

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GF-2022-0169

FROM: Randall Jennings, Financial and Business Analysis Division

/s/ Seoung Joun Won, PhD 1/31/2022
Financial Analysis / Date

/s/ Paul Graham 1/31/2022
Staff Counsel's Office / Date

SUBJECT: Staff Recommendation concerning the Application of Spire Missouri Inc. ("Spire Missouri," "Company," or "Applicant") for Approval of Financing Authority

DATE: January 31, 2022

1. (a) **Type of Issues:** Registered Securities, Common Stock, Private Placement Investments, and Conventional Term Loans.
- (b) **Amount:** Up to \$800,000,000.
- (c) **Rate:** Unknown and not applicable in terms of stock.
- (d) **Other Provisions:** The authority shall remain subject to all of the terms and conditions approved by the Commission in Case No. GF-2020-0334. Finding, as required by Section 393.200, that the money, property or labor to be procured or paid for by the issuance and/or execution of the instruments authorized herein are, or will be, reasonably required for the purposes specified in the order and that such purposes are not in whole or in part reasonably chargeable to operating expenses or to income.
2. **Proposed Date of Transactions:** Anytime during the requested period of financing authority through 2024.
3. (a) **Statement of Purpose of the Issuances:**
The proceeds from the securities will be used for the following purposes: to discharge or redeem previously issued bonds; to finance the purchase, acquisition and construction of additional properties and facilities, as well as improvements to the Company's existing plant; to improve or maintain service; to discharge or lawfully refund all or a portion of the Company's outstanding short-term debt; to reimburse moneys actually expended from income; and/or to provide the financial resources required to meet the Company's other public utility obligations.
- (b) **From a financial perspective, does Staff deem this Statement of Purpose of the Issue reasonable?**

Yes.

4. **Copies of executed instruments defining terms of the proposed securities:**

No instruments have been executed and no general terms or conditions were described other than potential for private or registered (public) debt securities.

5. **Certified copy of resolution of the directors of applicant, or other legal documents authorizing the issuance of the securities reviewed:**

Such instruments have not been executed.

6. **Pro-forma Balance Sheet and Income Statement reviewed:**

Yes

7. **Capital expenditure schedule reviewed:**

Yes

8. **Journal entries required to be filed by Spire Missouri to allow for the Fee Schedule to be applied:**

Unknown until securities are issued.

9. **Recommendation of the Staff:**

Conditional Approval granted pending receipt of definite terms of issuance (see Comments and Recommended Conditions).

COMMENTS:

Spire Missouri is a public utility engaged in distributing and transporting natural gas to customers in both the eastern and western portions of the State of Missouri. Spire Missouri serves customers in the City of St. Louis and ten counties in eastern Missouri through its Spire East operating unit. Spire Missouri serves customers in the City of Kansas City and thirty counties in western Missouri through its Spire West operating unit. Spire Missouri is a gas corporation subject to the jurisdiction of the Missouri Public Service Commission. Spire Missouri is a wholly-owned subsidiary of Spire Inc., ("Spire") which owns other companies.

Spire Missouri filed this Application pursuant to Sections 393.180, 393.190 and 393.200 RSMo, and Commission Rules 20 CSR 4240-2.060 and 10.125. The Application requests that the Commission grant Spire Missouri the authority to issue conventional term loan securities, registered securities (presumably first mortgage bonds, unsecured debt and preferred stock), issue private placement debt, and issue common stock all in a total amount not to exceed \$800 million.

The Commission issued a report and order in Case No. GF-2020-0334 (the “2020 Order”) granting Spire Missouri authorization in an aggregate amount not to exceed \$660 million (the “Current Financing Authority”) at any time, or from time to time, through September 30, 2023. As of December 22, 2021, Spire Missouri has issued \$605 million of the authorization, with approximately \$55 million of the amount authorized remaining until September 30, 2023. This remaining amount is inefficient for supporting projected capital expenditure because of unplanned and unexpected fuel costs resulting from Winter Storm Uri in February 2021.

