Exhibit No. 216

OPC – Exhibit 216
David Murray
Rebuttal Testimony
File No. GR-2021-0108

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

REBUTTAL 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

June 17, 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	)	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 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 17th day of June 2021.

NOTARY PUBLIC
NOTARY SEAL
STATE OF MISSOURI

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

Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2023.

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REBUTTAL 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 testimony in this case?

A. Yes.

Q. What it the purpose of your testimony?

A. I will respond to the direct testimonies of Spire Missouri Inc.'s ("Spire Missouri") witnesses, Dylan W. D'Ascendis and Wesley E. Selinger. I will also respond to the rate of return ("ROR") section of Staff's Cost of Service Report, which Staff witness, Seoung Joun Won, PhD (Dr. Won) sponsored.

Q. What issue does Mr. D'Ascendis address in his direct testimony?

A. Mr. D'Ascendis sponsors Spire Missouri's return on common equity ("ROE") recommendation of 9.95%.

Q. What issues does Mr. Selinger address in his direct testimony?

A. Mr. Selinger addresses several revenue requirement issues, including Spire Missouri's recommended capital structure for purposes of setting Spire Missouri's allowed ROR. I will respond to Mr. Selinger's capital structure testimony.

Q. What issues does Dr. Won address?

A. Dr. Won addresses ROE and the capital structure to which he recommends his ROE should be applied.

Q. Will your testimony address Dr. Won's ROE recommendation?

A. No. Although I do not agree with the details of his methods and assumptions, because his ROE recommendation is within the zone of my ROE recommendation of 8.5% to 9.5%, I am not addressing any specific issues regarding his ROE recommendation.

Q. What issue will you address first?

A. Capital structure.

CAPITAL STRUCTURE

Q. What is the premise for Mr. Selinger's and Dr. Won's recommended capital structure in this case?

A. Dr. Won and Mr. Selinger recommend the Commission authorize Spire Missouri a ROR based on Spire Missouri's anticipated long-term capital structure ratios as of the true-up period in this case, May 31, 2021.

Q. What specific long-term capital structure ratios does Mr. Selinger anticipate Spire Missouri's capital structure will support as of the true-up date in this case?

A. 54.25% common equity and 45.75% long-term debt.[1]

Q. What capital structure ratios did the Commission authorize in Spire Missouri's 2017 rate cases, Case No. GR-2017-0215 and GR-2017-0216 (hereinafter referred to as the "2017 rate case")?

A. 54.2% common equity and 45.8% long-term debt.[2]

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[1] Wesley Selinger Direct Testimony, Schedule F, page 17.
[2] Case Nos. GR-2017-0215 and GR-2017-0216, Report and Order, March 7, 2018, , p. 45

Q. Why is Spire Missouri's anticipated capital structure almost exactly the same as that which the Commission ordered in the 2017 rate case?

A. Because this is the basis for Spire Inc.'s targeted capital structure for Spire Missouri. Spire Missouri indicated the following in response to Staff Data Request No. 0115 in this case:

> Spire Missouri manages its capital structure to represent the capital structure that was approved by the Commission in the last rate case (GR-2017-0215 and GR-2015-0216) (*sic*).

Q. In your opinion, should this fact be sufficient evidence to reject Spire Missouri's and Staff's recommended capital structure in this case?

A. Yes. Spire Missouri admits it targets this capital structure because it was approved to set the ROR in the last rate case. Spire Missouri nor Staff has provided any evidence that this is a cost efficient capital structure for purposes of determining a fair and reasonable ROR to charge Missouri ratepayers. As is evident from Spire Inc.'s use of leverage at the holding company, to the extent Spire Inc. can convince regulators to not recognize this lower-cost capital structure for purposes of ratemaking, Spire Inc. achieves the following two objectives: (1) increasing the amount of cash flow produced through the higher-cost capital structure charged to ratepayers at its subsidiaries, and (2) leveraging its shareholders' returns via the lower cost holding-company debt issued to support the equity-rich capital structure used to set rates.

Q. Is it inappropriate to leverage investment to achieve higher shareholder returns?

A. Not on its face. Especially if the company operates in a competitive environment in which prices are constrained by competitors and customers have the freedom to choose among alternative providers for the service or good. This is not the case for Spire Missouri's customers. They are charged prices based on Spire Missouri's cost of service, which can be manipulated, as is evident from Spire Missouri's targeting of an equity-rich capital structure rather than a capital structure consistent with its lower business-risk profile.

Q. Do Spire Missouri's customers benefit from Spire Missouri's more costly capital structure as compared to Spire Inc.'s capital structure?

A. If they do, it's not readily apparent to me. While Spire Missouri issues its own long-term debt secured by its own assets, Spire Missouri's credit quality is constrained by its affiliation with Spire Inc.'s additional risk, which includes both higher business risk from non-regulated businesses and higher financial risk from its more leveraged capital structure. S&P recognizes this directly by assigning Spire Missouri a credit rating that is two notches lower ('A-') than its hypothetical stand-alone credit profile of ('A+'). Moody's recognizes this indirectly in the credit rating it assigns to Spire Missouri by indicating that Spire Inc. relies on Spire Missouri's cash flows to support the debt service of the holding company debt.

Q. Why does Staff support the adoption of Spire Missouri's proposed capital structure?

A. Staff maintains that there has been no discernable change to Spire Missouri's capital structure policies to cause it to take a position contrary to the Commission's decision in the 2017 rate case. For purposes of arriving at its conclusion, Staff compared the facts the Commission cited in its R&O in 2017 to the facts in this case.

Q. Do you agree with the Commission's Findings of Fact as it relates to capital structure in the 2017 R&O?

A. No. I specifically take issue with the following Commission's Findings of Fact:

> 7. Spire Missouri has an independently determined capital structure in that its debt is secured by its own assets and not the assets of Spire Inc. or any of Spire Inc.'s other subsidiaries.117 [footnote omitted] Additionally, Spire Missouri's assets do not guarantee the long-term debt of its parent or of any of Spire Inc.'s other public utilities or of Spire Marketing or Spire STL Pipeline.118 [footnote omitted] Further, the Commission must approve any long-term debt issuances made by Spire Missouri;
>
> 8. Spire Missouri's stand-alone capital structure supports its own bond rating; and

> 10. Spire Missouri's capital structure ratios as of the true-up date are based on the actual capital structure that finances the assets and operations of the public utility for which the Commission is setting rates in this proceeding.

Q. What issue do you have with the Commission's Findings of Fact No. 7?

A. It is incorrect to conclude that the facts cited in Paragraph No. 7 prove Spire Missouri has an "independently determined capital structure." It is clear that Spire Inc. has the ability to independently determine Spire Missouri's capital structure by the mere fact that it projects Spire Missouri's capital structure as of the true-up date will approximate the Commission's authorized capital structure in the 2017 rate case. However, this would be true for any Commission authorized capital structure for Spire Missouri. It is my opinion that the Commission should authorize Spire Missouri a capital structure that is consistent with the debt capacity its assets support, which is most objectively determined by analyzing Spire Inc.'s market-tested capital structure, which is managed to balance cost-efficiency with creditworthiness. Based on the fact that Spire Inc.'s goal has been to gradually reduce the amount of holding company debt to deleverage its consolidated capital structure, it is clear that Spire Missouri's debt capacity has not been managed for its own best interest or the best interest of its customers. Therefore, regardless of whether the findings cited in Paragraph 7 are factual, this does not prove Spire Missouri's capital costs and credit quality are managed independent of its affiliation with Spire Inc. and its financial interests.

