest detail."

3) Spire Missouri already provides a surveillance report quarterly that includes financial information of a similar nature. The Company would consider any reasonable requests for changes to that report that better meet OPC's needs.

4) I believe additional reporting requirements as to this issue are unnecessary. Any amounts not considered to have a definitive relationship to construction are expensed as part of O&M. The Company provides a summary of O&M expenses in quarterly surveillance reporting and FERC Form 2. A copy of the general ledger that has each and every detail that comprise O&M is also provided within each rate case.

Q. IF A&G OVERHEAD CAPITALIZATION RATES WERE REDUCED AS A RESULT OF USING A NEW METHOD, HOW WOULD IT IMPACT COST OF SERVICE IN THIS CASE?

A. Cost of service and the revenue requirement would increase, as costs that are currently being allocated to capital and recovered over the life of those assets would shift to O&M.

Q. DO YOU RECOMMEND ANY CHANGES THAT DIFFER FROM THE ASSUMPTIONS USED FOR OVERHEAD ALLOCATIONS FOR THE TEST YEAR AND FILED WITH STAFF?

A. No.

IV. PENSIONS AND POST EMPLOYMENT BENEFITS (OPEB) FUNDING

Q. WHAT IS YOUR RECOMMENDATION FOR FUNDING OF PENSION PLANS?

A. In my Direct Testimony, I recommend funding annually at a level that is projected to achieve 100% pension benefit obligation ("PBO"), or market-based funding levels, in five years for the pension plans.

Q. WHAT IS RECOMMENDED BY THE STAFF?

A. The Staff has recommended a funding level that is measured by IRS rules to maintain compliance with the minimum requirements of the Employee Retirement Income Security Act ("ERISA").

Q. WHAT IS THE DIFFERENCE BETWEEN THE COMPANY'S RECOMMENDATION AND THAT OF STAFF?

A. The annual funding requirement for pension plans at this minimum level is $36.8 million, compared with Spire 's request of $48.4 million. However, in my opinion, it is not in the best interests of the Company and its customers to fund at the minimum levels.

Q. WHY WOULD IT BE IN THE BEST INTEREST OF THE CUSTOMERS TO FUND PENSION PLANS AT HIGHER THAN MINIMUM LEVELS?

A. There are several compelling reasons to consider funding at a level above the minimum:

1. As a result of legislative changes to the Internal Revenue Service ("IRS") liability basis, the plans' "minimum funding" are determined using artificially high interest rates, leading to an IRS considered "funded status" of over 80%. At the same time, on a PBO, or market-funded status, the funded status is closer to only 60% when measured at the end of the test year. This creates the potential for difficult situations in the future.

2. Increased funding now will minimize long term costs to customers by taking advantage of the benefits of the time value of money, while balancing

against excessive short-term cost increases, such as Pension Benefits Guaranty Corporation ("PBGC") variable premiums.

2a. In my opinion the PBGC will continue to allow companies to under fund pension plans for the foreseeable future, but not without incremental increases in penalties for doing so. When pension plans have funding levels below 100% the trust must pay a variable PBGC premium, or essentially a tax, that increases as funding levels decline. In 2021 the variable rate is 4.6%, this is 3.7% higher than the rate was in 2012, or over a 400% increase in the last 10 years. When the last rate case was filed in 2016 the rate was 3.0%, the current rate is 1.6% higher, or an increase of over 50%. Recent trends imply this rate will only continue to increase, as it has done each year since 2013, not decrease or even remain flat.

3. Increased funding now will improve intergenerational equity by better aligning pension costs to customers receiving services. It will also provide better predictability and stability of those costs.

4. Increased funding now will protect the pension plan and customers from structural cost increases resulting from possible future Congressional actions.

I discuss these reasons in greater detail in my Direct Testimony.

Q. ARE THERE OTHER LEVELS OF FUNDING THAT YOU WOULD SUPPORT IN THE ALTERNATIVE TO THE COMPANY'S 100% FUNDING RECOMMENDATION?

A. Yes. The Company will support positions above the minimum as a "step in the right direction." As an example, moving to about half-way between the Staff and Company positions would result in annual funding of $42.0 million.

