Exhibit No. 241

OPC – Exhibit 241
David Murray
True Up Direct Testimony
File No. GR-2021-0108

Exhibit No.: ______________
Issue(s): Rate of Return (ROR)/ Capital Structure
Witness/Type of Exhibit: Murray/True-Up Direct
Sponsoring Party: Public Counsel
Case No.: GR-2021-0108

TRUE-UP DIRECT TESTIMONY

OF

DAVID MURRAY

Submitted on Behalf of the Office of the Public Counsel

SPIRE MISSOURI, INC.

CASE NO. GR-2021-0108

** **

Denotes Confidential Information that has been Redacted

August 6, 2021

PUBLIC

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 OF DAVID MURRAY

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

David Murray, of lawful age and being first duly sworn, deposes and states:

1. My name is David Murray. I am a Utility Regulatory Manager for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my true-up direct testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

David Murray
David Murray
Utility Regulatory Manager

Subscribed and sworn to me this 6th day of August 2021.

NOTARY PUBLIC
NOTARY SEAL
STATE OF MISSOURI
TIFFANY HILDEBRAND
My Commission Expires
August 8, 2023
Cole County
Commission #15637121

Tiffany Hildebrand
Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2023.

TRUE-UP DIRECT TESTIMONY

OF

DAVID MURRAY

SPIRE MISSOURI INC.

FILE NO. GR-2021-0108

Q. Please state your name and business address.

A. My name is David Murray and my business address is P.O. Box 2230, Jefferson City, Missouri 65102.

Q. Are you the same David Murray who filed direct, rebuttal and surrebuttal testimony in this case?

A. Yes.

Q. What it the purpose of your testimony?

A. To update my rate of return ("ROR") recommendation based on my analysis of Spire Inc.'s and Spire Missouri's financial data through May 31.

Q. What additional information did you analyze?

A. I analyzed Spire Inc.'s and Spire Missouri's changes to their capital structures and the cost of the capital related to all capital components other than traditional common equity. I also reviewed and analyzed Spire Inc.'s 2021 Financing Strategy presented to Spire Inc.'s Board of Directors ("BOD") attached as Schedule DM-TD-1.

Q. Have Spire Inc.'s and Spire Missouri's capitalizations changed since the original test year of September 30, 2020?

A. Yes. Spire Missouri's capital structure was updated to target a capital structure consistent with that which the Commission authorized in the 2017 rate cases, Case Nos. GR-2017-0215 and GR-2017-0216, whereas Spire Inc.'s capital structure has been updated to achieve an economical capital structure that minimizes dilution to existing shareholders, but also achieves the goal of maintaining a reasonably strong credit rating. Spire Inc. identifies this goal in the document attached as Scheduled DM-TD-1.[1]

Q. Did you discover any errors in your direct testimony as a result of analyzing the true-up financial information?

A. Yes. OPC filed an errata sheet on July 28, 2021, explaining my correction and the impact my correction had on my recommended capital structure and resulting ROR

Q. Do you still recommend Spire Missouri's authorized capital structure be guided by Spire Inc.'s capitalization strategies rather than Spire Missouri's?

A. Yes.

Q. What are the major changes that have occurred to Spire Inc.'s capital structure since the September 30, 2020, test year?

A. Spire, Inc. issued $175 million of mandatorily convertible equity units on February 16, 2021 ("equity units"). It also issued an additional $250 million of short-term debt to finance higher gas costs related to higher prices and volumes related to Winter Storm Uri.

Q. What are the specific capital structure components of Spire Inc.'s capital structure as of May 31, 2021?

A. Spire Inc.'s capital structure consists of common equity, equity units, preferred stock, long-term debt and short-term debt.

Q. What are the ratios of these components as of May 31, 2021?

A. ** ______________________________

______________________________ **

[1] See pages 13-20.

Q. How does Spire Inc.'s short-term debt ratio of ** ________ ** as of May 31, 2021, compare to its typical short-term debt ratio?

A. It is lower. Spire Inc.'s capital structure has typically been supported by an average short-term debt ratio of over 10% for the quarterly periods, September 30, 2019 through March 30, 2021 (see Columns 1 – 3 on Schedule DM-TD-2).