Q. Is there evidence the other regulated utility subsidiaries are not managed independent of their affiliation with Spire Inc.?

A. Yes. Spire Alabama has an even stronger stand-alone-credit profile than Spire Missouri. Yet, it does not take advantage of this low business-risk by directly issuing additional leverage. Spire's Alabama and Mississippi assets' lower business risk also support Spire Inc.'s ability to carry holding company debt, which Spire Inc. issued to leverage its acquisition of these systems in 2014 and 2016.

Q. What issue do you have with the Commission's Findings of Fact No. 8?

A. In a very general sense, it may be accurate to state that Spire Missouri's capital structure "supports its own bond rating," but this issue is much more nuanced than this statement implies. Spire Missouri has more than one bond rating because it is rated by two different credit rating agencies, Standard & Poor's (S&P) and Moody's. Therefore, it is inaccurate to indicate that Spire Missouri has a singular bond rating. It is also important to specify that Spire Missouri's creditworthiness supports Spire Inc.'s bond rating.

The bond rating S&P assigns to Spire Missouri is NOT a function of Spire Missouri's capital structure. S&P unequivocally assigns Spire Missouri a bond rating based on Spire Inc.'s more leveraged capital structure. Consequently, Spire Missouri is assigned a credit rating that is two-notches lower than that which is supported by its own capital structure. Although Moody's assigns Spire Missouri a stronger credit rating than Spire Inc. based on its stand-alone capital structure, Moody's also recognizes the constraint placed on Spire Missouri's credit rating due to its affiliation with Spire Inc.'s more leveraged capital structure. In other words, Moodys' recognizes that Spire Inc. is not likely to manage Spire Missouri's capital structure without consideration of the debt it services at the holding company.

Based on the nuances I described, it is inaccurate to make a blanket statement that Spire Missouri's capital structure supports its own bond rating.

Q. What issue do you have with the Commission's Findings of Fact No. 10?

A. As with the bond ratings, I consider this statement to be much more nuanced. The Commission indicated that Spire Missouri's capital structure finances the "the assets and operations of the public utility for which the Commission is setting rates in this proceeding." While I agree with the Commission that part of Spire Missouri's capital structure finances the assets and operations for which rates are set, its entire capital structure does not finance the assets and operations used to provide service to Spire Missouri's customers. Spire Missouri paid a premium for the system it now refers to as Spire Missouri West (previously known as Missouri Gas Energy). As a result of paying a premium over the book value of the Spire Missouri West system, Spire Missouri assigned $210 million of its purchase price to a goodwill asset. Goodwill is not part of the assets and operations used to provide service to Spire Missouri's customers. Therefore, the capital contained in Spire Missouri's capital structure that financed the goodwill should be removed if the Commission believes Spire Missouri's subsidiary capital structure should be used to set Spire Missouri's allowed ROR. As the OPC argued in the 2017 rate case, it would be proper to reduce the common equity balance for goodwill because the equity amount represents the residual value of the assets over the debt used to finance the purchase of the Spire Missouri West system. As I showed in Schedule DM-D-10.1 attached to my Direct Testimony, this would result in a capital structure consisting of 48.9% common equity.

Q. Are you recommending the Commission remove goodwill from the equity balance from your recommended capital structure?

A. No. My recommended use of capital structure ratios consistent with Spire Inc.'s capitalization includes capital that supports over $1 billion of goodwill.

Q. If you had adjusted Spire Inc.'s equity balance for the amount of goodwill reflected on Spire Inc.'s balance sheet, what equity ratio is implied in this capital structure?

A. 33.75% as shown in my Scheduled DM-D-10-1.

Q. If you believe it is proper for the Commission to adjust Spire Missouri's capital structure for goodwill, why isn't it also proper for Spire Inc.?

A. As is evident from my consideration of Spire Inc.'s capital structure, I am not attempting to reconcile the actual capital invested in Spire Missouri's rate base. Rather, I am attempting to recommend a capital structure that more closely captures the debt capacity allowed by Spire Missouri's low-risk regulated utility assets. This amount can be measured and targeted as is evident from Spire Inc.'s target of a consolidated FFO/debt ratio of approximately 15% to 16%. Spire Inc. issues various forms of capital with this target in mind because this is the ratio Spire Inc. considers the most cost efficient while still supporting its investment-grade credit rating.

Q. Does Spire Inc. give primary consideration to Spire Inc.'s consolidated capital structure when determining the most cost efficient, yet credit supportive forms of capital to issue based on capital market conditions?

A. Yes. Spire Inc. considered such issues when it decided to issue mandatory convertible equity units in February 2021.

Q. What are mandatory convertible equity units?

A. It is a type of security that offers the investor a fixed yield/dividend for the first few years from purchase (three years for Spire Inc.'s equity units) conditioned on an underlying commitment to purchase common stock in the future (in three years for Spire Inc.). The investor receives the certainty of a higher yield on the security for the first three years in exchange for foregoing potential increases in the value of the common stock over the same period (the first 20% of stock price appreciation over the next three years under the terms of Spire Inc.'s equity units).

Q. What are the primary considerations when deciding to issue equity units rather than traditional common equity or traditional debt?

A. To avoid incurring immediate dilution to existing shareholders' earnings per share ("EPS"), but at the same time not incurring additional leverage (i.e. debt) that will cause pressure on a company's credit quality through further strain on its credit metrics.

Q. Why would Spire Inc. have been hesitant to issue traditional common equity as recently as February 2021?

A. Because its stock price had declined considerably for much of 2020, reaching a low in the fall of 2020. If it had issued traditional common equity either through its at-the-market ("ATM") program or through an overnight issuance, it would have had to issue a higher number of shares than it anticipates issuing in the future to settle the investors' commitment to purchase shares at an expected higher price. Spire will avoid excess dilution to its existing shareholders to the extent it stock price increases over the next three years.

Q. ** **

A. ** **[3]

Q. Do the terms of the equity units provide some insight as to Spire Inc.'s implied cost of equity for traditional common equity, at least at the time Spire Inc. was pricing the equity units?

A. Yes. The pricing of the equity units was based on an offered yield of 7.5%. Spire Inc. was required to offer investors a higher yield on the equity units (as compared to traditional common equity) because if Spire Inc.'s stock price increases by 20% or less before the investor is required to purchase Spire Inc.'s stock in three years, the investor receives fewer shares at the conversion date. However, if Spire Inc.'s stock price increases by more than 20%, within the next three years, the investor retains this upside. However, if Spire Inc.'s stock price were to decline from its current price over the next three years, then the investor is exposed to this loss because the amount of common shares received is fixed based on the current price, which is considered the "reference price" under the equity unit provisions. Therefore, the equity unit investor is exposed to uncertainty of the price at which Spire Inc.'s stock will trade three years from now.

Q. Did Spire Inc.'s investment bankers determine a break-even price for issuing common equity as compared to the equity units?

