Exhibit No.: _______________
Issue(s): Rate of Return ("ROR")/Capital Structure
Witness/Type of Exhibit: Murray/Surrebuttal
Sponsoring Party: Public Counsel
Case No.: GR-2025-0107

SURREBUTTAL TESTIMONY

OF

DAVID MURRAY

Submitted on Behalf of the Office of the Public Counsel

SPIRE MISSOURI, INC.

FILE NO. GR-2025-0107

*** ________________________________ ***
Denotes Highly Confidential Information that has been Redacted

June 30, 2025

PUBLIC

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OF

DAVID MURRAY

SPIRE MISSOURI INC.

FILE NO. GR-2025-0107

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 and rebuttal testimony in this case?

A. Yes.

Q. What is the purpose of your testimony?

A. I will respond to the rebuttal testimonies of Spire Missouri Inc.'s ("Spire Missouri") witness, Adam Woodard, and Staff's witness, Seoung Joun Won, PhD.

Q. What issues does Mr. Woodard address?

A. Mr. Woodard addresses all issues related to developing a rate of return ("ROR") recommendation. Mr. Woodard disagrees with my recommended authorized return on common equity ("ROE") and my recommended ratemaking capital structure.

Q. What issues does Dr. Won address?

A. Dr. Won addresses the appropriate ROE in this case as well as the capital structure to which the ROE should be applied. Dr. Won's main disagreement with my recommended rate of return ("ROR") relates to my recommended ratemaking capital structure.

<u>ADAM WOODARD</u>

Q. What is your general reaction to Mr. Woodard's response to your direct testimony?

A. Mr. Woodard characterizes my recommended ratemaking capital structure as a "virtual" capital structure. While Mr. Woodard did not define "virtual," the common meaning of virtual is something in essence or effect, but not actual or in fact. My recommended ratemaking capital structure for Spire Missouri is based on the fact that Spire Missouri's per books capital structure is managed for ratemaking, whereas Spire Inc.'s consolidated capital structure is managed for economic efficiency. Spire Inc.'s capital structure is managed for economic efficiency because targeting a lower cost of capital increases shareholder value. In 2021, when Spire Inc.'s stock price was trading at a discount to Spire Inc.'s view of its intrinsic value, Spire Inc. did not issue traditional common equity because it was too costly. Spire Inc. does not have that same concern for Spire Missouri's capital structure because a higher common equity ratio for a utility subsidiary does not dilute the earnings to third-party shareholders. In fact, typically, the higher the authorized ratemaking common equity ratio, the higher the revenue requirement collected from ratepayers, which increases earnings to Spire Inc.'s shareholders. Consequently, capital structure ratios consistent with Spire Inc.'s targets are grounded in market-based reality, where Spire Missouri's capital structure targets are grounded in ratemaking to justify higher revenue requirements.

Mr. Woodard disagrees with my cost of equity estimates as well as my recommended authorized ROE. Mr. Woodard testifies that an authorized ROR based on a fair and reasonable estimate of the cost of capital is consistent with the *Hope* and *Bluefiled* principles.[1] However, Mr. Woodard claims that if a company is unable to earn its cost of capital, then the authorized ROR should be increased to consider other deficiencies in ratemaking.[2] Mr. Woodard does not identify a specific adjustment to my recommended ROR for these perceived deficiencies. Instead, he urges the Commission to adopt his ROE recommendation of 10.50%, which Mr. Woodard also estimates as Spire Missouri's COE.

[1] Woodard Direct, p. 10, ln.14 – p. 14, ln. 21.
[2] *Id.,* p. 5, ln. 8 – p. 7, ln. 5.

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Q. Mr. Woodard testifies that the investment community (equity analysts, investors, and rating agencies) regularly expresses concern regarding your capital structure recommendations.[3] Did Mr. Woodard specifically identify those in the investment community who express these concerns?

A. No. Because Mr. Woodard's testimony did not identify the individuals or firms that express this concern, I attempted to determine this information through discovery. I requested Mr. Woodard identify the individuals and provide any underlying correspondence Mr. Woodard had with the individuals. Mr. Woodard's response (*see* Schedule DM-S-1, page 5) did not specifically identify the individuals/firms. His response referred me to the general information Spire Missouri provided in response to OPC Data Request No. 3002 (see Schedule DM-S-2).

Q. Regardless, is there anything inherently wrong with receiving these inquiries?

A. No. OPC also receives inquiries from analysts and investors attempting to understand OPC's view on regulatory issues and logic for our positions. Although I cannot provide an exhaustive list of analysts who have set up conference calls with the OPC, I do recall the OPC having conference calls with Mizuho Securities, Jefferies, and Evercore ISI. While the analysts and investors on the calls may not agree with our views, they accept the fact that we are the consumer advocate and we have a role to play in the utility ratemaking process. They also understand that the Commission is the ultimate arbiter of the various positions preferred by parties.

