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CREDIT OPINION
9 April 2020

Update

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RATINGS

Spire Alabama Inc.

Domicile	Birmingham, Alabama, United States
Long Term Rating	A2
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Spire Alabama Inc.

Update to credit analysis

Summary

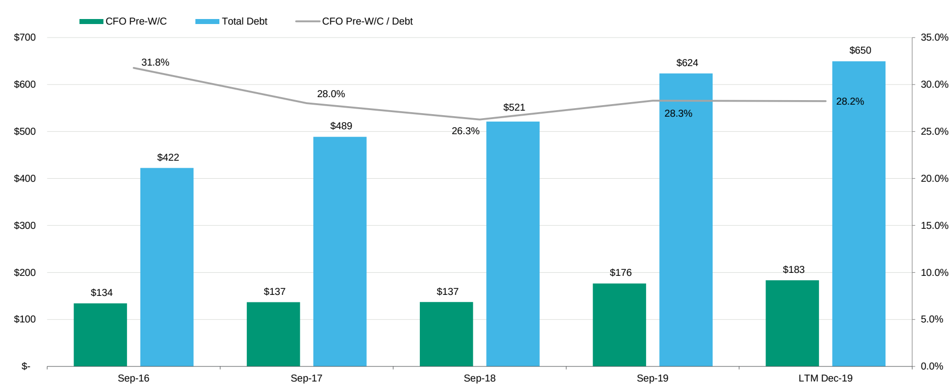
Spire Alabama's credit profile reflects its low business risk profile as a natural gas local distribution company (LDC); a highly credit supportive regulatory environment in Alabama, which includes several timely cost and investment recovery mechanisms that allow for transparent and predictable cash flow generation; and a strong financial profile including a ratio of cash flow from operations pre-working capital (CFO pre-W/C) to debt in the mid-to-high-20% range. Spire Alabama's rating is constrained by the company's relatively small size and scale; and potential financial risks associated with substantial debt at its parent company, Spire Inc. (Baa2 stable).

Recent developments

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. As events related to the coronavirus unfold, there is a higher than usual degree of uncertainty around all macro economic forecasts. Therefore, in our analysis, we are taking into consideration that there is a wider range of potential outcomes, including more severe downside scenarios, over the course of the year. We expect Spire Alabama to be relatively resilient to these recessionary pressures.

Exhibit 1

Historical CFO Pre-WC, Total Debt and ratio of CFO Pre-W/C to Debt ($ MM)



Source: Moody's Financial Metrics

Credit strengths

» Regulated natural gas local distribution company with low business risk profile

» Highly credit supportive regulatory framework in Alabama with a broad group of timely cost recovery mechanisms

» Very strong financial profile

Credit challenges

» Rating constrained by substantial leverage, albeit slowly declining, at the parent

» Relatively small size and scale

Rating outlook

Spire Alabama's stable outlook reflects our view that the Alabama regulatory environment will remain among the most credit supportive jurisdictions in the US and that the company's financial metrics will continue to be strong including a ratio of CFO pre-W/C to debt in the mid-20% range.

The stable outlook also incorporates our view that parent, Spire Inc., will not undertake significant debt-financed acquisitions, increase unregulated investments beyond current expectations (i.e., maintaining unregulated activities at less than 10% of EBITDA) or execute any shareholder friendly activities that will be a detriment to the credit quality of the utility.

Factors that could lead to an upgrade

Spire Alabama could be upgraded if the regulatory framework in Alabama continues to be highly credit supportive; if there is a material reduction in parent level debt and if key financial metrics are maintained at levels at the high end of the A methodology scoring category for LDCs, including a ratio of CFO pre-W/C to debt sustained in the high 20% range.

A rating upgrade of the utility is predicated on the parent not significantly increasing either its non-regulated businesses or parent level debt as a proportion of consolidated debt that would result in contagion risk at its LDCs.

Factors that could lead to a downgrade

Spire Alabama could be downgraded if there is an adverse change in the Alabama regulatory framework that reduces credit support; or if financial metrics deteriorate such that its ratio of CFO pre-W/C to debt declines and is sustained below 22%.

The credit could also be pressured if contagion risk related to the parent or affiliate businesses increases due to incremental leverage resulting from additional acquisitions; from increased unregulated business investments; or if the parent undertakes aggressive debt-financed shareholder friendly activities such that the risk profile of the utilities deteriorates.