A. Yes. According to a presentation Bank of America provided to Spire Inc. on September 10, 2020, based on Spire Inc.'s then share price of **

[3] Spire Inc. Strategy Committee Meeting, July 29, 2020, p. 55.

**

Q. Does this give insight as to Spire Inc.'s investment banker's estimate of Spire Inc.'s cost of equity when Spire Inc.'s stock price was trading near its lowest point in 2020?

A. Yes. Even when Spire Inc.'s stock price was trading approximately $20 lower than recent prices, Bank of America estimated Spire Inc.'s cost of equity was no higher than the ** **

Q. What is the actual reference stock price used for purposes of determining that a 7.5% yield was an appropriate price for the equity units?

A. $64.24.

Q. What was Spire Inc.'s dividend yield at that time?

A. 4.05% ($2.6/$64.24).

Q. Based on recent trading prices on Spire Inc.'s equity units, what is the current market cost of the equity units?

A. Based on a price of $53.5 as of May 28, 2021, the current yield on Spire Inc.'s equity units is 7%.

Q. Should this current market cost of Spire Inc.'s equity units be used as a test of reasonableness of the various cost of equity estimates in this case?

A. Yes.

Q. Is there other information that supports Spire Missouri's Inc.'s cost of equity ("COE") is likely no higher than 7% at this time?

A. Yes. Spire Missouri issued $305 million in aggregate principal amount 30-year bonds on May 20, 2021 at a coupon of 3.3%. Adding a 3% equity risk premium (consistent with the bond-yield-plus-risk premium level I described in my direct testimony) to this coupon implies a COE of 6.3%. **

** Wells Fargo used a 6.5% COE to estimate a fair price to pay for local gas distribution company ("LDC") stocks when it evaluated several scenarios related to potential declines in the LDC industry. Finally, based on Spire Inc.'s dividend yield of 3.45% as of June 1, 2021, and the expectation that utility stock capital gains are not likely to be in excess of the dividend return, a 6.9% expected return on Spire Inc.'s stock going forward is likely the high end of an expected range.

Q. Although you have yet to include the lower-cost equity units in your recommended ROR, should the Commission give this information consideration in determining a fair and reasonable capital structure and ultimate ROR in this case?

A. Yes. During 2020, Spire Inc. recognized it needed to raise capital to fund various capital needs, but due to its stock trading at 5-year lows, it did not want to issue traditional common equity because doing so would cause too much dilution in value to existing shareholders. However, it also recognized issuing traditional debt would further strain its consolidated credit quality and reverse the progress it had been making in reducing the amount of holding company debt. Therefore, because S&P, and to some extent Moody's, would not treat the equity units as debt for purposes of evaluating the Company's financial risk, Spire considered the alternative of issuing equity units as the most cost efficient without sacrificing financial stability.

Spire Inc. does not carefully manage Spire Missouri's capital structure to achieve these same goals. Spire Inc. manages Spire Missouri's capital structure for a desired equity ratio for ratemaking.

Q. What is the typical credit profile of entities that issue equity units?

A. Equity units are typically issued by investment-grade companies.

Q. Why?

A. Because they are mindful of the impact issuing debt could have on their credit ratings. However, if their stock price is trading at lower prices, then they also don't want to issue traditional common equity.

Q. How are Moody's and S&P treating the equity units for purposes of assessing Spire Inc.'s creditworthiness?

A. S&P does not consider equity units as debt obligations for purposes of assessing Spire Inc.'s credit metrics. However, Moody's includes the entire amount of the subordinated debt, $175 million, as debt obligations for purposes of assessing Spire Inc.'s credit metrics.

Q. Are you familiar with other situations in which a utility holding company issued equity units due to its low share price and concern about maintaining its investment-grade credit rating?

A. Yes. Great Plains Energy (the former publicly-traded holding company for Evergy Metro, f/k/a Kansas City Power & Light Company, and Evergy Missouri West, f/k/a KCP&L Greater Missouri Operations Company) issued equity units in 2009. At the time Great Plains Energy stock price was trading at all-time lows and Great Plains Energy's S&P credit rating was in jeopardy of being downgraded to below investment grade. In order to avoid equity dilution, but still not jeopardize its investment grade credit rating, Great Plains Energy issued equity units.

Q. Were Great Plains Energy's equity units included in the Commission's authorized capital structure and ROR for purposes of setting KCP&L's authorized ROR in Case No. ER-2010-0355?

A. Yes. The Commission allowed the full cost (13.59%) of the equity units to be included in KCP&L's authorized ROR with the equity units receiving 4.52% weight in the capital structure.

Q. Why did the Commission use Great Plains Energy's consolidated capital structure to set the ROR for KCP&L?

A. Because the parties to the case (including KCP&L) recommended the Commission use this capital structure for ratemaking purposes.

Q. Before its 2017 rate case, had Spire Missouri recommended the Commission use its parent company's consolidated capital structure to set Spire Missouri's allowed ROR?

A. Yes. This was Spire Missouri's practice until it issued significant amounts of holding company debt for purposes of leveraging its acquisitions of Alagasco and Energy South.

Q. Why didn't you recommend the use of Spire Inc.'s consolidated capital structure and its corresponding capital costs to set Spire Missouri's ROR in this case?

A. While this is certainly a reasonable alternative to consider for purposes of setting Spire Missouri's ROR, I decided the primary consideration is to ensure that Spire Missouri's common equity ratio is not set at a level higher than Spire Inc. considers reasonable at a consolidated level. Because Spire Inc. actively analyzes and makes recommendations on the types of capital it proposes to issue based on its anticipation of the amount of equity credit Spire Inc. should receive from rating agencies, it is simple to make pro forma adjustments to Spire Missouri's capital structure to ensure ratepayers are not charged for an inefficient capital structure that only benefits Spire Inc.'s shareholders through a higher margin.

Q. If you had recommended a ROR based on matching the cost of Spire Inc.'s capital structure ratios to the returns/costs associated with those ratios, what would it be?

A. Based on the test year of September 30, 2020, the overall ROR would be 6.20% (Schedule DM-R-1), which is slightly below my recommended ROR of 6.27% (see Schedule DM-D-12 attached to my Direct Testimony). Although I have yet to receive capital structure data through the true-up period in this case (May 31, 2021), if I updated Spire Inc.'s capital structure through March 31, 2021, which includes Spire Inc.'s newly issued equity units, the overall ROR would be 6.11% (Schedule DM-R-2).

Q. Has Spire Inc. specified a credit rating that would be most consistent with a cost efficient capital structure?

A. Yes. In Spire Inc.'s October 16, 2019, Strategy Committee Meeting, Spire Inc. indicated the following:

> ** **[4]

** **

Q. Does Spire Inc. indicate that it manages its finances to target capital structures consistent with those authorized by its other jurisdictions?

A. Yes. According to Spire Inc.'s July 29, 2020, Strategy Committee Meeting, it indicates that the ** ** are key items it needs to incorporate into its long-range plan.[5]

[4] Spire Strategy Committee Meeting, October 16, 2019, p. 78.
[5] Spire Strategy Committee Meeting, July 29, 2020, p. 42.

Q. What proportion of Spire Missouri's capital structure has been supported by short-term debt for the period September 30, 2017 through September 30, 2020?

