

Exhibit No. 242

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

TRUE-UP REBUTTAL TESTIMONY
OF
DAVID MURRAY

Submitted on Behalf of the Office of the Public Counsel

SPIRE MISSOURI, INC.

CASE NO. GR-2021-0108

August 16, 2021

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

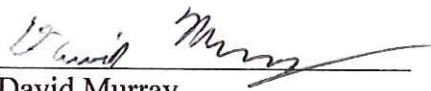
In the Matter of Spire Missouri Inc.'s)
d/b/a Spire Request for Authority to)
Implement a General Rate Increase for) Case No. GR-2021-0108
Natural Gas Service Provided in the)
Company's Missouri Service Areas)

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 rebuttal 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.

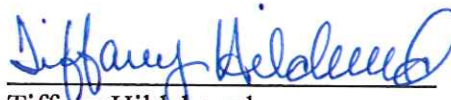


David Murray
Utility Regulatory Manager

Subscribed and sworn to me this 16th day of August 2021.



TIFFANY HILDEBRAND
My Commission Expires
August 8, 2023
Cole County
Commission #15637121



Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2023.

TRUE-UP REBUTTAL TESTIMONY

OF

DAVID MURRAY

SPIRE MISSOURI INC.

FILE NO. GR-2021-0108

1 **Q. Please state your name and business address.**

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

4 **Q. Are you the same David Murray who filed direct, rebuttal, surrebuttal, and true-up**
5 **direct testimony in this case?**

6 A. Yes.

7 **Q. What is the purpose of your testimony?**

8 A. To respond to the True-up Direct Testimony of Spire Missouri's witness, Adam Woodard.

9 **Q. What issue does Mr. Woodard address in his True-up Direct Testimony?**

10 A. Capital structure. Mr. Woodard provides his recommended capital structure for Spire
11 Missouri based on his analysis of Spire Missouri's capital component balances through and
12 as of the true-up date, May 31, 2021.

13 **Q. Did Mr. Woodard attach any schedules or provide any workpapers with his True-up**
14 **Direct Testimony to support his capital structure recommendation for the true-up**
15 **period?**

16 A. No.

1 **Q. Did Mr. Woodard attach schedules and provided workpapers in prior testimonies in**
2 **this case to support his recommended capital structure for the true-up period?**

3 A. Yes. Mr. Woodard provided his capital structure recommendation for the true-up period
4 in his rebuttal testimony filed on June 17, 2021.¹

5 **Q. Did Mr. Woodard reaffirm this capital structure recommendation in his True-up**
6 **Direct Testimony?**

7 A. Yes. Mr. Woodard still recommends the Commission use a 54.28% common equity ratio
8 and a 45.72% long-term debt ratio for purposes of setting Spire Missouri's ROR.

9 **Q. Does Mr. Woodard's capital structure recommendation accurately capture Spire**
10 **Missouri's use of short-term debt to fund its rate base?**

11 A. No. Mr. Woodard employs what he refers to as a "point-in-time" analysis. Specifically, he
12 used common equity and long-term debt balances as of May 31, 2021, but excluded short-
13 term debt. Mr. Woodard justifies his exclusion of short-term debt by claiming the
14 "average" of Spire Missouri's short-term debt for the thirteen months ended May 31, 2021
15 was less than the average of short-term assets that are assigned short-term debt carrying
16 costs. However, what he has actually done is manipulated the short-term debt balances by
17 assuming the long-term debt issue in May 2021 was issued 20 months ago (September
18 2019) to replace short-term debt. But for this manipulation, Spire Missouri's average short-
19 term debt balance would have far exceeded the average balance of short-term assets
20 assigned short-term debt carrying costs.

21 **Q. Did Mr. Woodard attach any schedules or provide any workpapers with his True-up**
22 **Direct Testimony to support his decision to exclude short-term debt from his capital**
23 **structure recommendation?**

24 A. No.

¹ Woodard Rebuttal, p. 5, lines 1-3.

1 **Q. Did Mr. Woodard attach schedules and provide workpapers in prior testimonies in**
2 **this case to support his decision to exclude short-term debt for the true-up period?**

3 A. Yes. He attached Schedule AWW SR-2 to his Surrebuttal Testimony to support his
4 position to exclude short-term debt.²

5 **Q. Why didn't you provide your recommended true-up capital structure**
6 **recommendation and rate of return in prior testimonies?**

7 A. Because the Commission ordered procedural schedule in this case anticipated parties filing
8 separate testimony for purposes of the true-up recommendations.³

9 **Q. Do you agree with Mr. Woodard's use of Spire Missouri's capital structure for**
10 **purposes of authorizing a fair and reasonable rate of return ("ROR") for Spire**
11 **Missouri?**