Q. Does the OPC field calls from ratepayers concerned about rate increases?

A. Yes. While I personally do not answer calls from consumers, the OPC consistently receives call from ratepayers who are concerned about constant rate increases. As a consumer advocate, it is my duty to argue for the consumer. However, I still understand that I must provide compelling evidence regarding utilities' cost of capital to support my ROR recommendations. While most ROR witnesses, including Mr. Woodard, suggest the basis for a fair and reasonable authorized ROR is a company's cost of capital, I have

[3] Woodard Rebuttal, p. 33, lns 3-17.

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regularly discovered both investor and utility company analysis that recognizes authorized ROEs are typically higher than the COE. In Spire Missouri's 2021, 2022, and this rate case, I provided and continue to provide a considerable amount of Spire Inc.'s own internal records and analysis demonstrating that Spire Inc. manages its capital structure and security issuances to achieve an economical cost of capital, while still maintaining an investment grade credit rating. I have not discovered the same evidence as it relates to managing Spire Missouri's capital structure. In fact, the evidence I provided shows that Spire Missouri's credit quality is used to support Spire Inc.'s ability to provide financial guarantees for Spire Marketing's financial transactions.

Q. Regardless of investors and ratepayers opinions/concerns about ratemaking positions and outcomes, what must the Commission consider when setting an authorized ROR for a Missouri utility?

A. As specified in the *Bluefield* decision:

> The return should be reasonably sufficient to assure confidence in the financial soundness of the utility, and should be adequate, **under efficient and economical management**, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties (emphasis added). [4]

Q. Does Mr. Woodard identify the premise for his recommended ROR?

A. Yes. Mr. Woodard testifies that his recommended ROR is consistent with Spire Missouri's cost of capital, which includes his estimate of Spire Missouri's COE.[5]

Q. ***

[4] *Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923).
[5] Woodard Direct, p. 15, lns. 13-17; p. 17, lns. 13-16; p. 23, lns. 8-11; p. 29, lns. 7-10; p. 34, lns. 12-14; and p. 41, lns. 11-12.

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[6] Spire Inc. Strategy Committee Meeting, January 25, 2023, p. 47.

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Q. What was Mr. Woodard's recommended ROE in Spire Missouri's 2022 rate case?

A. 10.50%.[7]

Q. Did Mr. Woodard provide his own opinion of Spire Missouri's COE in the 2022 rate case?

A. No. Mr. Woodard adopted Staff's approach in Spire Missouri's 2021 rate case. While Mr. Woodard utilized COE methodologies for purposes of developing his recommended ROE in the 2022 rate case, he used assumptions and inputs similar to Staff's execution of the models in the 2021 rate case. Mr. Woodard then compared results in 2022 to 2017 to determine his recommended adjustment to the Commission's 9.8% authorized ROE in Spire Missouri's 2017 rate case. Mr. Woodard recommended a 10.5% ROE be applied to Spire Missouri's requested 55% common equity ratio.[8]

Q. Did Mr. Woodard testify that if a company earns a return at least equal to its cost of capital, such a return is fair and reasonable pursuant to the U.S. Supreme Court's decision in the Bluefield case?

A. Yes.[9]

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[7] Case No. GR-2022-0179, Adam Woodard Direct Testimony, p. 3, Table 1.
[8] *Id.*
[9] *Id.,* p. 4, ln. 11 – p. 5. ln. 2.

Q. Did Mr. Woodard provide Spire Missouri's earned ROE data for the period 2022 to 2024 that shows Spire Missouri has not earned the 9.37% ROE it was authorized in its 2021 rate case?

A. Yes.

Q. Do you agree with Mr. Woodard's representation of Spire Missouri's earned ROEs?

A. No. Mr. Woodard calculated Spire Missouri's annual earned ROE by dividing annual net income by the average balance of common equity for the year. His formula is commonly accepted, but he should have reduced Spire Missouri's common equity balance by the $210.2 million goodwill asset Spire Missouri booked when it acquired the Missouri Gas Energy ("MGE") system from Southern Union in 2013. Spire Missouri's goodwill asset does not earn a return. If the carrying value of Spire Missouri's assets were determined to be higher than the fair value of the assets, Spire Missouri would be required to take a goodwill impairment. This potential write-down in the carrying value of the assets would flow through to the balance sheet through a one-time impairment loss on the income statement, which causes a corresponding decline in the book value of Spire Missouri's common equity.

Q. After making an adjustment to the common equity balance to remove goodwill, is Spire Missouri still underearning its authorized ROE?

A. Yes. While I maintain that Spire Inc. is able to achieve a higher effective return through its use of leverage to invest in the common equity accounts of its utilities, based on the Commission's adoption of Spire Missouri's capital structure as appropriate for ratemaking in its 2021 rate case, the earned ROEs are lower than the 9.37% authorized.

Q. Mr. Woodard argues that an authorized return should be adjusted higher if a company has not been able to earn its authorized return. Do you agree?

A. No. Mr. Woodard seems to be arguing that ratemaking should more or less eliminate any risk of underearning the authorized ROE. If such is the case, then the assumed risk premium over the risk-free rate should be reduced to account for such reduction in risk. Mr. Woodard's argument is circular – make an upward adjustment to the authorized ROE for perceived deficiencies in the ratemaking model, which would reduce a company's COE, causing the need for a reduction in the base COE to which such upward adjustments are made.