A. Approximately 10%.

Q. After deducting Spire Missouri's asset balances that are assigned short-term debt carrying costs (CWIP and assets included in purchased gas adjustment clauses), what proportion of short-term debt supports Spire Missouri's capital structure?

A. Approximately 7.3%.

Q. Does short-term debt support Spire Missouri's plant investments?

A. Yes.

Q. Did shorter-term capital that was not reflected in Spire Missouri's last authorized ROR support Spire Missouri's plant investments between the 2017 rate case and this case?

A. Yes. Spire Missouri issued a 3-year term loan after the update period in its last rate case to attempt to capture margin in between rate cases. U.S. Bancorp specifically indicated the following about the advantages of doing so:

> ** ______________________________ **[6]

[6] Spire Term Loan Materials, July 12, 2018, US Bancorp.

DYLAN D'ASCENDIS RECOMMENDED ALLOWED ROE FOR SPIRE MISSOURI

Q. Can you provide a summary of how Mr. D'Ascendis developed his recommended allowed ROE of 9.95%?

A. Yes. Mr. D'Ascendis' recommended allowed ROE is based on his estimate of Spire Missouri's COE. Mr. D'Ascendis provides a summary of his cost of equity estimates on page 7 of his direct testimony (see Table 2). Mr. D'Ascendis applies the discounted cash flow ("DCF") method, the Capital Asset Pricing Model ("CAPM"), and the risk premium method ("RPM") to a natural gas proxy group and a "non-price regulated" proxy group. Mr. D'Ascendis selected his non-price regulated proxy group by evaluating risk factors other than being in the same industry as Spire Missouri. The results of Mr. D'Ascendis individual methods range from as low as 9.74% based on his application of the constant-growth DCF analysis to the natural gas proxy group to a high of 11.87% based on his cost of equity analysis (using a variety of models) of his non-price regulated proxy group. Mr. D'Ascendis then made three separate adjustments for size, credit risk and flotation costs to arrive at his final estimated COE range of 9.94% to 12.07%. Mr. D'Ascendis' testimony does not clearly state why he considers an allowed ROE toward the low end of his range to be the most appropriate.

Q. What COE method does Mr. D'Ascendis' appear to give the most weight for purposes of his decision to recommend an ROE of 9.95%?

A. His DCF method, which implies an unadjusted COE estimate of 9.74%. After Mr. D'Ascendis applied his 20 basis point upward adjustment to his DCF COE estimate, this results in a 9.94% COE, which is the low-end of his range.

Q. Did Spire Missouri's ROR witness in its 2017 rate case dismiss the DCF as being an unreliable method for purposes of estimating the COE?

A. Yes. As I explained in my rebuttal testimony the 2017 rate case, Spire Missouri's ROR witness, Pauline M. Ahern, dedicated five pages of her direct testimony explaining the unreliability of the DCF method when utility stock prices are trading at high valuation levels.

Q. Is Mr. D'Ascendis' approach to analyzing Spire Missouri's COE similar to Ms. Ahern's approach in the 2017 rate case?

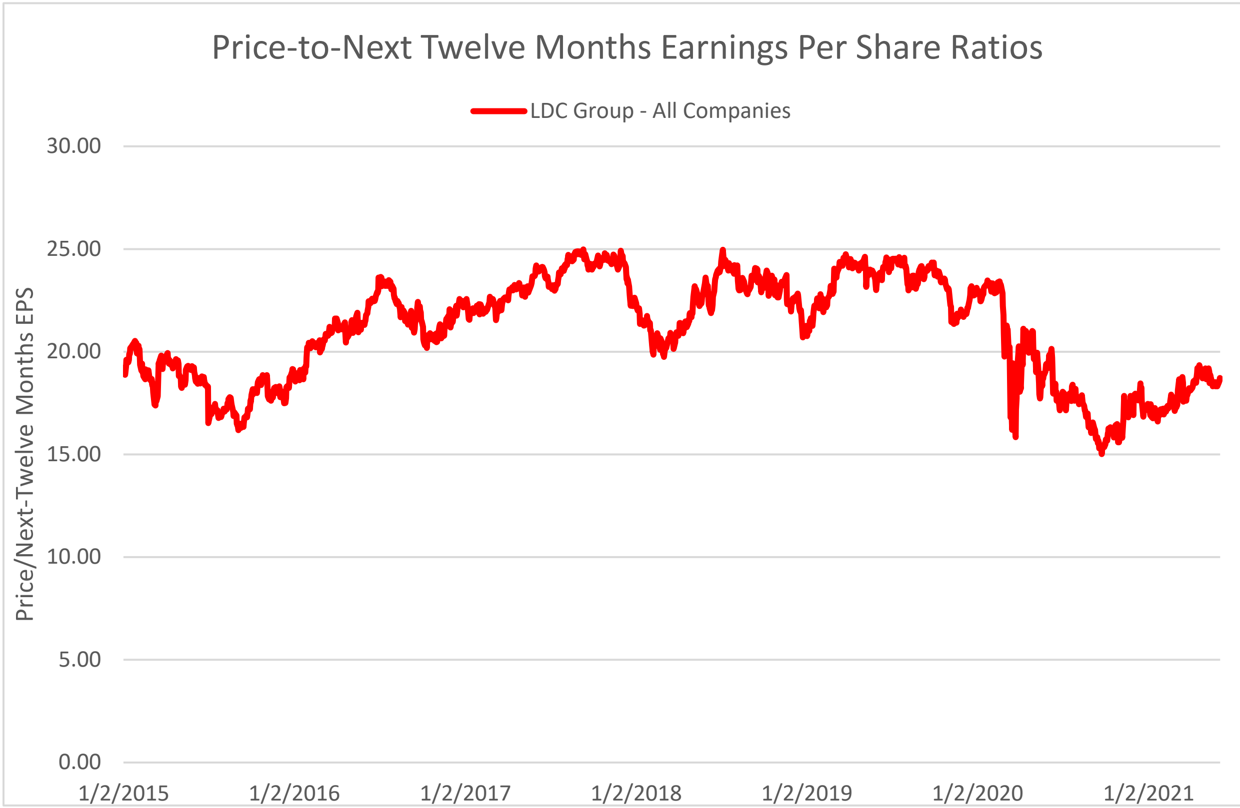
A. Yes. They both used very similar methods and assumptions for purposes of estimating Spire Missouri's COE.

Q. Why are their approaches so similar?

A. Because they are or were employed by ScottMadden, Inc. At the time Ms. Ahern sponsored ROR testimony on behalf of Spire Missouri she was an Executive Director at ScottMadden, Inc. Mr. D'Ascendis is employed as a Director of ScottMadden, Inc.

Q. Can you provide an update of current LDC valuation levels as compared to their valuation levels in 2017?

A. Yes. The following chart provides an update of LDC P/E ratios since January 1, 2015:



As can be seen, the P/E ratios for LDC companies are currently similar to their levels during the 2015 calendar year. However, they are lower than the +20x level they traded during the period of the 2017 rate case (end of 2016 through 2017).

Q. Should the Commission rely on the DCF through all market conditions to inform itself about utility companies' cost of equity?