Key indicators

Exhibit 2

Spire Alabama Inc. [1]

	Sep-16	Sep-17	Sep-18	Sep-19	LTM Dec-19
CFO Pre-W/C + Interest / Interest	9.4x	8.9x	7.9x	8.4x	8.6x
CFO Pre-W/C / Debt	31.8%	28.0%	26.3%	28.3%	28.2%
CFO Pre-W/C – Dividends / Debt	24.3%	22.5%	20.5%	25.2%	25.7%
Debt / Capitalization	32.8%	36.1%	39.3%	43.0%	43.8%

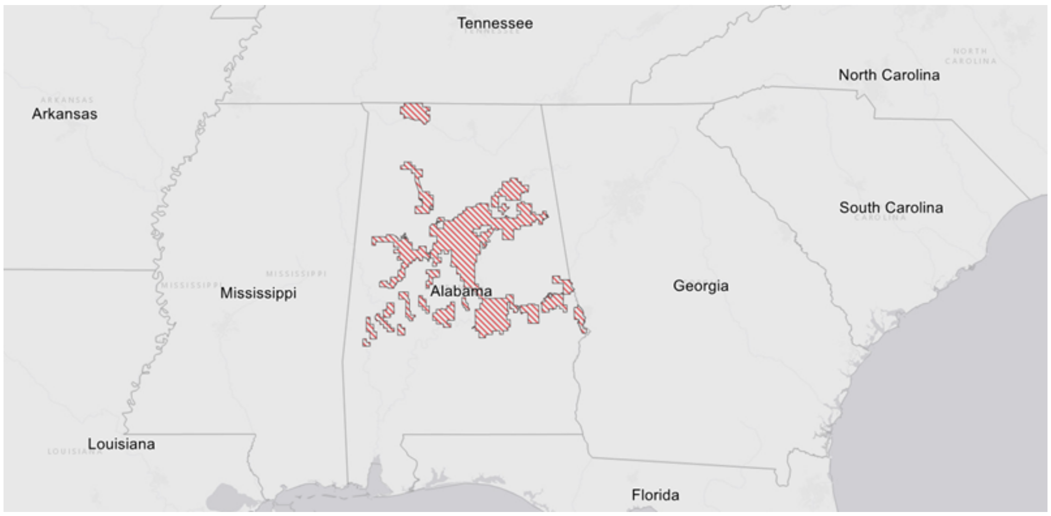
[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Profile

Spire Alabama is the second largest utility subsidiary of Spire Inc. It is the largest regulated natural gas local distribution company in Alabama serving over 420,000 primarily residential customers throughout the state including the cities of Birmingham and Montgomery, which approximates 40% of the state's total population. Its distribution network covers approximately 23,000 pipeline miles. Spire Alabama is regulated by the Alabama Public Service Commission (APSC).

Exhibit 3

Spire Alabama's service territory



Source: S&P Global Market Intelligence

Detailed credit considerations

LOW BUSINESS RISK PROFILE AS A REGULATED NATURAL GAS DISTRIBUTION UTILITY

As a regulated LDC, Spire Alabama has a business profile that is lower risk compared to vertically integrated regulated electric utilities since LDCs typically have moderate exposure to volume risk and/or commodity price volatility of natural gas distributed to customers. In addition, LDC's do not encounter the operating risks related to power generation and the higher capital expenditures that such generation usually entails.

HIGHLY SUPPORTIVE ALABAMA REGULATORY ENVIRONMENT INCLUDING SEVERAL TIMELY COST RECOVERY MECHANISMS

Spire Alabama operates in one of the more supportive regulatory jurisdictions in the US and operates under a Rate Stabilization Equalization (RSE) plan, a formulaic type of rate making framework. Alabama's RSE plan includes several credit supportive mechanisms that provide for automatic annual rate adjustments that allow for timely recovery of prudent costs and investments. The RSE parameters are evaluated every four years during an annual rate-setting process based on a forward year budget and quarterly reviews. This rate construct results in stable, predictable cash flows and strong financial metrics. It also means that the sometimes unpredictable and contentious negotiations that can be associated with general rate case outcomes are typically avoided in Alabama, which instead functions as a mostly cooperative and constructive rate making environment. As a result, Spire Alabama has not filed a traditional rate case since 1981.

In 2018, Spire Alabama completed its first extension since the framework was put in place in 2014. The RSE was extended for another four years removing a degree of uncertainty around potential modifications that could be made to the company's cost recovery provisions. The exhibit below lists some of the more important elements within the company's current RSE and cost recovery. The RSE plan is in effect through September 2022 and includes an allowed return on equity (ROE) in the range of 10.15% — 10.65%, with an adjusting point set at 10.4%. Spire Alabama is allowed to utilize a 55.5% equity ratio and annual rate increases are capped at 4% of the prior year's revenue.