Q. For purposes of determining a fair and reasonable proportion of short-term debt to include for purposes of setting Spire Missouri's ROR, what period do you think is reasonably representative of Spire Inc.'s typical capitalization strategy?

A. The 5-quarter average for the period December 31, 2019 through December 31, 2020. This period excludes the extraordinary amount of short-term debt issued to finance gas costs related to Winter Storm Uri. Using this period also eliminates the "point-in-time" manipulation of Spire Missouri's short-term debt balance for purposes of the true-up period in this case, May 31, 2021.

Q. What was Spire Inc.'s average ratio of short-term debt for this period?

A. 10.10% (see Column 2 of Schedule DM-TD-3).

Q. Should this ratio be adjusted to consider the fact that the cost of short-term debt is used to capitalize construction work in progress ("CWIP")?

A. Yes. I determined that CWIP asset balances have consistently approximated at least 30% of average short-term debt balances since September 30, 2019. Because CWIP is capitalized based on the short-term debt rate rather than a rate based on the overall ROR, it is fair and reasonable to reduce the short-term debt ratio in the authorized capital structure by this proportion, which has been approximately 7%.

Q. Has the common equity ratio in Spire Inc.'s unadjusted capital structure increased or decreased since the start of the original test year in this case?

A. It has decreased. As can be seen in Schedule DM-TD-4, Spire Inc.'s common equity ratio has declined to ** ________ ** as of May 31, 2021, as compared to 42.58% on September 30, 2019.

Q. Does Spire Inc.'s capital structure include hybrid securities that are allocated to debt and equity by rating agencies?

A. Yes. Spire Inc.'s capital structure included preferred stock over the entire period since September 30, 2019. Spire Inc. issued mandatory convertible equity units on February 2021.

Q. Can you show Spire Inc.'s adjusted capital structures if the preferred stock and mandatorily convertible equity units were allocated 50% weight to long-term debt and 50% weight to common equity?

A. Yes. Schedule DM-TD-5 shows Spire Inc.'s adjusted quarterly capital structures for the period September 30, 2019 through March 30, 2021 and as of May 31, 2021. Spire Inc.'s common equity ratio has declined slightly since September 30, 2019, but has maintained a ratio of 42% to 43% since September 30, 2020.

Q. Are you still recommending Spire Inc.'s capital structure be adjusted to determine a fair and reasonable capital structure for purposes of setting Spire Missouri's authorized ROR?

A. Yes, but my recommended adjustments to simplify the authorized capital structure are contingent on the Commission explicitly rejecting the Company's request for recovery of common equity flotation costs. The Company filed testimony requesting Spire Missouri's ratepayers pay higher rates to fund costs related to Spire Inc.'s issuances of common equity since 2013 despite the fact that Spire Inc.'s issuance of common equity in 2013 and 2014 were for purposes of funding its acquisitions of Missouri Gas Energy ("MGE") and Alagasco Inc. The Company is expressly prohibited from recovering transaction costs in the Commission's Report & Order when Spire Inc. acquired MGE.[2] However, Company witnesses Adam Woodard and Dylan D'Ascendis claim that the capital raised from this equity issuances is "fungible" and "benefits the entire consolidated company, including Spire Missouri."[3] While this request violates the Commission's Order, perhaps the most important and relevant issue raised in their testimonies is that they recognize Spire Inc.'s security issuances are not distinguishable for purposes of capitalizing Spire Missouri. This admission by the Companies' witnesses support using the Spire Inc.'s consolidated capital structure and capital costs, which includes Spire Inc.'s preferred stock and mandatory convertible equity units. This capital structure and resulting ROR is shown in Schedule TM-D-6, which consists of ** ________________________________ **. Applying my 9.25% recommended ROE and the embedded costs of the other capital components results in an after-tax ROR of 5.86% and a pre-tax ROR of 7.19%.

Q. How does this compare to your corrected recommended ROR in your Direct Testimony?

A. It is approximately 30 basis points lower.

Q. What impact would this have on the revenue requirement?

A. Based on the Company's rate base of $2.78 billion as of the test year, September 30, 2020, this would cause an additional approximate $7.69 million reduction to the revenue requirement, which when added to the initial difference of $40.84 million based on my corrected capital structure, results in a total revenue requirement reduction of $48.53 million in revenue requirement based on the Company's rate base as of September 30, 2020.