A. Yes. As shown in the chart above, the lower results Ms. Ahern obtained using the DCF in the 2017 rate case were consistent with market conditions at the time. The fact that Mr. D'Ascendis' DCF results are now higher than Ms. Ahern's results are consistent with the decline in LDC stock prices last year. The LDC industry's COE had been quite low until LDC's fell out of favor last year.

Q. Although Mr. D'Ascendis' DCF results are directionally accurate as compared to Ms. Ahern's 2017 analysis, are his absolute values reliable?

A. No. His 9.94% DCF-supported COE estimate is based on irrational assumptions. Mr. D'Ascendis' individual company DCF COE estimates range from 7.38% for Northwest Natural Gas Company ("NWNG") to 16.02% for South Jersey Industries ("SJI"). While Mr. D'Ascendis' did incorporate a median of his DCF results into his estimate, this wide discrepancy in his individual COE estimates indicates there is a serious flaw in his DCF analysis.

Q. What type of DCF did Mr. D'Ascendis use to estimate the COE?

A. He used the constant-growth version of the DCF, which assumes a company's dividends per share ("DPS") will grow into perpetuity at the same compound annual growth rate ("CAGR") each year.

Q. What constant-growth rate did Mr. D'Ascendis use for purposes of his COE estimate for SJI?

A. 10.44%. Therefore, his analysis assumes investors in SJI's common equity expect its stock price to appreciate 10.44% per year indefinitely. Not even the S&P 500 has achieved compound annual gains of this level. The compound annual capital gains for the S&P 500 has only been 6.2% for the period 1926 through 2020.

Q. What is Mr. D'Ascendis' premise for his assumption that investors expect a 10.44% CAGR in SJI's stock price into perpetuity?

A. Mr. D'Ascendis theorizes that investors use equity analysts' projected 5-year CAGR in EPS for purposes of estimating expected capital gains (caused by expected growth in cash flows as measured by the DPS) over the foreseeable future.[7] Mr. D'Ascendis' logic is that because equity analysts' earnings expectations "have a more significant influence on

[7] D'Ascendis Direct, p. 17, lines 11-15.

market prices than dividend expectations" this justifies using such long-term projected CAGR in EPS to estimate the COE in a constant-growth DCF.

Q. Do you agree with Mr. D'Ascendis that equity analysts' opinions influence share prices?

A. Yes.

Q. Does Spire Inc. agree with Mr. D'Ascendis that earnings expectations have more influence on its stock price than dividend expectations?

A. No. ** ____
____
____ **[8]

Q. Regardless, do you agree with Mr. D'Ascendis that because equity analysts' influence share prices, this translates into proof that investors use equity analysts' projected CAGR in EPS in the manner that Mr. D'Ascendis suggests?

A. No.

Q. How are they intended to be used?

A. Projected CAGR in EPS are used for purposes of assessing the reasonableness of a company's P/E ratio as it compares to its peers. For example, Atmos is expected to have a fairly certain higher long-term earnings growth rate of 6% to 8% over the next five years, which is higher than the average of its peers. Therefore, analysts typically assign Atmos a higher P/E multiple for purposes of determining a fair value as compared to its peers.

[8] Spire Inc.'s November 19, 2014 Strategy Committee Meeting, p. 43.

Q. Have you ever observed a DCF analysis that assumes a company's cash flows (e.g. DPS) will grow in perpetuity at the same rate as equity analysts' consensus 5-year CAGR in EPS?

A. No.

Q. Does Spire's Board of Directors ("BOD") regularly review equity analysts' opinions/recommendations as it relates to Spire's stock?

A. Yes. This is a routine item on the BOD's agenda for each of their regular meetings. Spire Inc.'s management provides an update as to the current status of equity analysts' recommendations (buy, sell or hold) as it relates to Spire Inc.'s stock.

Q. What is Spire's primary focus as it relates to reviewing equity analysts' recommendations related to Spire Inc.'s stock?

A. ** ______________________________ **

Q. Is this the type of equity analyst information you understand to influence companies' stock prices?

A. Yes. The often cited study regarding the influence of equity analysts' recommendations on stock prices is that of Burton Malkiel and John G. Cragg. Cragg and Malkiel specifically indicated the following in their study:

> We would not argue that these estimates necessarily give an accurate picture of general market expectations. It would, however, seem reasonable to suggest that they are representative of opinions of some of the largest professional investment institutions and that they may not be wholly unrepresentative of more general expectations. **Since investors consult professional investment institutions in forming their own expectations, individuals' expectations may be strongly influenced—and so reflect—those of their advisers**. That several of our participating firms find it worthwhile to publish these projections and provide them to their customers provides prima facie evidence that a certain segment of the market places

> some reliance on such information in forming its own expectations. Also, insofar as other security analysts and investors follow the same sorts of procedures as those used by our sample analysts in forming expectations, general investors' expectations would resemble those of the analysts. Consequently, these predictions may well serve as acceptable proxies for general expectations and surely seem worthy of detailed analysis. (emphasis added)[9]

Considering the above, in which the foundation for the study concludes that investors rely and depend on their investment advisors, and therefore, stock prices reflect these expectations, it is much more reasonable to conclude that the COE assumptions used by these investment analysts are reflected in share prices. To assume that investors utilize the information provided by equity analysts in a way that is wholly inconsistent with how these analysts use the data in their own analysis, is not credible. Equity analysts often use the dividend discount model ("DDM") to estimate a fair price to pay for the stock. The DDM is synonymous with the DCF in utility ratemaking settings. The DCF in utility ratemaking is simply solving for the required return/cost of equity variable. In valuation, the goal is to solve for the fair price of the stock. Consequently, if equity analysts are of value to their clients, then the stock prices will reflect their estimates of future dividends and the required return from these dividends. Consequently, if one accepts the studies that security analysts' expectations influence investors, which is Malkiel and Cragg's conclusion, then this means that stock prices reflect the cost of equity used by these very same analysts, which in my experience are much lower than Mr. D'Ascendis' cost of equity estimates using the DCF.

Q. Does Mr. D'Ascendis use methods other than the DCF to estimate Spire Missouri's COE?

A. Yes. Mr. D'Ascendis uses several variations of the risk premium methods and the Capital Asset Pricing Model ("CAPM") to estimate Spire Missouri's COE. It does not appear that Mr. D'Ascendis gave these methods as much weight in determining his final ROE recommendation because his adjusted results using these methods implied a COE in the range of 10.24% to 11.78%.

[9] Malkiel, Burton G., and John G. Cragg. "Expectations and the Structure of Share Prices." *The American Economic Review*, vol. 60, no. 4, 1970, pp. 601–617.

Q. Why are Mr. D'Ascendis' COE estimates so high using the risk premium and CAPM methods?

A. His risk premium estimates are unreasonable. Mr. D'Ascendis' approaches estimating the market and utility equity risk premiums using several different methods.

Q. Are Mr. D'Ascendis' risk premium estimates different depending on whether he uses a bond-yield plus risk premium estimate or the CAPM adjusted risk premium estimates?