In November 2019, as part of the annual update process for the RSE plan, Spire Alabama requested and was approved a $5.9 million increase for 2020. In addition to the increase, Spire Alabama received approval to establish a mechanism to begin off-system sales and capacity release sharing of excess natural gas supply when it is not needed. Through this mechanism, Spire Alabama is allowed to retain up to 25% of the net margins achieved as a result of such off-system sales and capacity releases, while customers receive 75% in the form of lower rates. The mechanism became effective with the new rates on December 1, 2019.

Exhibit 4
The RSE construct enables Spire Alabama to produce strong and stable cash flows

Regulatory Feature	Comments
Forward Test Year	Recover costs in a more timely fashion
Equity Capitalization	55.50%
Allowed ROE	10.15% - 10.65%
ROE Adjustment Point	10.40%
5 basis point ROE adder	Allowed if certain customer satisfaction scores are met
Maximum Revenue Increase	4% above prior year
Competitive Fuel Clause (CFC)	Adjusts rates to compete with alternate energy source in order to retain customers and margins
Gas Supply Adjustment (GSA)	Recovery of changes in natural gas commodity costs; includes some weather adjustments
Annual re-set of rates	Keeps cost recovery current

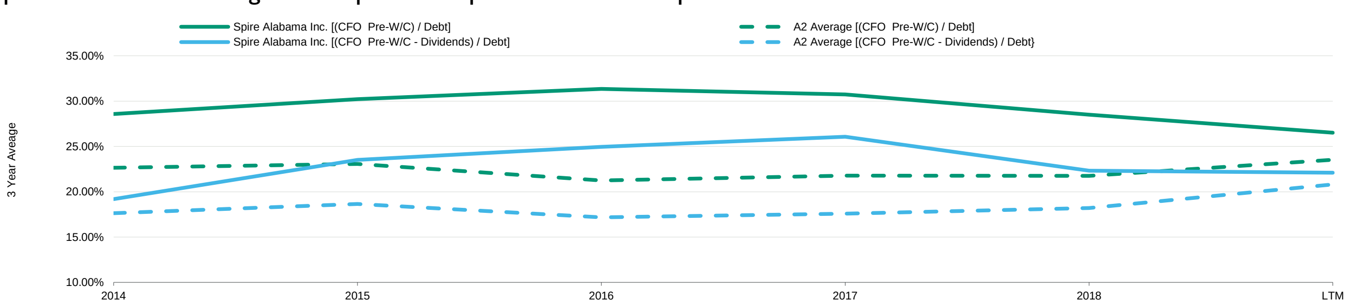
Source: Alabama Public Service Commission, Spire Inc.

Spire Alabama utilizes a Gas Supply Adjustment (GSA) rider, which allows for the recovery of changes in the cost of gas supply from its rate payers. Also included in the GSA is a temperature adjustment mechanism that moderates the impact of deviations from normal weather patterns. In addition, Spire Alabama can utilize a Competitive Fuel Clause (CFC) mechanism, which allows the LDC to immediately adjust prices to compete with any alternate fuel or gas supply source, and not lose earnings margin.

STRONG FINANCIAL PROFILE EXPECTED TO SUPPORT CREDIT QUALITY

As seen in the exhibit below, Spire Alabama's financial profile continues to compare favorably to low-risk LDC peers, including ratios of CFO pre-W/C to debt and CFO pre-W/C less dividends to debt of 28.2% and 25.7%, respectively, for the last 12-month period ended December 31, 2019. This compares favorably to average ratios of CFO pre-W/C to debt and CFO pre-W/C less dividends to debt of about 24% and 21%, respectively for LDC peers of similar credit quality.

Exhibit 5
Spire Alabama has a strong financial profile compared to similar LDC peers



Source: Moody's Financial Metrics

We expect Spire Alabama's financial profile to weaken somewhat over the next few years, due to lower deferred tax benefits as a result of the Tax Cuts and Jobs Act; however, we still expect ratios to remain supportive of its credit profile. Over the next two years, we expect Spire Alabama's ratio of CFO pre-WC to debt will be in the low-20% range while its ratio of CFO pre-W/C less dividends to debt will be in the high-teens.

CREDIT CONSTRAINED BY PARENT LEVERAGE AND MINIMAL RING-FENCE TYPE PROVISIONS

Spire Inc.'s growth by acquisition strategy over the past several years has resulted in a substantial, albeit declining, amount of holding company debt (i.e., roughly $690 million of long-term debt at December 2019), which is serviced by dividend distributions from its operating companies. The roughly $27 million of annual parent level interest expense is essentially a fixed obligation that must be supported by the utilities, since the unregulated net income and distributable cash of Spire Inc.'s other non-regulated businesses, such as Spire Marketing, can be more volatile, less certain and insufficient to service the debt.