Q. If the Commission accepted Mr. Woodard's estimate of Spire Missouri's COE at 10.5% as the appropriate baseline for such an adjustment, what ROE would the Commission need to authorize to allow for the cushion Mr. Woodard suggests?

A. About 12% to 12.5% based on Spire Missouri's under earnings of approximately 150 to 200 basis points in 2022 and 2023.

Q. If Spire Missouri were a standalone entity with publicly-traded common equity, would a fair and reasonable COE estimate capture investors' required risk premiums to account for underearning?

A. Yes. One of the strengths of using the DCF method is the fact that if you apply the model directly to the subject company, the subject company's stock price reflects all of the risk factors investors' considered in determining a fair price to pay for the stock. A company-specific DCF eliminates the need for subjective adjustments for a litany of differences in a company's business risk as compared to a proxy group.

Q. What was Spire Missouri's COE estimate for its 2021 rate case?

A. Spire Missouri's external consultant, Dylan W. D'Ascendis, estimated Spire Missouri's COE at 9.95%.[10]

Q. What was your COE estimate in Spire Missouri's 2022 rate case?

A. 7.25% to 7.5%.[11]

Q. What was your recommended authorized ROE in the 2022 rate case?

A. 9.25%.

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[10] Case No. GR-2021-0108, Dylan W. D'Ascendis Direct Testimony, p. 6, Table 1.
[11] Case No. GR-2022-0179, David Murray Direct Testimony, p. 5, lns. 15-16.

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Q. *** [redacted] ***

Q. What was your COE estimate for Spire Missouri in its 2021 rate case?

A. I estimated Spire Missouri's COE to be in the range of 6.5% to 7.5% when I filed my testimony on May 12, 2021.[12]

Q. Are all of the companies in the UTY index pure-play regulated utility companies?

A. No. The UTY index represents the Philadelphia Utility Sector index, which has 21 constituents. While some of the companies, such as Ameren Corporation, Pinnacle West Corporation, American Electric Power Inc., and WEC Energy Group, are reasonable electric utility proxy companies, the index also has several companies with significant exposure to non-regulated activities. Some of these companies are The AES Corporation, Constellation Energy Corporation, NextEra Energy Inc., and Public Service Enterprise Group. The UTY index does not have any companies whose core operations are natural gas distribution service.

[12] Case No. GR-2021-0108, David Murray Direct Testimony, p. 5, lns. 6-7.

Q. Mr. Woodard claims your COE estimate for Spire Missouri of 7.8% to 8.3% is too low. What is the basis for his opinion?

A. Mr. Woodard claims that I mis-specified assumptions in my multi-stage DCF analysis and my CAPM analysis.

Q. After Mr. Woodard "corrected" your mis-specifications, what does he conclude is Spire Missouri's COE?

A. Approximately 9.5% to 10.5%.[13]

Q. What does he believe you mis-specified in your DCF analysis?

A. Mr. Woodard claims that investors expect utility companies' DPS to grow in perpetuity at consensus analysts' projected 3-5 year compound annual growth rate ("CAGR") in EPS. Therefore, in his opinion, my multi-stage DCF analysis is unnecessary because investors simply expect LDCs' DPS to grow at a constant CAGR rate of 5.67% in perpetuity.

Q. What is the basis for Mr. Woodard's position?

A. He testifies as follows:

> Many analysts (and investors) use projected EPS growth as a proxy for dividend growth when valuing utility companies, largely because utilities typically maintain stable payout ratios, and their dividends tend to grow in line with earnings.[14]

Q. Did he identify any analysts/investors who follow the approach he suggests?

A. No.

Q. Did you perform discovery to request Mr. Woodard provide specific examples?

A. Yes. I issued OPC Data Request No. 3016 requesting Mr. Woodard provide specific examples. Mr. Woodard did not provide specific examples (*see* Schedule DM-S-1, page 4).

[13] Woodard Rebuttal, Schedules AWW-R-26 and AWW-R-27.
[14] Woodard Rebuttal, p. 25, lns. 13-15.

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Q. Have you ever reviewed an investment analysis that assumes DPS will grow in perpetuity at the 3-to-5 year consensus CAGR in EPS?

A. No. In fact, I can provide specific examples of utility analysts/investors who utilize a multi-stage DCF (more specifically referred to as a multi-stage DDM) which assumes a much more rationale perpetual growth rate of approximately 3%. For example, Evercore ISI assumes perpetual growth rates of 2.5% to 4.5% for electric utility stocks as shown in the attached report (Schedule DM-S-5, page 7). Evercore ISI increased the high-end of its perpetual growth rates to 4.5% from 3.5% earlier this year. Also, in a report Wells Fargo published in 2019, it assumed perpetual growth rates for LDCs in the range of 2.7% to 3.3%.[15]

Q. *** ____ ________

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Q. Mr. Woodard claims that you should not be citing, quoting or attaching equity research reports to your testimony. Why?