A. Yes. For purposes of his CAPM estimates, Mr. D'Ascendis uses the traditional "market" risk premium estimate, which is defined as the expected return on the "market," which may be measured using a broad equity index, such as the S&P 500, to determine expected market returns, less the expected return on risk-free securities, such as long-term United States Treasury ("UST") bonds. As it relates to his bond-yield plus risk premium estimates, Mr. D'Ascendis subtracts returns from 'Aaa' and 'Aa2'-rated corporate bond returns from actual or projected returns on utility stocks to derive his estimate of investors' required returns to invest in utility stocks, and in the case of his Predictive Risk Premium Method ("PRPM"), specifically his chosen proxy group.

Q. What market risk premium estimates does Mr. D'Ascendis use for his CAPM cost of equity estimates?

A. Mr. D'Ascendis estimates a market risk premium in the range of 7.01% to 11.87% as shown in Table 8 on pages 35 to 36 of his Direct Testimony. Because Mr. D'Ascendis uses an average of the mean and median of his COE estimates, the market risk premium he used to estimate Spire Missouri's COE is 10.69% ((10.45% + 10.93%)/2).[10]

[10] D'Ascendis Direct Testimony, Schedule DWD-D5, p. 2

Q. How does this market risk premium compare to the market risk premium you estimated in your direct testimony?

A. It is almost double my market risk premium estimate of 5.5% to 6.07%.

Q. How does Mr. D'Ascendis' market risk premium compare to that used by Spire to determine the fair value of its assets to investors?

A. Spire uses a market risk premium of ** ** for purposes of determining if the value of its assets are fairly reported on its financial statements. As recently as ** ** Spire reaffirmed this market risk premium as being reasonable for purposes of affirming the reasonableness of the carrying value of Spire Missouri's LDC assets. Spire performed an interim assessment of the fair value of its Spire Missouri LDC assets on **

**[11]

Consequently, if Spire Inc. continues to view the market risk premium estimate of ** ** to be reasonable for purposes of reporting to investors the fair value of its assets, it is disingenuous for Spire Inc. to sponsor a ROR witness that estimates a much higher market risk premium for the alternate purpose of requesting a ROR for ratemaking.

[11] Interim Goodwill Impairment Testing, December 31, 2020, provided in response to OPC DR No. 3004

Considering the repercussions that would result from Spire Inc. misrepresenting its financial condition on its financial statements, the Commission should heavily scrutinize the discrepancy between Mr. D'Ascendis' cost of capital opinion and that of Spire's for financial reporting.

Q. Considering that a market risk premium of greater than 6% is unreasonable, would a utility equity risk premium at this level be even more unreasonable?

A. Yes. A market risk premium is the measure of the difference between the expected return on the market less an expected return on a risk-free bond. Mr. D'Ascendis' other risk premium methods are intended to estimate an expected return on utility stocks as it relates to an expected return on either a UST bond return or an 'A-2' utility bond return. For Mr. D'Ascendis first utility equity risk premium estimate, he applied the Predictive Risk Premium Model ("PRPM") directly to his LDC proxy group to determine a return spread between this group and that of long-term UST bonds. Mr. D' Ascendis concluded that investors would require an extra 7.68% return to invest in the LDC proxy group as opposed to investing in a 30-year UST bond offering a return of 2.11%. Adding these two figures results in Mr. D'Ascendis estimated equity return for his proxy group of 9.79%.

For Mr. D'Ascendis' second estimated utility equity risk premium, he executed twelve different risk premium methods to arrive at his final chosen utility equity risk premium of 6.72%. Mr. D'Ascendis 6.72% utility equity risk premium was then added to a projected A2/A3-rate utility bond yield of 3.56% to arrive at a 10.28% expected return for a broad group of utility stocks.

Q. Can you help break down the 12 different risk premium estimates Mr. D'Ascendis decided to average to arrive at his final utility equity risk premium estimate of 6.72%?

A. Yes. Mr. D'Ascendis describes the 12 different risk premium estimates he derived on pages 22 through 29 of his Direct Testimony. Mr. D'Ascendis classifies the 12 different utility risk premium estimates into three separate categories. He classifies the six utility equity risk premium estimates, ranging from 5.78% to 11.02%, shown in Table 5 on page 26 of his Direct Testimony as his "Beta-Derived Equity Risk Premium." Mr. D'Ascendis

"Beta-Derived Equity Risk Premium" is not that much different than the approach he used to derive a market equity risk premium for use in his CAPM method. The only difference being that he compared the market return information to high-grade corporate bond yields ('Aaa' and 'Aa-2') rather than UST bond yields. The total expected market return underlying Mr. D'Ascendis' CAPM and his "Beta-Derived Equity Risk Premium" are 12.56% and 13.07%, respectively. Clearly these are outside the bounds of consensus of reasonable expected market returns.

Mr. D'Ascendis classifies the five utility equity risk premium estimates shown in Table 6 on page 28 of his Direct Testimony as his "S&P Utility Index Holding Returns" utility equity risk premium. These five utility equity risk premiums range from 4.21% to 7.02% with an average of 5.86%. Because Mr. D'Ascendis determined these risk premiums by comparing S&P Utility Index returns to 'A-2'-rated utility bonds, he then added these spreads to an A2/A3-rated utility bond yield to determine his estimate of an expected return on the S&P Utility Index. The individual expected returns on utility stocks underlying Mr. D'Ascendis utility equity risk premium estimates are as follows: 7.77%, 9.09%, 9.22%, 10.44% and 10.58%.

The final utility equity risk premium Mr. D'Ascendis estimates is based on his analysis of the spread between ROEs awarded to gas utilities compared to yields on Moody's 'A-2'-rated utility bonds for the period January 1, 1980 through September 30, 2020. Based on this analysis, Mr. D'Ascendis estimates that a 5.84% utility equity risk premium is appropriate to add to a prospective A2/A3-rated utility bond yield of 3.56%. This results in a final estimated COE of 9.4%.

Q. What is the primary aspect of Mr. D'Ascendis risk premium estimates that causes you the most concern about their reliability?

A. The mere fact that he estimates a very wide range of results and gives each result equal weight in his final equity risk premium estimate. By doing so, Mr. D'Ascendis does not scrutinize whether some of his equity risk premium estimates are logical considering current capital market conditions. Spire itself recognized the need to use a "consensus" of market risk premium estimates when determining a fair and reasonable market risk premium to use for purposes of reporting to investors the reasonableness of the carrying value of its gas systems reported on its balance sheet. Spire specifically indicated it selected an equity risk premium of ** **[12] to estimate the fair value of it regulated local gas distribution utility assets. Obviously, Spire did not rely on the studies performed by Mr. D'Ascendis for purposes of estimating whether the carrying value reported on its balance sheet is supported by its own fair value estimate.

Q. Mr. D'Acendis uses projected risk-free rates for most of his COE estimates. Is this consistent with the efficient market theory and fundamental economic principles in which dictates that current market prices reflect investors' expectations?

A. No. Current bond prices already reflect investors' interest rate expectations over the long-term. If they didn't, then the market would be considered inefficient and investors could make a riskless profit by shorting bonds to capture the certain decline in long-term bond prices when long-term interest rates increased.