We also consider the corporate dividend to be akin to a fixed obligation, since utility management teams are unlikely to reduce this cash distribution unless under significant financial duress. Through LTM Q1 2020, Spire Inc.'s dividend was about $125 million. We expect that the majority of parent level cash requirements are likely to come from Spire Missouri, the largest utility in the Spire Inc. family.

At about 30% of consolidated long-term debt as of December 2019, Spire Inc.'s holding company leverage is substantial and increases the financial risk of the entire family. As such, the holding company debt constrains the credit profiles of both Spire Alabama and Spire Missouri. Besides dividend restrictions at Spire Missouri, there are no significant legal ring-fencing provisions (e.g. independent directors, minimum equity requirements) that provide additional utility credit protection in the unlikely scenario of a Spire Inc. bankruptcy. However, both Spire Alabama and Spire Missouri are required to get pre-approval from their respective regulators before they issue debt.

We expect that the company will focus on reducing debt at the parent over time, consistent with management's public comments that it intends to do so. Refer to Spire Inc.'s credit opinion for further details.

ESG CONSIDERATIONS

Environmental considerations included in our credit assessment of Spire Alabama are primarily related to its exposure to carbon regulations. Spire Alabama is a pure-play gas distribution company with no fossil fueled generation and so has low carbon transition risk within the regulated utility sector. However, its operations which include natural gas transportation, distribution and storage activities inherently involve a variety of hazards and operations risks, such as leaks.

Longer term, Spire Alabama could possibly be more exposed to a potential decline in demand for fossil fuels as consumer preferences may change or other initiatives take hold to reduce the use of fossil fuels. For now, the utility fuel costs are fully passed through to customers with an effective cost recovery mechanism and some organic growth opportunities are allowing for Spire Alabama to give agricultural producers the opportunity to convert to natural gas fuel from higher carbon fuels such as propane and diesel. Moody's framework for assessing carbon transition risk in the utility industry is discussed in "Prudent regulation key to mitigating risk, capturing opportunities of decarbonization" (2 November 2017).

Social risks are primarily related to demographic trends, safety, customer and regulatory relations. Spire Alabama continues to work towards ensuring customer safety by improving its infrastructure through pipeline replacement investments. Social risks could occur from a rare operating event such as a pipeline explosion which can result in casualties and property damage. Moody's discusses these risks in "LDC Utilities Exposed to Operational Hazards, But Sector Still Viewed as Low Risk" (12 November 2018).

From a governance perspective, financial and risk management policies including a strong financial profile are important characteristics for managing environmental and social risks. We view the management and governance of Spire Alabama as strong based on our assessment criteria. Moody's framework for assessing corporate governance is discussed in "Utilities and power companies – North America Corporate governance assessments show generally credit-friendly characteristics" (September 19, 2019).

Liquidity analysis

Spire Alabama has an adequate liquidity profile driven by stable cash flow generation and access to good external liquidity sources. We expect the utility will occasionally need to borrow on its revolving credit facility to cover its capital investments and fund dividend distributions to Spire Inc. as cash flow from operations alone will likely not be able to cover these outflows. As of 31 December 2019, Spire Alabama had minimal cash on hand.

For the last 12 months ended 31 December 2019, Spire Alabama's cash flow from operations was $132 million, which was higher than the average of about $114 million over the previous five years primarily due to swings in working capital. We expect Spire Alabama's cash flow from operations should remain in the $100-150 million range going forward. For the last 12 months ended 31 December 2019, Spire Alabama's capital expenditures were $183 million and dividends to its parent were $17 million resulting in negative free cash flow of about $68 million. Spire primarily used short and long-term debt to supplement the shortfall in funding outflows using internally generated cash flow. Spire Alabama's capex will remain elevated over the next few years as the LDC is spending on infrastructure pipeline replacements which is recovered through its RSE rate design. We expect Spire Alabama will use its internally generated cash flow as well as short and long-term debt borrowings to help fund these capital investments. However, we anticipate that any borrowings will be done in a manner that will maintain Spire Alabama's regulated capital structure.