Q. WHAT IMPACT WOULD SUCH A MOVE HAVE ON RATES WHEN CONSIDERING BOTH PENSIONS AND OPEB PLANS?

A. There are two components of pension and OPEB costs in rates. One is related to the projection of funding on a go-forward basis, the other component relates to the amortization of a regulatory asset from prior year contributions. The regulatory asset, and amortization of it, grew in prior years as required funding exceeded what was estimated and included in rates. Therefore, it is important to understand all components of these costs when assessing the impact on rates, as minimum funding in prior years ultimately led to an increase in a regulatory asset now being recovered. The total funding request for these plans at this mid-level would result in a $1.1 million decrease from current rates, in addition to a decrease in amortization of $8.2 million. If minimum funding established by IRS rules is continued to be used for recovery of projected contributions, it will undoubtably result in a growing regulatory asset that ultimately ends up in future rates through amortization. The summary table below shows the <u>$9.3 million decrease from current rates associated with this proposal</u>:

in millions	**Rebuttal - Average of positions**		
	East	West	Total
Annual Funding	36.0	6.0	42.0
Prepaid Amortization	12.3	(2.2)	10.1
Total	48.3	3.8	52.1
	Current Recovery		
	East	West	Total
Annual Funding	37.6	5.5	43.1
Prepaid Amortization	21.6	(3.3)	18.3
Total	59.2	2.2	61.4
Net Reduction	**(10.9)**	**1.6**	**(9.3)**

<u>V. UNCOLLECTIBLES / BAD DEBT EXPENSE</u>

Q. DO YOU AGREE WITH STAFF'S CALCUATION OF UNCOLLECTIBLES IN THEIR COST OF SERVICE REPORT?

A. Yes, I do.

Q. HOW DOES THIS COMPARE TO VICINITY ENERGY'S RECOMMENDATION?

A. Vicinity's assumption is that the test year expense was skewed by the pandemic, and therefore proposes that Spire continue to recover bad debt expenses at the level set in the last Spire rate case, or $12,685,019. This assumption is not valid because the test year is based on a three-year average of actual net write-offs associated with revenues from prior periods due to our policy, and therefore the pandemic had no direct impact on the calculation. The three-year average used for this case resulted in a reduction of over $923,000 from the level set in the last case, not an increase.

Q. PLEASE EXPLAIN FURTHER HOW BAD DEBT EXPENSE IS DETERMINED.

A. Spire records estimates, or a bad debt allowance, for expected future write-offs of revenues earned during each period. When actual write-off's and recoveries occur in the system they are charged against that allowance. In fiscal year 2020 the bad debt allowance expense was certainly higher than a normal year due to the pandemic, and a deferral was recorded as part of the COVID AAO agreed to in Case No. GU-2020-0376.

Q. HAS THE COMPANY DISCUSSED ITS TREATMENT OF THE COVID BAD DEBT DEFERRAL WITH STAFF?

A. Yes. The Company has already reviewed and discussed the deferral with Staff, and the amount will be finalized during the true-up audit. In the direct testimony of Staff Witness Kimberly K. Bolin, she recommends a tracker for bad debt expense in order to prevent under or over recovery in the AAO deferral.

Q. DO YOU AGREE WITH THE STAFF'S RECOMMENDATION TO USE A TRACKER FOR BAD DEBT EXPENSE?

A. Yes. The Company agrees with this recommendation, but it will be impossible to identify the future write-offs that are associated with COVID versus other causes, and therefore recommends a tracker for all bad debt expense for Spire until the next case.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Spire Missouri Inc.'s d/b/a Spire Request for Authority to Implement a General Rate Increase for Natural Gas Service Provided in the Company's Missouri Service Areas	))))	**Case No. GR-2021-0108**

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 the Vice President, Controller at Spire Missouri Inc. 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 Spire Missouri Inc.

3. Under penalty of perjury, I declare that my answers to the questions contained in the foregoing rebuttal testimony are true and correct to the best of my knowledge and belief.

TK

Timothy W. Krick

6/17/21

Date