12 A. No.

13 **Q. Notwithstanding your continued disagreement with the use of Spire Missouri's**
14 **reported capital balances to set Spire Missouri's authorized ROR, if the Commission**
15 **were to adopt Spire Missouri's capital structure, is it appropriate to exclude Spire**
16 **Missouri's consistent and material use of short-term debt in its capital structure as**
17 **Mr. Woodard suggests?**

18 A. No. Mr. Woodard maintains that he did not include short-term debt in the true-up capital
19 structure because:

20 ...the average level of construction work in progress, propane, margin calls
21 on our [Spire Missouri] multi-year hedging program, and deferred gas costs
22 subject to PGA carrying costs (none of which are proposed to be included
23 in rate base) exceeds the average level of short-term debt outstanding during
24 the true-up period after taking into consideration the May 20, 2021 funding
25 of \$305 million of long-term debt instruments.⁴

² Woodard Surrebuttal, Schedule AWW SR-2.

³ Order Setting Procedural Schedule, February 3, 2021.

⁴ Woodard True-up Direct, p. 1, l. 21 – p. 2, l. 3.

1 Mr. Woodard's adjustment to Spire Missouri's average short-term debt balance
2 inaccurately assumes that the \$305 million of long-term debt issued on May 21, 2021 had
3 been issued in September 2020. Mr. Woodard characterized his backdating of the
4 hypothetical replacement of short-term debt with long-term debt as a "pro forma long-term
5 debt issue."⁵ This characterization is misleading. Pro-forma adjustments to financial
6 statements are intended to reflect a company's expected financial position going-forward.
7 Companies typically make pro-forma adjustments to exclude extraordinary issues, similar
8 to Spire Inc.'s adjustments to its Generally Accepted Accounting Principle ("GAAP")
9 financial results, to determine net economic earnings per share ("NEEPS"). This formed
10 the basis for Spire Inc.'s exclusion from its 2020 earnings of its write-down of its Spire
11 Storage assets by \$140.8 million and Spire compressed natural gas fueling stations by \$7.8
12 million, equivalent to \$2.89 in EPS. Spire Inc. considered this a non-recurring or unusual
13 circumstance that is not likely to occur in the future.

14 If Spire Missouri's issuance of long-term debt in May 2021 to refinance short-term debt
15 resulted in capital structure ratios expected to be maintained over future periods, then it
16 could be argued this is a reasonable adjustment. However, considering the decline in the
17 short-term debt ratio as of May 2021 is a non-recurring or unusual event, this "point-in-
18 time" capital structure is not representative of Spire Missouri's expected revenues or costs.
19 Therefore, Spire Missouri's capital structure as of the true-up date introduces a non-
20 recurring or unusual event that is not reflective of a normal level of Spire Missouri's cost
21 of capital over the period in which rates will be in effect.

22 **Q. If you eliminate Mr. Woodard's "proforma long-term debt issue" adjustment to his**
23 **determination of an average balance of short-term debt in excess of short-term assets,**
24 **what percentage of short-term debt should be represented in Spire Missouri's capital**
25 **structure through the true-up period in this case?**

26 **A. 8.51% (see Schedule DM-TR-1). The inclusion of short-term debt lowers Spire Missouri's**
27 **common equity ratio to 49.66% and its long-term debt ratio to 41.83%.**

⁵ Woodard Surrebuttal, Schedule AWW SR-2.

1 **Q. If Spire Missouri's common equity balance were also adjusted for Spire Missouri's**
2 **goodwill asset, how would this impact Spire Missouri's capital structure for the true-**
3 **up period in this case?**

4 A. Spire Missouri's capital structure would consist of 46.12% common equity, 44.77% long-
5 term debt and 9.11% short-term debt.

6 **Q. What was Spire Missouri's cost of short-term debt through May 31, 2021?**

7 A Spire Missouri did not provide a cost of short-term debt for the period through May 31,
8 2021 in response to Staff Data Request No. 110. However, Spire Inc.'s recently released
9 June 30, 2021 SEC Form 10-Q, Note 5. to the Financial Statements indicates that Spire
10 Missouri's weighted average cost of commercial paper for the nine months ended June 30,
11 2021, was 0.2%. The same note indicates that Spire Missouri's weighted-average interest
12 rate on a \$250 million term loan is 0.8%.⁶

13 **Q. Have there been additional extraordinary events through the true-up period that**
14 **need to be considered in determining a representative capital structure normally used**
15 **to finance Spire Missouri's assets?**

16 A. Yes. As a result of the excess gas costs associated with Winter Storm Uri, Spire Missouri
17 executed a \$250 million 364-day credit facility (i.e. the aforementioned term loan) to fund
18 approximately \$195 million of excess gas costs. It is my understanding that Spire Missouri
19 plans to seek recovery of these excess gas costs (and a carrying cost based on the credit
20 facility interest rate) through its PGA/ACA applications. Because Spire Missouri plans to
21 recover these amounts through its PGA/ACA applications and the atypical nature related
22 to this event, it would be reasonable to simply use the average short-term debt in excess of
23 short-term assets for the period December 31, 2019 through December 31, 2020, as I did
24 in my True-up Direct Testimony.⁷ Using this same period, which was already provided in
25 Mr. Woodard's Schedule AWW-SR2 attached to his surrebuttal testimony indicates Spire
26 Missouri's authorized capital structure should consist of the following ratios assuming no

⁶ Spire Inc. SEC Form 10-Q, June 30, 2021, pages 31-32.