A. He believes I need to receive permission from the analyst/firm before I quote and/or attach reports to my testimony. Apparently, Mr. Woodard considers quoting or attaching a report to testimony as a redistribution or reproduction of the reports without express permission from the analyst/firm.

Q. Are you redistributing or reproducing the reports for public consumption?

A. No. It is a stretch to imply that attaching a few select reports to my testimony constitutes copyright infringement. That being said, if I received reports from Spire Missouri through discovery and I quote or attach the reports in my testimony, I classify such information as

[15] Neil Kalton, Sarah Akers, and Jonathan Reeder, "DDM Analysis Supports Sector Valuation & Quality/Growth Trade," August 19, 2019, Wells Fargo.

confidential. If I received the information directly from the firm/analyst due to being on their email distribution list, I typically do not classify such as confidential.

Q. Why not?

A. Over my career, I have established relationships with some firms/analysts who have distributed this material to me directly through their email distribution lists. These relationships were borne from my role as a regulator in which many of these analysts seek information related to Missouri's general and specific regulatory issues. I have also interacted with these analysts through my participation in organizations, such as the Society of Utility and Regulatory Financial Analysts ("SURFA"). My understanding is that the value of this research to each of these firms is its real-time release to clients, not dated research reports.

Q. In Spire Missouri's 2021 and 2022 rate cases, did Spire Missouri provide equity research reports from all analysts following Spire Inc.?

A. Yes. Spire Missouri did not withhold reports in the 2021 and 2022 rate cases, Case Numbers GR-2021-0108 and GR-2022-0179, respectively.

Q. Are these reports useful and relevant to evaluating the COE for the utility industry?

A. Yes. In fact, I consistently quote many of these reports in my testimony to provide information on investors' perspectives and to test the reasonableness of certain assumptions ROR witnesses claim are consistent with investors' views. These analysts and their reports are instrumental to understanding, correctly interpreting, and communicating investor expectations influencing stock prices.

Q. Have you encountered this resistance from any of Missouri's other regulated utilities as it relates to providing equity research reports?

A. Not for quite some time. However, in recent rate cases involving Ameren Missouri and Missouri American Water Company these companies showed some resistance in providing this information or making it more difficult to obtain efficiently.

In an Ameren Missouri rate case in 2010, Case No. ER-2010-0036, I initially encountered significant resistance to obtaining this information. However, after discovering from Ameren Missouri's own witness that this information is typically freely exchanged among those in the investment community, with no concerns about copyright issues, Ameren Missouri began to cooperate with discovery requesting such information.[16]

I am not aware of any changes in the investment industry that should have caused a change in utility companies' willingness to provide these influential sources of information for investors.

Q. Mr. Woodard claims you mis-specified assumptions in your CAPM analysis. With what assumptions does he disagree?

A. He disagrees with the following assumptions: market risk premium, appropriate betas, and the risk-free rate.

Q. Why does Mr. Woodard disagree with your market risk premium range of 5% to 6%?

A. He claims I should have used the arithmetic average of the annual historical (1928 through 2024) return spreads between large company stocks and the risk-free rate. Mr. Woodard indicates that this information is available on the website of Dr. Aswath Damodaran, Professor of Finance at New York University's Stern School of Business. Mr. Woodard testifies that the historical information on Dr. Damodaran's website is widely used in the investment community.

Q. Are you familiar with Dr. Damodaran's website and publications?

A. Yes. In fact, although it has been some time since I have corresponded with him, I first met Dr. Damodaran at a SURFA conference in 2007. I am also familiar with some of his treatises because they have been used as part of the CFA Program curriculum.

[16] Case No. ER-2010-0036, Murray Surrebuttal, pgs. 26-28.

Q. *** ____

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Q. What is the tenor of the UST yield Dr. Damodaran uses to determine his estimated implied market risk premium?

A. A 10-year UST yield.

Q. Does this mean the users of Dr. Damodaran's implied market risk premiums should also use a recent 10-year UST yield in a CAPM analysis?

A. Yes.

Q. *** ____

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Q. Mr. Woodard also continues to emphasize that to the extent an analyst uses historical earned return differences to estimate a required market risk premium, only arithmetic averages should be used. He even claims this methodology is "strongly endorsed" by the CFA Institute. Did you respond to a Spire Missouri data request addressing Mr. Woodard's view that the CFA Program strongly endorses the use of arithmetic mean?