Q. What is your reaction to Mr. D'Ascendis' "non-regulated" proxy group COE analysis?

A. A primary consideration in selecting a proxy group is to select companies that are as heavily concentrated in the business segment which you are attempting to evaluate. This is often characterized as a "guideline company" approach when assessing the fair value of a specific business segment within a conglomerate holding company. The goal is to select companies that are considered "pure-play" (100% confined to the segment being evaluated) publicly-traded companies or at least predominately "pure-play" publicly-traded companies in order to ensure the financials and market data are representative of risk and value of the assets analyzed. While it is a worthy goal to select non-regulated companies as a proxy in attempt to mimic market regulation, the fact of the matter is that regulated

[12] Spire Inc. and Spire Missouri Inc. July 1, 2020 Goodwill Impairment Assessment, p. 2

utility companies that are granted monopoly franchises creates a much lower business risk profile than any other industry.

Q. Are you aware of any situations in which the Missouri Public Service Commission set a regulated utility company's authorized ROE based on an analysis of a "non-regulated" proxy group?

A. No.

Q. Does Mr. D'Ascendis make inappropriate adjustments to his final proxy COE estimate?

A. Yes.

Q. Which is the most egregious adjustment considering the Company's position on capital structure in this case?

A. Mr. D'Ascendis' flotation cost adjustment. Mr. D'Ascendis suggests Spire Missouri customers should be charged an additional 24 basis points (0.24%) for common equity issued by Spire Inc. in 2013, 2014, 2016 and 2018.

Q. Why is this egregious?

A. Because in performing discovery in this rate case, OPC requested information related to all of Spire Inc.'s security issuances since September 30, 2017. Spire Missouri responded that this information was not relevant because Spire Missouri has an "independent" capital structure, separate and apart from Spire Inc. While Spire Missouri eventually provided information related to Spire Inc.'s preferred stock issuance in 2019 and its recent equity unit issuance in February 2021, it did not provide any of the investment banking materials/presentations related to its May 2018 overnight equity issuance in the amount of $150 million. OPC is concerned about the fact that apparently Spire Inc. did not retain this information with the rest of its BOD and BOD committee information. In the recent Ameren Missouri rate case, Case No. ER-2019-0335, the retention of these materials was a routine practice related to Ameren's record retention.

Q. Did you express your concern about the flotation cost adjustment in Spire Missouri's 2017 rate case?

A. Yes. In that case, I specifically identified that the proceeds raised from the 2013 and 2014 equity issuances were for purposes of raising funds to acquire MGE, Alagasco and EnergySouth. As I explained in that case, it is wholly inappropriate to request recovery of issuance costs associated with these acquisitions as these are considered transaction costs. In the stipulation and agreement executed in the MGE acquisition,[13] the Company specifically agreed not to seek recovery of these costs in subsequent rate cases. If Spire, Inc. had filed applications requesting authority to acquire Alagasco and EnergySouth, the same conditions would have likely been imposed. Considering the fact that Spire Missouri continues to request recovery of equity transaction costs related to funding acquisitions is extremely troubling.

Q. In what situations have OPC and Staff been generally supportive of a company's request to recover equity issuance costs?

A. In past Missouri rate cases in which a company can show that proceeds from an equity issuance benefited the Missouri utility, then transaction expenses related to the equity issuance have been allowed to be recovered through an amortization of such expenses. Consequently, if equity is issued within the test year and there is evidence to support that the issuance benefited Spire Missouri's LDC assets, and therefore its customers, then it is my opinion that these costs should be recovered through an expense allowance rather than through an adjustment to the ROR.

Q. How did Spire Inc. use the proceeds from its common equity issuances in 2016 and 2018?

A. Spire issued 2.185 million common shares in 2016 to raise $133 million to fund its acquisition of EnergySouth.[14] Spire issued 2.3 million common shares in 2018 to raise

[13] Section 3.b. in Case No. GM-2013-0354, p. 9.
[14] Spire Inc. 2016 SEC Form 10-K Filing, p. 44.

$133.2 million to fund investments in Spire St. Louis Pipeline, storage investments, and ongoing infrastructure upgrades.[15]

Q. Is it possible that some of the proceeds from the 2018 equity issuance were used to make infrastructure upgrades to Spire Missouri's system?

A. It is possible because according Spire Inc.'s May 7, 2018, Supplemental Prospectus, it indicates the proceeds from the equity issuance were used to redeem Spire Inc.'s commercial paper. To the extent that this commercial paper funded Spire Missouri's infrastructure needs, then transaction costs of this equity issuance could be associated with Spire Missouri's capital needs. However, considering the fungibility of Spire Inc.'s capital management, in which it can simply allow Spire Missouri to retain all of its earnings to fund capital needs, rather than issue commercial paper, it becomes somewhat futile to attempt to determine the exact amount of proceeds from the equity issuance that supported Spire Missouri's capital needs.

Q. Does this fact support adoption of a ratemaking capital structure consistent with the ratios maintained by Spire Inc. on a consolidated basis?

A. Yes.

Q. How did Spire Inc. use the proceeds from its preferred stock issuance in 2019?

A. The $242 million of preferred stock proceeds were used to "(i) refinance long-term and short-term Spire debt and (ii) fund capital expenditures at both the Utilities and Spire's gas-related businesses."[16]

Q. How did Spire Inc. use the proceeds from its issuance of equity units in February 2021?

A. Spire Inc. issued 3.5 million equity units to raise a net $169.3 million in proceeds. Spire Inc. indicated that it used the proceeds for general corporate purposes and to repay short-

[15] Spire Inc. May 7, 2018, Supplemental Prospectus, p. S-3.
[16] Spire Inc. 2019 SEC Form 10-K Filing, p. 90

term indebtedness under their consolidated commercial paper program.[17] Again, due to the fungibility of Spire Inc.'s financial management of the holding company and its subsidiaries, it is difficult to determine how much of the proceeds could be attributed to Spire Missouri.

Q. Has Spire Inc. maintained that it has not provided any long-term financing to Spire Missouri since January 1, 2018?

A. Yes. In response to Staff Data Request No. 0122, Spire Missouri indicates it has not received any long-term financing from Spire Inc. or any of its affiliates.

Q. Taken at face value, would this mean Spire Missouri should not be charged any transaction costs associated with Spire Inc.'s security issuances?

A. Yes.

Q. Should Spire Missouri's response be taken at face value?

A. No. As I explained in my direct testimony, but not for Spire Inc.'s ability to manage Spire Missouri's capital flows for the benefit of the consolidated company, it would not be able to forego dividends from Spire Missouri entirely in several quarters over the past several years. While this is certainly an efficient approach for Spire to manage capital flows for the efficiency of its family of companies, this strategy has proven costly to Spire Missouri ratepayers since Spire Inc. can maintain an equity-rich capital structure at Spire Missouri for ratemaking purposes and use this higher-cost capital structure to service holding-company debt.

Q. What is your reaction to Mr. D'Ascendis' proposed increase in his ROE due to Spire Missouri's smaller size?

A. The small size risk premium is not applied in practice for purposes of determining a fair value of regulated utility assets. **

[17] Spire Inc. Prospectus Supplement, May 14, 2019, p. S-40.

** [18]

However, considering the fact that the LDC industry is mainly comprised of small to mid-cap companies, Mr. D'Ascendis could have simply given more weight to the COE estimates of the smaller companies in his proxy group rather than making an explicit adjustment to his final COE estimate.

