

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

In the Matter of Spire Missouri Inc. d/b/a                     )  
Spire's Verified Application for Approval of                 )  
Financing Authority   )

**Case No. GF-2020-0334**

**STAFF RECOMMENDATION**

**COMES NOW** the Staff of the Missouri Public Service Commission and submits the attached Staff Recommendation (which is incorporated herein by reference) as directed by the Commission's *Order Directing Staff to File Recommendation* issued on April 23, 2020, and in support thereof states as follows:

1. On April 21, 2020, Spire Missouri Inc. ("Spire Missouri" or "Company") filed the Verified Application of Spire Missouri Inc. for Approval of Financing Authority requesting financing authorization in the amount of \$750 million through September 30, 2023. Spire Missouri filed the Application pursuant to Sections 393.180, 393.190 and 393.200 RSMo and Commission Rules 20 CSR 4240-2.060 and 10.125.

2. Spire Missouri also requests a waiver of the 60-day notice requirement of Commission Rule 20 CSR 4240-4.017(1). The Company contends that Rule 20 CSR 4240-4.017(1)(D) allows an organization to request a waiver for good cause. "Good cause for waiver may include, among other things, a verified declaration from the filing party that it has had no communications with the office of the commission within the prior one hundred fifty (150) days regarding any substantive issue likely to be in the case..."<sup>1</sup> To this end, Spire Missouri included with their application a verified declaration that

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<sup>1</sup> Commission Rule 20 CSR 4240-4.017(1)(D)

no one from the Company has had communication with the Commission in the last 150 days regarding any substantive issues concerning this case.

3. On April 23, 2020, the Commission issued an *Order Directing Staff to File Recommendation* which directed Staff to file its Staff Recommendation regarding the Application by June 22, 2020. On June 12, 2020, Spire Missouri issued a press release announcing its tender offer.<sup>2</sup> In order to analyze Spire's tender offer, on June 19, 2020, Staff filed a *Motion of Extension* requesting an extension of time to file its Staff Recommendation. On June 22, 2020, the Commission granted Staff's *Motion* and ordered Staff to file its Recommendation by July 10, 2020.

4. Staff has reviewed the Application and additional data obtained from the Company and submits the attached Staff Recommendation (which is incorporated by reference) based on its review.

5. For the reasons stated in the attached Staff Recommendation, Staff recommends the Commission issue an order granting Spire Missouri \*\* \_\_\_\_\_  
\_\_\_\_\_ \*\* of the financing authorization requested, subject to certain conditions.

**WHEREFORE**, Staff respectfully requests the Commission grant Spire Missouri's waiver and recommends approval of Spire Missouri's Application subject to the eleven (11) conditions specifically enumerated in the attached Staff Recommendation and that this matter be placed on the Commission's agenda as soon as possible.

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<sup>2</sup> <http://investors.spireenergy.com/news-releases/2020/2020-06-12>

Respectfully submitted,

**/s/ Ron Irving**

Ron Irving

Associate Counsel

Missouri Bar No. 56147

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Missouri Public Service Commission

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### **CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to counsel of record this 9<sup>th</sup> day of July, 2020.

**/s/ Ron Irving**

## MEMORANDUM

**TO:** Missouri Public Service Commission Official Case File  
Official Case File Case No. GF-2020-0334

**FROM:** Peter Chari, Utility Regulatory Auditor III, Financial Analysis Department

/s/ Seoung Joun Won    07/09/2020                      /s/ Ron Irving                      07/09/2020  
Financial Analysis / Date                                      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:** July 9, 2020

1. (a) **Type of Issues:** Conventional Term Loans, Registered or Private Placement Debt, Common Stock, and Capital Leases.

(b) **Amount:** Up to \$750,000,000 of all securities (except for current Operating Leases with a term of 12 months or more which are required to be re-characterized as Capital Leases due to implementation of the Accounting Standards Update issued February 26, 2016 by the Financial Accounting Standards Board ("FASB")).

(c) **Rate:** Unknown and not applicable in terms of stock.

(d) **Other Provisions:** Further terms and provisions including provisions for prepayment and redemption will be determined at the time of issuance.

2. **Proposed Date of Transactions:** Anytime during the requested period of financing authority through September 30, 2023.

3. (a) **Statement of Purpose of the Issuances:**

The proceeds from the securities will be used for the following purposes: 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.

- (b) **From a financial perspective, does Staff deem this Statement of Purpose of the Issue reasonable?**

Yes, but authority should be limited to \*\* \_\_\_\_\_ \*\*.

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:**

Yes

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:**

Reject requested amount of \$750 million but \*\* \_\_\_\_\_ \*\* of all securities (other than current Operating Leases with a term of 12 months or more which are required to be re-characterized as Capital Leases due to implementation of the Accounting Standards Update issued February 26, 2016 by the FASB, which will not count against the Financing Authority [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 \$750 million.