A. Yes. I referred Spire Missouri to surrebuttal testimony I filed in a 2010 Ameren Missouri rate case, Case No. ER-2010-0036. My surrebuttal testimony in that case responded to the rebuttal testimony of Roger A. Morin, PhD, who is the author of the book Mr. Woodard cited to support his view that only arithmetic means should be used to estimate a market risk premium. Dr. Morin's testimony in the Ameren Missouri rate case implied the same level of confidence about arithmetic averages as Dr. Morin's book. For convenience and the record, a few of the sources I cited are as follows:

> The geometric mean generally yields lower premium estimates than the arithmetic mean. In the context of valuation, where cash flows over a long time horizon are discounted back to the present, the geometric mean provides a better estimate of the risk premium. Thus, the premium of 5.50% (the geometric mean of the premium over Treasury bonds) is used throughout this book for calculating expected returns.[17]

An update of the 2002 text, "Analysis of Equity Investments: Valuation," that I cited in my surrebuttal testimony in the Ameren Missouri rate case follows:

> The geometric mean return of a sample represents the compound rate of growth that equates the beginning value to the ending value of one unit of money initially invested in an asset. Present value models involve the discounting over multiple time periods. Discounting is just the reverse side of compounding in terms of finding amounts of equivalent worth at different points in time; because the geometric mean is a compound growth rate, it appears to be a logical choice for estimating a required return in a multiperiod context, even when using a single-period required return model. In contrast to the sample arithmetic mean, using a sample geometric mean does not introduce bias in the calculated expected terminal value of an investment. Equity risk premium estimates based on the geometric mean have tended to be closer to supply-side and demand-side estimates from economic theory than arithmetic mean estimates. For the above reasons,

[17] Aswath Damodaran, "Investment Valuation," 1996, p. ?.

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> the geometric mean is increasingly preferred for use in historical estimates of the equity risk premium.[18]

A final, but certainly not least, quote from the CFA Program that I cited in my 2010 testimony follows:

> The geometric mean is appropriate for long-run asset class comparisons, whereas the arithmetic mean is what you would use to estimate the premium for a given year (e.g., the expected performance next year). Because our application is to the long term DDM [dividend discount model] model, the geometric mean value would probably be more appropriate, which implies using the 7.6 percent risk premium value [based on the period 1926-2004 and the difference between stocks and Treasury bills explains the higher figure].[19]

Although each of the above cites clearly support the use of geometric means when estimating a market risk premium for long-term (*i.e.* multiple years) investments, the last citation indicates the geometric value is "probably" more appropriate, meaning that it is certainly not a settled practice. However, I am confident that I am in no way misrepresenting the CFA Institute Program's curriculum when stating a geometric mean is typically advised for estimating market risk premiums for long-term investments.

Q. What criticism does Mr. Woodard have about your assumed betas of approximately 0.71?

A. Mr. Woodard alleges I should have used Value Line's published betas, just as he and Staff did.

Q. Why?

A. He claims that because my calculation of the betas for my proxy group was based on the Value Line approach, I should have simply relied directly on Value Line's published betas to determine an appropriate beta.

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[18] Jeral E. Pinto, CFA; Elain Henry, CFA; Thomas R. Robinson, CFA and John D. Stowe, CFA, "Equity Asset Valuation," Third Edition, 2015, p. 53

[19] Frank K. Reilly, CFA; Keith C. Brown, CFA, "Macroanalysis and Microvaluation of the Stock Market," 2010 Level III CFA Program Curriculum, Reading 24.

Q. If you followed the Value Line approach, why are your calculated betas lower than the Value Line betas used by Mr. Woodard and Dr. Won?

A. My calculations used 5-years of historical weekly returns for the period April 17, 2020, through April 11, 2025. Because this data excludes the stock market data in late March and early April 2020, when essentially all stocks contracted significantly at the same time, the betas I calculated are consistent with the typical long-term return variability and correlations between the "market" and utility stocks. For purposes of his direct testimony, the Value Line betas Mr. Woodard used were at an unusually high level of 0.93 to 0.96. This was due to the fact that the Value Line betas still included stock market data from late March/early April 2020. When Mr. Woodard provided updated betas in his rebuttal testimony, the betas had dropped to approximately 0.80. This is because the stock market data from the spring of 2020 is gradually rolling off Value Line's calculations.

Q. What were Value Line betas during Spire Missouri's 2022 rate case?

A. Approximately 0.90 as identified and used by Mr. Woodard in his ROR testimony in the 2022 rate case.[20] At approximately the same time, Spire Inc. used a *** ____________ ____ ***

Q. Mr. Woodard also suggests you should have used a one-day spot yield of 5.04% for the 20-year UST yield in your CAPM.[21] Do you agree?

A. It depends on the circumstances. If long-term rates are steadily increasing or decreasing, then a spot yield has logic. However, if long-term yields do not have a particular trend, then it is more appropriate to use a recent average. *** ____________________________ ____ ***

Q. Are there any other matters raised by Mr. Woodard that you need to address?

A. Yes. Mr. Woodard notes that one of the sources, Kroll, I relied on for market risk premium estimates, updated its recommended market risk premium to 5.5% from 5.0%. Mr. Woodard is correct. Kroll increased its recommended market risk premium to 5.5% on

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[20] Case No. GR-2022-0179, Woodard Direct, p. 31, lns. 2-3.
[21] Woodard Rebuttal, Schedule AWW-R-7.

April 15, 2025, which is logical considering investors' concerns at the time about the potential impact of the U.S. Administration's tariff policies on the economy.

Q. Mr. Woodard implies that your consistent recommendation of a lower ratemaking common equity ratio similar to that of Spire Inc.'s common equity ratio deters investors from purchasing Spire Inc.'s stock. Do investors understand that regulators may consider the parent company's capital structure when determining a company's expected earnings and cash flows?

