

Exhibit No. 44

Exhibit No: _____
Issue: **Capital Structure and Return on Equity (ROE)**
Witness: **Adam Woodard**
Type of Exhibit: **Rebuttal Testimony**
Sponsoring Party: **Spire Missouri Inc.**
Case No: **GR-2021-0108**
Testimony Date: **June 17, 2021**

SPIRE MISSOURI INC.

CASE NO. GR-2021-0108

REBUTTAL TESTIMONY

OF

ADAM WOODARD

JUNE 17, 2021

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1 **REBUTTAL TESTIMONY OF ADAM WOODWARD**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Adam Woodard and my business address is 700 Market, St. Louis, MO 63101.

4 **Q. WHAT IS YOUR PRESENT POSITION?**

5 A. I am the Chief Financial Officer and Treasurer of Spire Missouri (the “Company”) and Vice
6 President and Treasurer of Spire Inc.

7 **Q. PLEASE STATE HOW LONG YOU HAVE HELD YOUR POSITION AND BRIEFLY**
8 **DESCRIBE YOUR RESPONSIBILITIES.**

9 A. I have been in my present position since July 2018. In my current position, I am responsible
10 for the financial management of Spire Missouri and liquidity, capital markets and investor
11 relations of Spire Inc.

12 **Q. WHAT WAS YOUR PROFESSIONAL EXPERIENCE PRIOR TO ASSUMING**
13 **YOUR CURRENT POSITION?**

14 A. Prior to joining Spire, from 1998 to July 2018, I was employed by Wells Fargo Securities
15 (and its predecessor companies). I was a Managing Director within the investment banking
16 unit. In that role I worked with clients throughout the utility industry on a variety of
17 financing and strategic matters.

18 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

19 A. I graduated from the University of Kansas in 1993 with a Bachelor’s degree in English
20 Literature and received my Juris Doctor from the St. Louis University School of Law in
21 1997. I am an inactive member of the Missouri Bar.

22 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE MISSOURI**
23 **PUBLIC SERVICE COMMISSION (“COMMISSION”)?**

24 A. No.

1 **I. PURPOSE OF TESTIMONY**

2 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
3 **PROCEEDING?**

4 A. The purpose of my rebuttal testimony is to respond to the recommendations regarding capital
5 structure and return on equity (“ROE”) made by witnesses for the Office of the Public Counsel
6 (“OPC”) and Staff of the Missouri Public Service Commission (“Staff”) in their direct
7 testimony. Specifically, I disagree with the OPC’s recommended capital structure of 45.35%
8 debt and 47.36% equity which is based off the misguided assumption that Spire Inc. relies on
9 Spire Missouri to support its debt; instead, I recommend that the Commission order a capital
10 structure of 45.72 debt and 54.28 equity which is more appropriate for the Company as a
11 standalone utility. This recommendation is also in line with past Commission practice and
12 the Staff’s recommendation. Secondly, I disagree with the recommended ROE made by Staff
13 of 9.37% and OPC of 9.25%. The Company maintains its position that a 9.95% ROE is more
14 appropriate as reflected in the direct and rebuttal testimony of Dylan D’Ascendis.

15 **Q. ARE YOU SPONSORING ANY SCHEDULES?**

16 A. No.

17 **II. CAPITAL STRUCTURE**

18 **Q. PLEASE DESCRIBE THE COMPANY’S PROPOSED CAPITAL STRUCTURE.**

1 A. Please see the table below for the Company’s current proposed, as compared to the capital
 2 structure currently approved by the Commission.