Spire Missouri lists in its Application on page 5, paragraph 14, the proceeds are to be used for:

- (1) to discharge or redeem previously issued bonds;
- (2) to finance the purchase, acquisition and construction of additional properties and facilities, as well as improvements to the Company's existing plant;
- (3) to improve or maintain service;
- (4) to discharge or lawfully refund all or a portion of the Company's outstanding short-term debt;
- (5) to reimburse moneys actually expended from income; and/or
- (6) to provide the financial resources required to meet the Company's other public utility obligations. These potential uses are generally contemplated under Section 393.200(1) RSMo.

Spire Missouri’s Application requests the Commission provide it authority to issue various securities in an amount of up to \$800 million. The proceeds includes the sale of registered securities, common stock, private placement investments and term loans. In order to evaluate the reasonableness of Spire Missouri’s request, Staff issued data requests to request financial data as it pertains to the period in which Spire Missouri is requesting the Commission grant it financing authority. Staff requested Spire Missouri provide projected financial statements for the period of the requested financing authority, any information Spire Missouri provided to or received from rating agencies during its most recent interaction with rating agencies, and the pro forma impact of the proposed financings on Spire Inc. and Spire Missouri’s projected credit metrics over the period of the requested financing authority. Staff requested this information in order to assess the reasonableness and necessity of Spire Missouri’s request and the potential impact of requested debt issuances on credit quality. Staff also made further discovery through news articles.

For purposes of estimating potential capital needs, it is common corporate financing practice to estimate the difference between the amount of funds the company expects to receive from its operations and the amount of funds the company expects to use in its operations (inclusive of capital expenditures and dividend payments). To the extent that there is a projected deficiency in the amount of funds the company has available for reinvestment in its operations, the company usually incurs short-term debt to initially fund these deficiencies. To the extent short-term debt balances reach sustained and higher levels, due to investment in long-lived assets, it is financially

prudent to issue long-term financings to reduce the amount of short-term debt outstanding. This allows for adequate capacity to access short-term capital markets to maintain sufficient liquidity. Consequently, Staff issued its data requests in this case to determine not only Spire Missouri's projected capital deficiency, but also how the planned financings requested in the Application may impact Spire Missouri's credit quality by analyzing certain key credit metrics, to which rating agencies give significant consideration.¹

Because Spire Missouri is requesting a broad financing authority for the next three years, the Application does not provide details as to the anticipated terms of the debt it plans to issue over the period of the authority. In fact, although the financial projections indicate that Spire Missouri intends to issue debt securities for the full amount of the Authority, this would be at the Company's discretion. Because the Company cannot provide more defined terms of anticipated debt issuances over the period of the Authority, Staff believes it would be prudent to condition the Authority to apply only to securities that are consistent with the types of securities the Company has issued in the past, specifically as it relates to debt securities.

Staff has verified that Spire Missouri's projected capital expenditure plan supports the need for the \$800 million long-term debt.² Spire Missouri's 2022 through 2024 total projected capital expenditures totaled just over ** [REDACTED] **, equating to roughly ** [REDACTED] ** of expenditures per month.³ Spire Missouri currently projects that it will need ** [REDACTED] ** of capital expenditures for the period 2021 to 2026.⁴

The pro forma impact of Spire Missouri's proposed debt financing on Spire Missouri's and Spire Inc.'s capital structure as of September 30, 2021, is as follows:

Spire Missouri:

	<u>As of September 30, 2021⁵</u>	<u>Pro Forma⁶</u>
Common Equity	46.31 %	** [REDACTED] **
Debt	53.69 %	** [REDACTED] **
Total	100.00 %	** [REDACTED] **

The above capital structure ratios imply a net increase of 1.84% in total debt for Spire Missouri. Funds From Operations to Total Debt ("FFO/Debt") for Spire Missouri is projected to decrease slightly from 17.40% to 15.79%. Total Debt to Earnings Before Interest, Taxes, Depreciation, and

¹ FFO/Total Debt, FFO/Interest, Total Debt/Total Capitalization, Total Debt/EBITDA.

² Spire Missouri's response to Staff Data Request No. 0004.

³ Ibid.

⁴ Ibid.

⁵ Staff work paper.

⁶ Ibid.