A. Yes. Investors should factor in expectations that utility companies most likely will not receive their requested ROE and requested capital structure. Missouri is not unique by any means. In fact, the Kansas Corporation Commission's ("KCC") Staff has recently received the most attention from investors about this topic. Despite the tremendous amount of pressure put on the KCC Staff to change its position in recent Evergy proceedings, it still recommended a certain amount of holding company debt be assigned to Evergy Kansas Central for purposes of determining its ratemaking capital structure.

The Illinois Commerce Commission ("ICC") Staff has also had significant debates over the years with Ameren Illinois Company ("AIC") over a fair and reasonable ratemaking capital structure. In many of those debates, the ICC Staff compared AIC's capital structure to that of Ameren Corp to test the reasonableness of AIC's requested ratemaking common equity ratio.

Q. Have equity analysts attributed the potential that the Missouri Commission may consider the parent company capital structure to the parent company targeting a more conservative (i.e. less debt) capital structure?

A. Yes. Wells Fargo stated the following in a report published on Ameren Corp in 2023:

> AEE's '23-27 new equity needs total $2.8B, consisting of $2.3B of external equity and $100M annually under DRPlus [dividend reinvestment plan] and internal programs. AEE continues to target a parent equity ratio of ~45%. The equity guidance is consistent with our assumption and '23 needs of $0.4B represent ~1.5% of market cap. **AEE employs a relatively**

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> **conservative financing strategy vs. peers, likely reflecting regulatory-related look-through considerations in MO.** (emphasis added)[22]

Q. If a utility parent company is more leveraged than its operating utility subsidiaries, does this leverage cause constraint on the subsidiaries' credit profile?

A. Yes. Most rating agencies recognize at least some constraint on the subsidiaries' credit profile if the parent company issues a significant amount and proportion of debt. A more conservatively financed parent company provides the entire enterprise with more financial flexibility in raising capital in all capital market conditions.

Q. Mr. Woodard testifies that the Commission's decision in Spire Missouri's 2021 rate case was an "outlier case [that] should not be used as a precedent." Was the logic for the Commission's decision to include short-term debt in Spire Missouri's capital structure unprecedented?

A. No. As I testified in my rebuttal testimony,[23] in past rate cases, Spire Missouri itself recommended including short-term debt in its ratemaking capital structure because it recognized it was customary to finance short-term assets with short-term debt.

Q. Understanding that the Company itself used to recognize that it was logical to assume that certain short-term assets, such as gas inventories and cash working capital, are typically financed by short-term debt, is there another approach the Commission could consider in determining the percentage of short-term debt to include in the authorized ratemaking capital structure?

A. Yes. Instead of attempting to reconcile outstanding short-term debt to short-term assets, another approach is to determine the percentage of short-term assets as a percentage of overall rate base and include that proportion as short-term debt in the capital structure.

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22 Neil Kalton, et. al., "AEE: Quick Take on Q4 Updates – All Looks Just Fine," Wells Fargo, February 15, 2023.
23 Murray Rebuttal, p. 20, lns. 7-9 and p. 22, lns. 3-8.

Q. What rate base items are generally considered to be short-term in nature?

A. Cash working capital, natural gas and propane inventories, materials & supplies and prepayments.

Q. What percentage of Staff's estimated rate base do short-term assets represent?

A. 5.09%. Therefore, as an alternative to the Spire Missouri ratemaking capital structure I recommended in my rebuttal testimony, I recommend at least 5.09% of additional debt be included in Spire Missouri's ratemaking capital structure.

Q. How would including 5.09% of short-term debt impact the Spire Missouri capital structure you provided in your rebuttal testimony as an alternative to your primary recommendation in your direct testimony?

A. Adding 5.09% of short-term debt to the Spire Missouri capital structure I provided in my rebuttal testimony causes the common equity ratio to be 47.93% and the long-term debt ratio to be 46.98%.

Q. Do you think it is necessary for the Commission to sort out the details related to the various moving parts of Spire Missouri's financing needs and specific financing transactions to determine fair and reasonable ratemaking capital structure for this case?

A. No. As demonstrated in testimony in Spire Missouri's 2021 rate case, if the Commission previously authorized a common equity ratio Spire Inc. considers favorable to its shareholders, it will continue to manage Spire Missouri's common equity ratio to this target. However, due to the Commission's decision to include short-term debt in Spire Missouri's authorized capital structure at the conclusion of the 2021 rate case, Spire Missouri's authorized common equity ratio was 49.86%. While Spire Inc. complained that the authorized common equity ratio was "lower-than-normal,"[24] this common equity ratio was actually much more consistent with the Commission's authorized common equity ratios for other Missouri utility companies. As for the differential between Spire

[24] Spire Inc. FQ1 2022 Earnings Call Transcripts, February 2, 2022, p. 5.