⁷ Murray True-up Direct, page 3, lines 6-13.

1 adjustment for goodwill: 49.93% common equity, 42.06% long-term debt, and 8.01%
2 short-term debt. If goodwill is removed from the common equity balance, then Spire
3 Missouri's capital structure consists of the following ratios: 46.39% common equity,
4 45.03% long-term debt and 8.58% short-term debt.

5 **Q. Has any of the above information caused you to change your recommended capital**
6 **structure?**

7 A. No. I still recommend the Commission use the capital structure I recommended in my
8 True-up Direct Testimony to set Spire Missouri's allowed ROR.

9 **Q. Does this conclude your testimony?**

10 A. Yes.

**Use of Short-term Debt and Asset Balances for
the 13-months ended May 31, 2021**

	<u>Amount</u>	<u>Percentage of Capitalization</u>
Common Equity	\$1,589,496,633	49.66%
Long-Term Debt	\$1,338,736,661	41.83%
Short-Term Debt	\$272,457,948	8.51%
Total	<u>\$3,200,691,242</u>	<u>100.00%</u>

**Use of Short-term Debt and Asset Balances for
the 13-months ended December 31, 2020 to exclude Uri**

	<u>Amount</u>	<u>Percentage of Capitalization</u>
Common Equity	\$1,589,496,633	49.93%
Long-Term Debt	\$1,338,736,661	42.06%
Short-Term Debt	\$255,026,015	8.01%
Total	<u>\$3,183,259,309</u>	<u>100.00%</u>

**Use of Short-term Debt and Asset Balances for
the 13-months ended May 31, 2021 (Goodwill Adjusted)**

	<u>Amount</u>	<u>Percentage of Capitalization</u>
Common Equity ¹	\$1,379,296,633	46.12%
Long-Term Debt	\$1,338,736,661	44.77%
Short-Term Debt	\$272,457,948	9.11%
Total	<u>\$2,990,491,242</u>	<u>100.00%</u>

Notes: 1. Deducted \$210.2 million of goodwill.

**Use of Short-term Debt and Asset Balances for the 13-months
ended December 31, 2020 to exclude Uri (Goodwill Adjusted)**

	<u>Amount</u>	<u>Percentage of Capitalization</u>
Common Equity	\$1,379,296,633	46.39%
Long-Term Debt	\$1,338,736,661	45.03%
Short-Term Debt	\$255,026,015	8.58%
Total	<u>\$2,973,059,309</u>	<u>100.00%</u>

Notes: 1. Deducted \$210.2 million of goodwill.

	Average			
	13 Months Ended September 2020	13 Months Ended December 2020	13 Months Ended May 2021	Actual May 2021
Short Term Assets⁽¹⁾				
Propane Inventory	10,724,086.48	10,721,071.60	10,104,257.67	8,725,847.92
Unamortized PGA	(19,063,595.70)	(28,127,779.16)	(31,892,853.27)	(10,451,285.54)
Deferred Purchased Gas Costs	(48,097,451.51)	(48,347,488.00)	(26,986,260.82)	9,486,136.90
CWIP	84,263,617.16	87,849,779.32	91,880,370.18	49,714,019.84
Deferred Gas Costs - OFO cover charge & penalties ⁽²⁾	-	-	45,184,615.38	195,800,000.00
	<u>27,826,656.43</u>	<u>22,095,583.77</u>	<u>88,290,129.14</u>	<u>253,274,719.12</u>
 Average Notes Payable	 277,319,291.56	 277,121,599.25	 360,748,076.92	 433,525,000.00
Proforma Long Term Debt Issue	-			
 Short Term Asset In Excess of Debt ⁽³⁾	 <u>(249,492,635.12)</u>	 <u>(255,026,015.48)</u>	 <u>(272,457,947.78)</u>	 <u>(180,250,280.88)</u>

⁽¹⁾ Excludes Natural Gas Stored Underground (already in rate base).

⁽²⁾ Please note that the OFO charge & penalties is included in Deferred Gas Costs but has been added to the schedule to reflect current carry cost to Spire Missouri.

⁽³⁾ Negative figures mean short-term debt finances more than the indicated short-term assets.