[2] Case No. GM-2013-0254, Section II.3.b. of Stipulation and Agreement, p. 9
[3] Woodard Surrebuttal, p. 5, ll. 10-12.

Q. If you allocated preferred stock and now equity units to equity and debt as you did in your direct testimony, how would the true-up financial data impact your capital structure recommendation?

A. Spire Inc. issued mandatory convertible equity units in February 2021. As I explained previously in my testimony, Spire Inc. did so because it believed its stock price was trading below fair value. Therefore, if Spire Inc. had issued traditional common equity, it would have been more costly to acquire capital through a traditional block equity issuance or an ATM equity issuance. Consequently, in order to delay the dilution that would be caused by issuing more shares at a lower price to raise capital to support its balance sheet, Spire Inc. issued equity units that require the investor to purchase Spire Inc.'s shares three years from now. This allowed Spire Inc. to avoid immediate shareholder dilution without issuing traditional debt that would pressure Spire Inc.'s credit ratings. S&P treats the equity units as 100% equity for purposes of its credit metrics[4], while Moody's doesn't give them equity treatment until they convert in three years, which impacts Moody's forward-looking credit metric expectations.[5]

Based on the rating agencies' treatment of the equity units, I decided to allocate 50% of the proceeds from the equity units to debt and 50% to equity. This is the same approach I used for allocating Spire Inc.'s preferred stock. After making these adjustments, the indicated ratemaking capital structure for Spire Missouri consists of 43.95% common equity, 49.14% long-term debt and 6.92% short-term debt (see Schedule DM-TD-7).

Q. What impact would this capital structure and capital costs have on the revenue requirement based the Company's September 30, 2020 rate base?

A. This would cause an additional decrease of $3.62 million in revenue requirement, which when added to the $40.84 million, indicates $44.46 million less than the Company's requested revenue requirement.

[4] Matthew L O'Neill, "Spire Inc.'s Proposed Equity Units Rated 'BBB'," S&P Global Ratings – Ratings Direct, February 8, 2021,

[5] June 3, 2021 Email from Jeffrey Cassella, Moody's Investors Service.

Q. Based on your analysis of the changes in Spire Inc.'s consolidated capital structure since September 30, 2020, in your opinion, what is a fair and reasonable capital structure to use for purposes of setting Spire Missouri's allowed ROR?

A. Based on my analysis of Spire Inc.'s actively managed capital structure and the fact that it is managed to consider changes in capital market conditions, Spire Inc.'s specific stock price changes and changes to Spire Inc.'s underlying business risks, I recognize that a "point-in-time" capital structure does not reflect expected and unexpected changes that may occur over the next several years. Based on the fact that I understand Spire Inc. intends to improve its common equity ratio as capital market conditions improve and it converts its equity units to common equity in February 2024, I don't think it is appropriate to consider the May 31, 2021 snapshot as representative of how Spire Missouri will be capitalized over a rate case cycle. It is my opinion that it is important to still consider the capitalization mix Spire Inc. was attempting to achieve before it decided equity units were the most cost efficient and less dilutive security to issue in February 2021. Therefore, instead of recommending precise capital ratio percentages based on any specific point-in-time capital balances, I recommend the true-up capital structure reflect a reasonable approximation of Spire Inc.'s capital structure mix for the period September 30, 2019 through May 31, 2021 (see Schedule DM-TD-8).

Q. What is a reasonable approximation of a fair and reasonable capital structure to apply to the true-up rate base?

A. 45.00% common equity, 48.00% long-term debt and 7.00% short-term debt (see Schedule DM-TD-8).

Q. What return components do you recommend be applied to these ratios?

A. 9.25% to the common equity ratio, Spire Missouri's cost of long-term debt of 3.99% as of May 31, 2021, to the long-term debt ratio and Spire Missouri's cost of short-term debt of 0.29% as of March 31, 2021 the Company provided in its updated response to Staff Data Request No. 110.

Q. What is your recommended ROR for purposes of true-up?

A. 6.10% as shown in Schedule DM-TD-9.

Q. Does this conclude your testimony?

A. Yes.