Spire Alabama's parent, Spire Inc.'s liquidity is supported by a commercial paper program, backstopped by a $975 million senior unsecured revolving credit facility expiring October 2023. The facility includes sublimits for Spire Inc. of $300 million, Spire Missouri of $475 million and Spire Alabama of $200 million. At 31 December 2019, Spire Alabama had approximately $67 million of commercial paper borrowings outstanding, included in the approximately $519 million outstanding on the total Spire Inc. family's program. The facility has same-day borrowing ability and no material adverse change representation for ongoing borrowings. It also has one financial maintenance covenant which limits consolidated debt to capitalization at 70%. As of 31 December 2019, Spire reported that all of the borrowing entities were in compliance with this covenant with Spire Alabama's ratio at 41%.

Spire Alabama's next scheduled debt maturity is $50 million of notes due in December 2021.

Rating methodology and scorecard factors

Exhibit 6

Rating Factors

Spire Alabama Inc.

Regulated Electric and Gas Utilities Industry Scorecaard [1][2]	Current LTM 12/31/2019		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	Aa	Aa	Aa	Aa
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	8.3x	Aaa	6x - 6.5x	Aa
b) CFO pre-WC / Debt (3 Year Avg)	26.5%	A	20% - 23%	A
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	22.1%	A	17% - 20%	A
d) Debt / Capitalization (3 Year Avg)	41.1%	A	43% - 47%	A
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Aa3		A1
HoldCo Structural Subordination Notching	0	0	0	0
a) Scorecard-Indicated Outcome		Aa3		A1
b) Actual Rating Assigned		A2		A2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2019(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Appendix

Exhibit 7

Cash Flow and Credit Metrics [1]

CF Metrics	Sep-16	Sep-17	Sep-18	Sep-19	LTM Dec-19
As Adjusted					
FFO	**137**	**148**	**140**	**142**	**146**
+/- Other	(3)	(11)	(3)	35	37
CFO Pre-WC	**134**	**137**	**137**	**176**	**183**
+/- ΔWC	(33)	(43)	27	(31)	(47)
CFO	**101**	**94**	**164**	**146**	**136**
- Div	32	27	30	19	17
- Capex	97	118	136	179	188
FCF	**(27)**	**(51)**	**(2)**	**(52)**	**(68)**
(CFO Pre-W/C) / Debt	31.8%	28.0%	26.3%	28.3%	28.2%
(CFO Pre-W/C - Dividends) / Debt	24.3%	22.5%	20.5%	25.2%	25.7%
FFO / Debt	32.5%	30.3%	26.9%	22.7%	22.5%
RCF / Debt	25.1%	24.7%	21.1%	19.7%	19.9%
Revenue	369	401	501	466	458
Cost of Good Sold	64	80	174	133	121
Interest Expense	16	17	20	24	24
Net Income	57	61	4	63	66
Total Assets	1,606	1,661	1,635	1,764	1,793
Total Liabilities	741	796	829	937	958
Total Equity	865	865	806	827	834

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics

Exhibit 8

Peer Comparison Table [1]

	Spire Alabama Inc. A2 Stable			DTE Gas Company A3 Stable			Piedmont Natural Gas Company, Inc. A3 Stable			Southern California Gas Company A1 Negative		
	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	LTM
(in US millions)	Sep-18	Sep-19	Dec-19	Dec-17	Dec-18	Sept-19	Dec-17	Dec-18	Sept-19	Dec-17	Dec-18	Sept-19
Revenue	501	466	458	1,368	1,415	1,488	1,328	1,375	1,391	3,785	3,962	4,404
CFO Pre-W/C	137	176	183	310	337	295	469	285	389	1,192	885	1,006
Total Debt	521	624	650	1,784	1,826	1,884	2,456	2,395	2,689	4,124	4,673	4,790
CFO Pre-W/C / Debt	26.3%	28.3%	28.2%	17.4%	18.5%	15.7%	19.1%	11.9%	14.4%	28.9%	18.9%	21.0%
CFO Pre-W/C – Dividends / Debt	20.5%	25.2%	25.7%	11.5%	12.3%	9.3%	19.1%	11.9%	14.4%	28.9%	17.9%	19.9%
Debt / Capitalization	39.3%	43.0%	43.8%	46.4%	43.9%	43.0%	52.7%	47.8%	47.5%	45.9%	46.4%	45.5%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade
Source: Moody's Financial Metrics

Ratings

Exhibit 9

Category	Moody's Rating
SPIRE ALABAMA INC.	
Outlook	Stable
Senior Unsecured	A2
PARENT: SPIRE INC.	
Outlook	Stable
Senior Unsecured	Baa2
Pref. Stock	Ba1
Commercial Paper	P-2

Source: Moody's Investors Service

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