Q. How do you respond to Mr. D'Ascendis proposed downward adjustment to the ROE for his view that Spire Missouri has a stronger (i.e. higher) credit rating than that of his proxy group?

A. First, it is important to note that based on Mr. D'Ascendis determination of the average S&P credit rating for the LDC proxy group, Spire Missouri has the same credit rating. This is due to the fact that Spire Missouri's S&P credit rating is based on the consolidated credit profile of Spire Inc., which includes the financial risk accompanying Spire Inc.'s more leveraged capital structure. Consequently, following Mr. D'Ascendis logic of comparing credit profiles to determine a fair and reasonable ROR to assign to Spire Missouri, it would be appropriate to simply apply the unadjusted proxy group ROE to Spire Inc.'s more leveraged capital structure.

Second, Mr. D'Ascendis is incorrect in representing that Spire Missouri's Moody's long-term issuer rating is 'A1'. This is the secured credit rating Moody's assigns to Spire Missouri's first mortgage bonds, which is two notches higher than the "issuer" credit rating Moody's would assign to Spire Missouri. Spire Missouri's issuer rating would be based on Spire Missouri's unsecured rating, which it typically two notches lower than the secured

[18] Spire Inc. Impairment Analysis for Goodwill, PwC, December 10, 2018, Exhibit 13; Spire Inc. Impairment Analysis for Goodwill, PwC, September 16, 2016, Exhibit 12.

rating. This would cause Moody's to assign Spire Missouri an issuer rating of 'A3,' which is consistent with the average Moody's rating Mr. D'Ascendis determined for his proxy group.

Third, Mr. D'Ascendis notes in Schedule DWD-D4 that his determination of the average issuer credit rating for his proxy group is based on an average rating of his proxy companies' utility operating subsidiaries. Similar to Spire Inc., which has a lower Moody's issuer rating of 'Baa2' as compared to Spire Missouri's pro forma 'A3' issuer rating, the other companies' Moody's subsidiary ratings may be different than the holding company. Considering the fact that Mr. D'Ascendis applied his COE methods to the publicly-traded holding companies of the subsidiaries, it is more appropriate to use the consolidated company's rating, which is consistent with S&P's approach.

Based on the above considerations, I do not consider it necessary to make a downward or upward adjustment to the proxy group ROE as long as the ROE is applied to the investable capital structure, which is that of the publicly-traded parent company, Spire Inc.

Q. Did Mr. D'Ascendis discuss the potential impact Spire Missouri's proposed decoupled rate design will have on Spire Missouri's business risk?

A. No.

Q. Would this reduced risk be provided by all of Spire Missouri's ratepayers?

A. No. Residential and small commercial customers would provide this reduced business risk.

Q. How should this reduced business risk be considered by the Commission when determining a fair and reasonable ROR for Spire Missouri?

A. As I have explained thoroughly, Spire Missouri's lower business risk even before the proposed decoupled rate design allows a much higher debt capacity than the Commission recognized in Spire Missouri's last rate case. A company with declining business risk can carry a greater proportion of debt in its capital structure and still maintain its current credit rating. This is typically the strategy companies will employ rather than maintaining the previous lower financial risk to allow for a higher credit rating. As I indicated in my capital structure discussion, Spire Missouri's capital structure already supports a higher hypothetical stand-alone credit profile of 'A+' as measured by S&P. Spire recognizes that the "efficient frontier" for capital costs is a capital structure consistent with a 'BBB+' S&P credit rating.

Although I am not recommending a separate explicit adjustment to Spire Missouri's ROE to consider the lower business risk associated with the proposed decoupled rate design, it would be especially unfair to Spire Missouri ratepayers to impose a decoupled rate design without adjusting Spire Missouri's cost inefficient capital structure, which does not reflect the additional debt capacity its lower business risk allows.

SUMMARY AND CONCLUSIONS

Q. Can you summarize your rebuttal testimony?

A. Yes. The Commission should adjust Spire Missouri's authorized capital structure to ratios Spire Inc. considers more cost efficient. While Spire Missouri has a separate capital structure than can be identified on its balance sheet, this capital structure is not managed to a cost efficient level for Spire Missouri. Spire Missouri's response to Staff's Data Request 0115 proves that Spire Missouri's capital structure will be independently managed to the capital structure authorized by the Commission. The Commission should take guidance from Spire Inc.'s management of its investable and cost consequential (to investors) capital structure in determining a reasonable equity ratio and ROE to charge Spire Missouri's customers.

Mr. D'Ascendis' COE estimates are much higher than any estimates that are used in the practice of valuation and/or investing. They are also much higher than any of the verifiable and logical indicators provided through actual capital market transactions. Although I estimate Spire Missouri's COE is around 7%, I still recommend a 9.25% allowed ROE because it gives consideration to the Commission's recent allowed ROE for Empire as well as recent average allowed ROEs for LDC companies throughout the United States. That being said, if I were to recommend the eventual inclusion of Spire Inc.'s equity units in my recommended ROR, these equity units would be included at cost, which is slightly above 7.5%. To the extent the common equity in my recommended capital structure were matched to its cost, this would follow the logic of matching the cost of the capital to the ratios supporting the capital structure.

Q. Does this conclude your testimony?

A. Yes.

Rate of Return Based on Spire Inc. Consolidated Capital Structure as September 30, 2020

Capital Component	Percentage of Capital	Rate of Return	After-Tax ROR	Pre-Tax ROR[1]
Common Equity	45.25%	9.25%	4.19%	5.51%
Preferred Stock	4.25%	5.90% [2]	0.25%	0.33%
Long-Term Debt	43.44%	4.01% [3]	1.74%	1.74%
Short-Term Debt	7.07%	0.35% [4]	0.02%	0.02%
Total	**100.00%**		**6.20%**	**7.61%**

Notes:

1. Tax Rate Provided in Company's Revenue Requirement Workpapers.
2. Based on coupon paid on preferred security (embedded cost likely higher).
3. Embedded cost of long-term debt as of September 30, 2020, provided in response to Staff DR No. 111
4. Average Spire cost of short-term debt for 3-months ended December 31, 2020 (see p. 29 of 12/31/2020 SEC Form 10Q).

Rate of Return Based on Spire Inc. Consolidated Capital Structure as March 31, 2021

Capital Component	Percentage of Capital	Rate of Return		After-Tax ROR	Pre-Tax ROR[1]
Common Equity	42.16%	9.25%		3.90%	5.14%
Preferred Stock	4.09%	5.90%	2	0.24%	0.32%
Equity Units	2.95%	7.50%	3	0.22%	0.28%
Long-Term Debt	44.37%	3.90%	4	1.73%	1.73%
Short-Term Debt	6.42%	0.20%	5	0.01%	0.01%
Total	**100.00%**			**6.11%**	**7.49%**

Notes:

1. Tax Rate Provided in Company's Revenue Requirement Workpapers.
2. Based on coupon paid on preferred security (embedded cost likely higher, but no information provided in response to Staff DR No. 111.
3. Based on coupon and distribution paid on equity units (embedded cost likely higher, but no information provided yet).
4. Embedded cost of long-term debt as of December 31, 2020, provided in response to Staff DR No. 111
5. Weighted average interest rate of commercial paper as of March 31, 2021 (see p. 31 of 3/31/2021 SEC Form 10Q).