Missouri's common equity ratio and Spire Inc.'s common equity ratio, the Commission should recognize the inherent contradiction in Spire Missouri's pleas for the Commission to charge ratepayers for a 55% common equity ratio when Spire Inc. has not to repaired its own consolidated balance sheet. Spire Inc. issued significant amounts of holding company debt to finance major acquisitions in 2014 and 2016. The aggressive use of holding company debt has significant financial consequences to the financial stability of the Spire Inc. family of companies. As a reminder to the Commission, one of the key reasons the Kansas Corporation Commission ("KCC") rejected Great Plains Energy's proposed acquisition of Westar Energy Inc. in 2018 was Great Plains Energy's plan to issue significant amounts of holding company debt to fund the acquisition. The KCC found this to be a detrimental aspect of the proposed transaction. To this day, Spire Inc.'s utilization of significant amounts of holding company debt to finance its acquisitions in 2014 and 2016 continues to constrain Spire Missouri's credit ratings. The fact that Spire Inc. suggests it is this Commission's responsibility to make Spire Missouri ratepayers pay for a higher-cost capital structure than Spire Inc. considers reasonable for itself, is hypocritical. As an advocate for ratepayers, I must argue against this attempt to unfairly transfer of wealth/income from ratepayers to shareholders because ratepayers are not receiving the benefit of a conservatively financed family of companies.

Consequently, from my perspective, setting a fair and reasonable ratemaking capital structure in this case is easy. Simply observe the capital ratios Spire Inc. itself recognizes as the most cost efficient from a cost of capital perspective. I conservatively recognized this capital structure to be a mix of 41.5% common equity and 58.5% total debt.

SEOUNG JOUN WON'S REBUTTAL TESTIMONY

Q. Does Staff witness Seoung Joun Won, PhD, have any disagreements with your positions?

A. Yes. He mainly disagrees with the premise for my recommended ratemaking capital structure. He does not agree with considering Spire Inc.'s consolidated capital structure for purposes of setting Spire Missouri's ratemaking capital structure.

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Q. Why does he believe it is more appropriate to adopt Spire Missouri's per books capital structure rather than considering Spire Inc.'s consolidated capital structure?

A. Dr. Won cites to four guidelines outlined in the curriculum used by the Society of Utility and Regulatory Financial Analysts ("SURFA") as it relates to the Certified Rate of Return Analyst ("CRRA") designation. I am familiar with this curriculum as I have obtained the CRRA designation.

Q. Did you and Dr. Won debate these guidelines in Spire Missouri's 2021 rate case?

A. Yes.

Q. Whose argument did the Commission find more convincing?

A. Dr. Won's argument.

Q. Then why haven't you changed your position?

A. Because the facts and circumstances still show that Spire Inc. manages its consolidated capital structure for cost efficiency, not Spire Missouri's capital structure. Additionally, Spire Missouri's credit rating is still constrained by Spire Inc.'s more liberal use of leverage.

Q. Will you discuss these factors again and update your arguments for any changes in circumstances and/or financial data since the 2021 rate case?

A. Yes.

The first factor is:

> Whether the subsidiary utility obtains all of its capital from its parent, or issues its own debt and preferred stock.

Spire Missouri still issues long-term debt to third-party investors. However, Spire Missouri relies on Spire Inc. for its short-term capital needs through Spire Inc.'s consolidated commercial paper program. As I discussed in my direct testimony, because Spire Missouri has retained slightly over 85% of its earnings over the last five years, Spire Inc. has strategically funded its cash deficiencies for dividends by raising capital at the holding company. Spire Inc. has raised capital from sources other than its regulated utility subsidiaries to fund approximately $560 million of dividends over the last five years.

The second factor is:

> Whether the parent guarantees any of the securities issued by the subsidiary.

Spire Inc. still does not guarantee any of Spire Missouri's securities. However, as I discussed in other areas of my testimony, Spire Missouri and its regulated utility affiliates have lower business risk profiles than Spire Inc. and its non-regulated subsidiaries. Spire Inc.'s creditworthiness depends on its regulated subsidiaries rather than the opposite. Therefore, creditors/lenders to Spire Missouri do not require credit enhancement. However, Spire Inc.'s non-regulated subsidiary, Spire Marketing, does require credit enhancement, which would not be possible but for Spire Inc.'s ownership of low-risk, regulated LDCs, including that of Spire Missouri.

The third factor is:

> Whether the subsidiary's capital structure is independent of its parent (i.e. existence of double leverage, absence of proper relationship between risk and leverage of utility and non-utility subsidiaries).