Spire Missouri stated that the \$750 million requested authority include \$125 million of unused capacity from the financing authority granted in Case No. GF-2018-0249.<sup>1</sup>

Spire Missouri also requests that the authority granted by the Commission apply to the accounting rule change (Accounting Standards Update issued February 26, 2016 by FASB) that took effect in 2019 that has the impact of reclassifying certain existing operating leases to capital leases. Spire Missouri has stated that it may still have a very small amount of such operating leases, which are subject to the accounting rule change.<sup>2</sup> Spire Missouri restated that this accounting change will not result in any incremental change to its financing needs and, accordingly, does not expect that any incremental financing authority is needed to accommodate the change. However, if incremental financing authority is needed due to the accounting change, Spire Missouri requests that it be deemed as having the requisite financing authority to accommodate any change in the amount of capital leases it carries resulting from the new accounting requirement, and that any such amounts not be counted against its \$750 million financing authority. As of December 31, 2019, Spire Missouri has a total of \$1,600,000 in capital leases (Spire Missouri stated that it has an even smaller and insignificant amount of operating lease left), representing a very small portion of Spire Missouri's total long-term debt of about \$1,100,200,000.<sup>3</sup> Because this accounting rule change affects leases that are already on the books, and that the leases are very small in proportion to the total debt, Staff is not opposed to this request.

Spire Missouri lists the following potential uses of the proceeds that would be raised pursuant to the requested authority: (1) to discharge or redeem previously issued bonds (Spire Missouri lists \$305 million in long-term debt for refinancing); (2) to finance the purchase, acquisition and construction of additional properties and facilities, as well as improvements to the Company's existing plant (Spire Missouri lists a total of \$1.1046 billion in capital expenditures over the period between 2020 and 2022); (3) to improve or maintain service; (4) to discharge or lawfully refund all or a portion of the Company's outstanding short-term debt (Spire Missouri lists \$100 million in short-term debt for refinancing); (5) to reimburse moneys actually expended from income; and/or (Spire Missouri lists \$353 million in reimbursements for moneys expended for allowable purposes) (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 \$750 million through September 30, 2023. In order to evaluate the reasonableness of Spire Missouri's request, Staff issued data requests to request financial data

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<sup>1</sup> Response to Data Request No. 0017.

<sup>2</sup> Spire Missouri representative said this in a teleconference with Staff on May 5, 2020.

<sup>3</sup> \$1,098,600,000 long-term debt + \$1,600,000 capital lease, as of December 31, 2019.

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 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 a news article.

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, 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.<sup>4</sup>

According to Spire Missouri's projected cash flow statements \*\* \_\_\_\_\_  
\_\_\_\_\_. \*\* Being that this is the scenario Spire Missouri presented to rating agencies in February 2020 and the rating agencies have not published reports expressing concerns about such planned debt issuances, Staff is not particularly concerned about Spire Missouri \*\* \_\_\_\_\_ . \*\* Staff's concerns in past Spire Missouri finance applications was that their requested financing authority was far in excess of debt issuance anticipations shared with rating agencies, which would mean something unexpected and possibly financially detrimental had occurred or was expected to occur, which Staff and the Commission should review.

However, Staff is concerned that Spire Missouri does not need the full amount of the requested authority of \$750 million for the uses it stated in the application. \*\* \_\_\_\_\_

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<sup>4</sup> FFO/Total Debt, FFO/Interest, Total Debt/Total Capitalization, Total Debt/EBITDA.

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After careful consideration of Spire Missouri's new suggestion, Staff recommends \*\* \_\_\_\_\_  
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\_\_\_\_\_ \*\* The Commission, in cases No. GF-2009-0450  
and GF-2015-0181, rejected Spire Missouri's request for \$82 million and \$250 million,  
respectively, financing authorities for 'flexibility', ruling "...flexibility is neither a purpose nor an  
amount. Flexibility is how fast Laclede uses its authorization to address market conditions."  
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\_\_\_\_\_ \* For example, Spire Missouri had \$125 million from its last financing authority  
application, Case No. GF-2018-0249, left unused. Staff has, in the past, expressed concern about  
Spire Missouri's excessive financing requests.

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Due to the significant disparity between Spire and Spire Missouri's capital structures in the most recent rate cases, Nos. GR-2017-0215 and GR-2017-0216, Staff analyzed Spire's and Spire Missouri's projected capital structures to determine if Spire and Spire Missouri's capital structures are projected to become more similar. In Staff's opinion, Spire's decision to \*\* \_\_\_\_\_  
\_\_\_\_\_ \*\*. Because  
Spire's and Spire Missouri's financial risk is interrelated, it is important to evaluate the planned financial management of each company to ensure Spire Missouri's low business-risk assets are appropriated a fair amount of debt capacity, which may reduce its cost of capital. \*\* \_\_\_\_\_  
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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 \*\* \_\_\_\_\_  
\_\_\_\_\_, 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. For example, \*\* \_\_\_\_\_  
\_\_\_\_\_ \*\*.

Staff recommends the Commission grant Spire Missouri \*\* \_\_\_\_\_ \*\* 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

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to exceed \*\* \_\_\_\_\_ \*\*at any time, or from time to time, through September 30, 2023, provided that the Company shall not be authorized to use any portion of the \*\* \_\_\_\_\_ \*\* 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, as such conditions are defined in Case Nos. GM-2001-342 and GF-2007-0220.
4. That the current Commission Authority under Case No. GF-2018-0249 shall expire and shall be superseded by the Authority granted in Case No. GF-2020-0334.
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.

**The Staff respectfully requests that this matter be placed on the Commission's Agenda as soon as possible.**

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**OF THE STATE OF MISSOURI**

In the Matter of Spire Missouri Inc.'s d/b/a     )  
Spire Verified Application for Approval of     )     Case No. GF-2020-0334  
Financing Authority     )

**AFFIDAVIT OF PETER CHARI**

STATE OF MISSOURI     )  
  )     ss.  
COUNTY OF COLE     )

**COME NOW** Peter Chari, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation*; and that the same is true and correct according to his best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

/s/ Peter Chari  
Peter Chari