Amortization (“Debt/EBITDA”) for Spire Missouri is projected to increase slightly from 5.02x to 5.03x. Debt to Capital is projected to decrease from 54.25% to 49.14%. To the extent that Spire Missouri’s credit metrics changes, Staff finds that Spire Missouri’s financial risk profile will not be significantly changed by the approval of this Application.⁷

RECOMMENDED CONDITIONS:

Staff recommends the Commission grant Spire Missouri \$800 million of its requested financing authority, subject to the following conditions:

1. That the Company be authorized to issue conventional term loans (first mortgage bonds, unsecured debt and preferred stock), and issue common stock in an aggregate amount not to exceed \$800 million at any time, or from time to time, through December 31, 2024, provided that the Company shall not be authorized to use any portion of the \$800 million for any purpose other than for the exclusive benefit of Spire Missouri’s regulated operations, as such purposes are specified in Section 393.200. However, if the Company plans to issue anything other than senior secured debt (registered or privately-placed), it shall file notification with the Commission thirty (30) days in advance of doing so.
2. That Spire Missouri is authorized to accommodate any change in the amount of capital leases it carries resulting from the accounting standards update adopted by FASB on February 16, 2016. Any such amount shall not count against the amount of the financing authority granted herein by the Commission.
3. That the total amount of the long-term debt, capital leases, and preferred stock issued and outstanding under such authorization shall not, at any time during the period covered by this authorization, exceed the lesser of the value of Spire Missouri’s rate base or 65 percent of its total capitalization. Adopting such conditions as are defined in the Stipulations in Case Nos. GM-2001-342 and GF-2007-0220, total capitalization means “common equity, preferred stock, long-term debt, and short-term debt, excluding short-term debt supporting natural gas and propane inventories, purchased gas costs and cash working capital. Common equity is defined as par value of common stock, plus additional paid in capital, plus retained earnings, minus treasury stock.”
4. That the current Commission Authority under Case No. GF-2020-0334 shall expire and shall be superseded by the Authority granted in Case No. GF-2022-0169.

⁷ Ibid.

5. That the interest rate for any debt issuance covered by the Application shall not be greater than a rate that is consistent with similar securities of comparable credit quality and maturities issued by other issuers.
6. That, if and when individual debt securities are issued under this Application, the Company shall submit a verified report to the Commission's Budget & Fiscal Services Department documenting such issuance, the use of any associated proceeds and the applicability and measure of fees under Section 386.300.2.
7. That the Company shall file with the Commission within ten (10) days of the issuance of any financing authorized pursuant to a Commission order in this proceeding a report including the amount issued, date of issuance, interest rate (initial rate if variable), maturity date, redemption schedules or special terms, if any, use of proceeds, estimated expenses, and loan or indenture agreement concerning each issuance. In addition, the Company shall also provide the analysis, to include but not be limited to indicative pricing information developed, performed to determine that the terms for the securities issued were consistent with market requirements at the time.
8. That the Company shall submit to Staff and the Office of the Public Counsel any information concerning communications with credit rating agencies concerning individual debt securities issued under this Application.
9. That the Company shall file with the Commission any credit rating agency reports issued on the Company, the Company's debt issuances, or on Spire Inc.
10. That nothing in the Commission's order shall be considered a finding by the Commission of the value of these transactions for rate making purposes, and that the Commission reserves the right to consider the rate making treatment to be afforded these financing transactions and their results in cost of capital, in any later proceeding.
11. In seeking a renewal of the authority granted in this case, Spire Missouri and Staff shall operate under the general time frames set forth for financing cases in the 2004 case management roundtable project.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Spire Missouri Inc.'s d/b/a)
Spire Verified Application for Approval of)
Financing Authority) **Case No. GF-2022-0169**

AFFIDAVIT OF RANDALL JENNINGS

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

COMES NOW Randall Jennings and on his oath states that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation in Memorandum form*; and that the same is true and correct according to his best knowledge and belief.

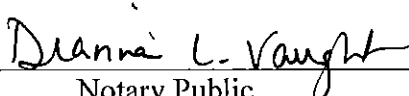
Further the Affiant sayeth not.



RANDALL JENNINGS

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 27th day of January, 2022.



Notary Public