5/31/21 True-up Cap Structure and Cost of Debt			
	Cap Structure	Return	
Equity	54.28%	9.95%	5.40%
Debt	45.72%	3.99%	1.82%
	100%		7.23%
Last Case - GR-2017-0215/0216			
Equity	54.20%	9.80%	5.31%
Debt	45.80%	4.12%	1.89%
	100%		7.20%

3
 4 **Q. HAS THE COMPANY’S CAPITAL STRUCTURE MATERIALLY DEVIATED**
 5 **FROM THE COMMISSION APPROVED CAPITAL STRUCTURE IN THE**
 6 **COMPANY’S LAST RATE CASE?**

7 A. No. The Company’s proposed capital structure produces an overall rate of return that is 3
 8 basis points greater than Commission approved rate of return in Spire’s most recent rate
 9 case. The proposed equity layer of 54.28% is 12 basis points higher than the current
 10 allowed equity while the cost of debt has declined 13 basis points since the last order from
 11 the Commission in 2018. The proposed rate of return is 3 basis points higher than the
 12 prescribed rate of return in the prior proceeding.

13 **Q. HAS THE COMPANY’S CAPITAL STRUCTURE CHANGED MATERIALLY OVER**
 14 **TIME?**

15 A. No. In Spire’s 2017 general rate case proceeding, the Commission approved Spire Missouri’s
 16 actual capital structure consisting of 54.16% of equity 45.84% long-term debt. Spire

1 Missouri's actual capital structure at May 31, 2021 consists of 54.28% of equity and 45.72%
2 of long-term debt. Prior to the last rate case the approved capital structure of Spire Missouri
3 has ranged from 53% to 55%.

4 **Q. WHAT CONCLUSION CAN BE DRAWN FROM THIS DATA?**

5 A. Spire Missouri's approved capital structure has remained consistent for several years.

6 **Q. WHAT FACTORS HAS THE COMMISSION CITED IN APPROVING A SIMILAR
7 CAPITAL STRUCTURE IN PAST PROCEEDINGS?**

8 A. The Commission has provided clear and consistent support for a similar capital structure.
9 Please see Amended Report and Order GR-2017-0215/0216 decision on page 43-45. Among
10 the factors cited in the prior proceedings include:

- 11 • Spire Missouri has an independently determined capital structure and issues its own long-
12 term debt secured by its own assets,
- 13 • The assets do not secure the debt of Spire Inc. or its other utilities or unregulated
14 operations,
- 15 • The stand-alone capital structure supports Spire Missouri's own bond ratings,
- 16 • The consolidated capital structure of Spire Inc. holds five utilities in three different states,
17 a FERC regulated interstate pipeline and other businesses not under regulation by the
18 Commission,
- 19 • The common equity ratio has consistently been within the range of the proxy group of
20 natural gas distribution companies,
- 21 • The Commission must approve any long-term debt issuances made by Spire Missouri, and

- 1 • Spire Missouri’s capital structure as of the true-up date is based on the actual capital
2 structure that finances the assets and operations of the public utility for which the
3 Commission is setting rates in the proceeding.¹

4 **Q. ARE THESE FACTORS PRESENT IN THE CURRENT PROCEEDING?**

5 A. Yes. Spire Missouri has an independently determined capital structure and just issued bonds
6 secured by a first mortgage on its assets. These assets do not secure the debt of Spire Inc. or
7 its other utilities or unregulated operations. Moody’s and S&P both assign Spire Missouri
8 bond ratings supported by its stand-alone capital structure. The consolidated capital structure
9 of Spire Inc. continues to hold five utilities in three different states, a FERC regulated
10 interstate pipeline and other businesses not under regulation by the Commission. The equity
11 ratio has consistently been within the range of the proxy group of natural gas distribution
12 companies (see DWD Schedule R-8). Spire Missouri continues to issue long-term debt
13 pursuant to the financing authorization issued by the Commission on July 29, 2020. I confirm
14 that Spire’s Missouri’s actual capital structure as of the true-up date consists of 54.28% equity
15 and 45.72% long-term debt. Spire Missouri has continued to manage its capital structure in a
16 conservative manner that provides ratepayers with affordable and sustainable service while
17 adhering to the guidance provided by the Commission in the last rate proceeding.

18 **Q. DOES STAFF AGREE WITH SPIRE’S PROPOSED CAPITAL STRUCTURE?**

19 A. Yes. In the Commission’s Staff’s Cost of Service Report (“Staff Report”), Dr. Seuong Joun
20 Won noted in his Direct Testimony that “there has not been any discernible change to Spire
21 Missouri’s or Spire’s capital structure policies since the last rate cases to cause Staff not to be
22 consistent with the Commission’s last decision” (Staff Report, page 22).