To my knowledge Spire Inc. last issued debt to make a direct equity infusion into Spire Missouri in 2012. However, this is too narrow of an interpretation of double leverage. On a broader-level, double-leverage is simply the existence of leverage at the subsidiary and at the holding company, which defines Spire Inc.'s financing strategy. It is this broader definition that feeds into the logic provided in the quoted parenthesis, which is the absence of the proper relationship between risk and leverage of the utility and non-utility subsidiaries. Mr. Woodard testifies that Spire Inc. mainly uses holding company debt to finance the company's non-utility operations.[25] While I do not agree with Mr. Woodard that the majority of holding company debt is used for this purpose,[26] if this were the case, this dynamic proves my point, which is Spire Missouri's and Spire Alabama's credit quality support Spire Inc.'s ability to use debt financing to fund its non-regulated operations. In fact, Spire Marketing relies on parental guarantees for its financial

[25] Woodard Rebuttal, p. 35, lns. 3-6.
[26] Most of Spire Inc.'s holding company debt was used to finance its acquisitions of Alagsco and EnergySouth

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transactions. Therefore, it is wholly illogical and inconsistent with the relationship between risk and leverage to conclude that Spire Inc.'s capital structure can incur more leverage than its lower-risk regulated utility subsidiaries. The absence of a proper relationship is supported by the fact that S&P determined that Spire Missouri's hypothetical stand-alone credit profile ("SACP") is 'A-', but ultimately assigns Spire Missouri a 'BBB+' credit rating due to Spire Inc.'s more leveraged capital structure.[1] Additionally, as *** ____ ____ ______ *** Therefore, the third factor does not support setting Spire Missouri's ROR based on its cost inefficient capital structure.

The fourth factor is:

> Whether the parent (or consolidated enterprise) is diversified into non-utility operations.

The fourth factor is mainly concerned with whether one would reasonably expect the parent consolidated capital structure to be significantly different than that of its subsidiaries due to business risks that are widely diverse. Spire Inc.'s exposure to non-regulated operations has increased since the 2021 and 2022 rate cases. It now accounts for approximately 15% of Spire Inc.'s earnings before interest, taxes, depreciation and amortization ("EBITDA"). *** ____ ____ ____ ______________________ ***[28] Considering the third and fourth factors together, it should be obvious that if a holding company's business risk is higher than the operating subsidiary, it would need to offset the higher business risk with less financial risk (i.e. proportion of debt) in the capital structure. However, Spire Inc.'s and Spire Missouri's capital structures imply just the opposite—Spire Missouri has higher business risk that requires less financial risk to maintain the same credit rating. This discrepancy in Spire Inc. and Spire Missouri's capital structures highlight the absence of a logical/proper relationship between business

[27] Spire Strategy Committee Meeting, October 16, 2019, p. 78.
[28] Spire Strategy Committee Meeting, July 24, 2024, pgs. 59-66.

risk and financial risk. Prior to Spire Inc.'s acquisition-oriented strategy starting in 2013, Spire Inc. (then Laclede Group) was less leveraged than Spire Missouri (then Laclede Gas Company). Laclede Group did not issue holding company long-term debt before these acquisitions. Therefore, this factor supports the use of Spire, Inc.'s consolidated capital structure because the lower-risk regulated utilities allow Spire Inc. to have a more leveraged capital structure while maintaining a strong investment grade credit rating.

<u>SUMMARY AND CONCLUSIONS</u>

Q. Can you summarize your surrebuttal testimony?

A. Yes. Mr. Woodard refers to my recommended capital structure as a "virtual" capital structure. However, my recommended capital structure is consistent with Spire Inc.'s typical targets for a cost efficient capital structure. In fact, despite Mr. Woodard's pleas to the Commission to authorize an ROE and capital structure to support a rating more consistent with an 'A' rating, *** ____ ________________________________ *** If the Commission authorizes Spire Missouri a 55% common equity ratio, Spire Inc. will achieve higher cash flows from Spire Missouri, which will be used to continue to service Spire Inc.'s holding company debt. Before Spire Missouri ratepayers should be burdened with a higher-cost capital structure to support higher credit ratings, Spire Inc. should deliver its own capital structure. Until then, Spire Missouri ratepayers should be charged for a capital structure more consistent with Spire Inc.'s capital structure.

The Commission should also ensure that the authorized capital structure recognizes Spire Inc.'s and Spire Missouri's consistent and significant use of short-term debt to fund its rate base and investments that are allowed surcharges through ISRS applications in between general rate cases. In past rate cases, Spire Missouri had recognized the logic for including short-term debt in its ratemaking capital structure. Spire Inc.'s and Spire Missouri's capital structures regularly consist of at least 10% short-term debt. This was the case before, during and after Spire Missouri incurred extraordinarily high gas costs during Storm Uri and 2022 when the Russia/Ukraine conflict disrupted natural gas supplies.

A 9.5% allowed ROE is fair and reasonable considering it allows for an approximate 150 basis point margin over Spire Missouri's COE. Based on Mr. Woodard's position that the authorized ROR should be set based on the cost of capital, my recommended ROE is too high. In fact, *** ____ ____ ________ *** Additionally, I provide examples from utility equity analysts that corroborate not only the assumptions I use in my COE methods, but the end-results. Mr. Woodard did not provide any examples or corroborating information to support general statements he made in his testimony.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Spire Missouri Inc. d/b/a Spire's Request for Authority to Implement a General Rate Increase for Natural Gas Service Provided in the Company's Missouri Service Areas	))))	Case No. GR-2025-0107

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 surrebuttal 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 24th day of June 2025.

TIFFANY HILDEBRAND
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES AUGUST 8, 2027
COLE COUNTY
COMMISSION #15637121

Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2027.