¹ Amended Report and Order, GR-2017-0215 and GR-2017-0216, page 37-38.

1 **Q. HAS ANY TESTIMONY BEEN FILED CHALLENGING SPIRE’S PROPOSED**
2 **CAPITAL STRUCTURE?**

3 A. Yes, the Direct Testimony of David Murray, who testifies on behalf of OPC recommends a
4 capital structure consistent with Spire Inc.’s consolidated capital structure, net of short-term
5 debt adjusted for CWIP balances. In Mr. Murray’s estimation this would consist of 47.36%
6 of common equity, 45.35% long-term debt and 7.28% short-term debt. His recommendation
7 is based on the theory that Spire Missouri should receive credit for the debt capacity its assets
8 “support”.

9 **Q. IS THERE MERIT TO THE THEORY OFFERED BY MR. MURRAY?**

10 A. No. It has been established that Spire Missouri’s assets only support the debt of Spire
11 Missouri. In fact, Spire Missouri’s long-term debt is secured by its assets through its bond
12 indenture. Mr. Murray also admits that no proceeds from holding company, Spire Inc., debt
13 were used for purposes of investing in Spire Missouri. He is simultaneously critical of
14 dividends provided to Spire Inc. and the retention of cash equity by Spire Missouri. Mr.
15 Murray suggests that Spire Missouri incur additional leverage and trigger rating agency
16 downgrades. He also insists on re-litigating issues that were fully decided in the last rate
17 proceeding, including offering up the inclusion of short-term debt with little to no support and
18 without recognition of the Commission’s long held exclusion of short-term debt from major
19 public utility’s capital structures and its customary “point in time” analysis.

20 **Q. WHAT IS THE COMMISSION’S CUSTOMARY “POINT IN TIME” ANALYSIS?**

21 A. The average level of construction work in process and other short-term assets is examined
22 against the amount of short-term debt outstanding during the true-up period after taking into
23 consideration long-term debt funding during the true-up period. If the short-term debt net of

1 any long-term debt issuance during the true-up period primarily serves as funding for short-
2 term assets it should be excluded from the capital structure.

3 **Q. IS IT APPROPRIATE TO INCLUDE SHORT-TERM DEBT IN THE COMPANY'S**
4 **CAPITAL STRUCTURE?**

5 A. No. The Company's assets that utilize ("STD") are not included in the Company's rate base,
6 therefore it is inappropriate for STD to be included in capital structure. The Company utilizes
7 short-term debt in compliance with the "point-in-time" rule. For example, the Company,
8 utilized short-term debt ("STD") during the test year for its capital replacement program but
9 most of the short-term debt utilized was soon after refunded by the \$305 million bond issue
10 that closed on May 20, 2021. The remaining STD is supporting short-term assets that are not
11 included in rate base. These short-term assets are clearly provided recovery for at short-term
12 interest rates (or the surrogate thereto) by the tariff or AFUDC calculation.

13 February gas costs (as paid in March) created an unusual amount of short-term debt towards
14 the end of the test period as Spire Missouri incurred substantial commodity costs during the
15 week of February 15th due to supply constraints coupled with significant demand caused by
16 weather conditions. Spire Missouri has filed lawsuits against third-party marketers who have
17 yet to pay invoiced amounts under the tariff to recover a significant portion of these additional
18 costs (a related docket has been opened on this matter as well) and is working closely with
19 Commission's Staff on a recommendation for the recovery of the remainder through the PGA.

20 **Q. WHAT ARE THE ASSETS SUPPORTED BY SHORT-TERM FUNDING**
21 **MECHANISMS?**

22 A. These assets include Construction Work in Progress ("CWIP"), Deferred Purchased Gas
23 Costs, Unamortized PGA Costs, Propane Inventory and hedging gains and losses.

1 **Q. I DID NOT SEE UNDERGROUND GAS STORAGE IN YOUR LIST, BUT I DO SEE**
2 **PROPANE INVENTORY. PLEASE EXPLAIN.**

3 A. Spire Missouri has natural gas storage inventories in rate base; however, the propane facilities
4 are no longer in service and part of the supply stack. We did not consider these to be long-
5 term assets and have not included them in rate base.

6 **Q. HAS THE COMMISSION ADDRESSED THESE MATTERS BEFORE?**

7 A. Yes. In the Report and Order in Spire Missouri’s last rate proceeding issued February 21,
8 2018 the Commission states “only rarely has short-term debt been included in the capital
9 structure of major public utilities”.² There is no reason to deviate from this longstanding
10 principle in this case.

11 **III. RETURN ON EQUITY**

12 **Q. WHAT IS YOUR RECOMMENDED RETURN ON EQUITY (“ROE”) FOR SPIRE?**

13 A. I recommend an ROE of 9.95%. I concur with the analysis of Dylan D’Ascendis in his
14 Direct and Rebuttal Testimony filed in this case.

15 **Q. STAFF AND OPC BOTH FOSTERED TESTIMONY IN THE RECENT MISSOURI**
16 **AMERICAN WATER RATE CASE (Case No. WR-2020-0344) NOTING THAT GAS**
17 **UTILITIES WERE A HIGHER RISK BUSINESS THAN WATER UTILITIES.**
18 **WHAT ARE YOUR OBSERVATIONS AS TO THEIR APPROACH TO RETURN ON**
19 **EQUITY FOR HIGH RISK VERSUS LOW RISK UTILITIES?**

20 A. Dr. Won, on behalf of Staff, has proposed a 9.37% return on equity while Mr. Murray, on
21 behalf of OPC, has proposed a 9.25% (with capital structure caveats) in Spire Missouri’s
22 current rate case. Curiously, both Dr. Won and Mr. Murray offered testimony in January 2021

² *Id.* at page 41.

1 in the Missouri American Water Company (“Missouri American”) rate proceeding which
2 commented on the relative risk and resulting return on equity impact of gas utilities. In that
3 case, Dr. Won testified that natural gas utilities have more business risk than water utilities
4 and calculated an approximately 100 basis point higher average cost of equity. Mr. Murray
5 testified that water utilities have a lower business risk than gas and electric utilities. Given
6 that background, Commission’s Staff recommended a 9.55% return on equity and OPC
7 recommended a 9.25% return on equity in the Missouri American Water Company
8 proceeding, yet each witness has provided direct testimony five months later recommending
9 that Spire Missouri, a gas utility, should receive the same (OPC at 9.25%) or lower (Staff at
10 9.37%) return on equity as a water utility. I agreed with their relative risk assessment of water
11 and gas utilities in January and believe it still stands today. It is unclear to me what has
12 changed their position between the American Water rate case and this case. If natural gas
13 utilities have more business risk than water utilities, then the return on equity for gas utilities
14 should be higher than the lower risk water utilities.

15 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

16 **A. Yes.**

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

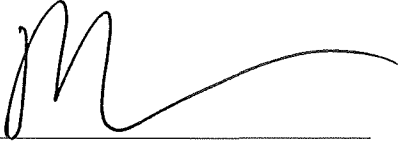
In the Matter of Spire Missouri Inc.'s d/b/a)
Spire Request for Authority to Implement a General)
Rate Increase for Natural Gas Service Provided in) **Case No. GR-2021-0108**
the Company's Missouri Service Areas)

A F F I D A V I T

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Adam Woodard, of lawful age, being first duly sworn, deposes and states:

1. My name is Adam Woodard. I am Chief Financial Officer and Treasurer of Spire Missouri and Vice President and Treasurer of Spire Inc. My business address is 700 Market St., St Louis, Missouri, 63101.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony on behalf of Spire Missouri Inc.
3. Under penalty of perjury, I declare that my answers to the questions contained in the foregoing rebuttal testimony are true and correct to the best of my knowledge and belief.



Adam Woodard

6.17.21

Date