Exhibit No.:	
Issue(s):	**ROR/ROE Methodology Capital Structure Miscellaneous**
Witness:	**Adam W. Woodard**
Type of Exhibit:	**Surrebuttal Testimony**
Sponsoring Party:	**Spire Missouri Inc.**
Case Nos.	**GR-2025-0107**
Date Prepared:	**June 30, 2025**

SPIRE MISSOURI INC.

GR-2025-0107

SURREBUTTAL TESTIMONY

OF

ADAM W. WOODARD

****<u>Denotes Confidential Information</u>****

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q. ARE YOU THE SAME ADAM WOODARD THAT SUBMITTED DIRECT AND REBUTTAL TESTIMONY IN THIS CASE?

A. Yes, I previously submitted direct and rebuttal testimony before the Missouri Public Service Commission ("Commission") in this proceeding on behalf of Spire Missouri ("Company"), a wholly owned subsidiary of Spire Inc. ("Spire").

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimonies of Dr. Seoung Joun Won of behalf of the Missouri Public Service Commission Staff ("Staff"), Dave Murray on behalf of the Missouri Office of Public Counsel ("OPC"), and Chris Walters on behalf of the Missouri Industrial Energy Consumers ("MIEC"). I have not and do not respond to every position offered by these witnesses. This should not be construed as tacit agreement in any position or statement made by these witnesses.

Q. HAVE YOU UPDATED YOUR COST OF CAPITAL TESTIMONY TO SUPPORT YOUR SURREBUTTAL TESTIMONY TO REFLECT CURRENT MARKET CONDITIONS?

A. No. The last update was prepared based on market data through May 15, 2025, and was included in rebuttal testimony. I intend to update my models with true-up direct testimony. I continue to recommend an authorized ROE of 10.50%. This recommendation continues to not only be based on multiple cost of equity analyses, but also specific risks and impacts realized and to be realized by Spire Missouri. Spire Missouri's cost of long-term debt is 4.34%. I also continue to recommend a 55% equity layer based on my direct testimony and my rebuttal testimony, including my observations made from the testimony offered by other cost of capital witnesses.

Q. HOW IS THE REMAINDER OF YOUR SURREBUTTAL TESTIMONY ORGANIZED?

A. I will address the rebuttal testimony of Dr. Won, Mr. Murray, and Mr. Walters, in that order, addressing each witness's recommendations and positions on cost of capital, capital structure, and other related issues.

Q. AGAIN, WHAT PRINCIPLES SHOULD BE CONSIDERED IN ESTABLISHING AN AUTHORIZED RETURN ON CAPITAL?

A. The primary factors that should be considered are whether the authorized return is: (1) commensurate with returns on investments in other firms with corresponding risks; (2) sufficient to assure confidence in a company's financial integrity; and (3) sufficient to maintain creditworthiness and attract capital on reasonable terms. Importantly, it is the **impact** of the return that should be considered rather than any specifically applied methodology.

Q. ARE YOU SPONSORING ANY EXHIBITS IN SUPPORT OF REBUTTAL TESTIMONY?

A. No. I plan to update my exhibits with the Company's true-up direct testimony.

II. <u>RESPONSE TO STAFF WITNESS WON</u>

Q. CAN YOU SUMMARIZE YOUR ASSESSMENT OF THE REBUTTAL TESTIMONY OF DR. WON?

A. Yes. Dr. Won addresses the Company's financial condition, the cost of capital analyses offered in the Company's direct testimony, and the capital structure that should be authorized in this case. First and foremost, Staff mischaracterizes the Company's financial condition. Dr. Won suggests that Spire Missouri is not significantly underearning. Dr. Won also incorrectly believes that the rating agencies have not been critical of insufficient cash recovery at Spire Missouri. Next, Staff's criticism of my cost of equity analyses is that I simply estimate a higher cost of equity than they would like it to be. There is little evidence provided to contradict my analyses. For his estimation of the cost of equity, Dr. Won continues to stand by his risk premium regression analysis, which as I described in my rebuttal testimony provides little predictive value. Finally, Staff does correctly continue to recommend Spire Missouri's actual long-term capital structure, however, still it reserves the right to add a layer of short-term debt to capitalization in excess of rate base.

Q. HOW HAS STAFF SUPPORTED ITS POSITION THAT SPIRE MISSOURI IS NOT SIGNIFICANTLY UNDER-EARNING ITS AUTHORIZED RETURN ON EQUITY?

A. I would first like to stress that the emphasis it has put on the Company's significant underearned position is not meant as an accusation towards any specific party in this proceeding. This emphasis is meant to focus this proceeding on impacts that seem to be lost on the parties to this case. With that being said, despite significant testimony on the Company's under-earning, both in testimony and in response to data requests, Staff questions what "under-earning [the Company's] authorized return"[1] means and cites the black boxed settlement from the stipulation and agreement reached in Spire Missouri's last

[1] Won Reb. Test. 4 at 20; Staff's Response to DR 0346.

general rate case, Case No. GR-2022-0179.[2] Significant evidence provided in my testimony and schedules, none of which have been rebutted, show that Spire Missouri's return on equity for the last three years is far below the cost of equity estimates of all cost of capital witnesses in this case. On top of this, Dr. Won repeatedly and incorrectly asserts that my position is that Spire Missouri's authorized ROE is the reason for its lower actual return. This is not in fact the Company's position.

Q. IS THE MEANING OF "NEGATIVELY IMPACTED CAPITAL STRUCTURE" AS OBSCURE AS DR. WON SUGGESTS?

A. No. An adequate explanation was provided in my direct testimony and through data request responses. Significant under-recovery of authorized returns is destabilizing as it negatively impacts cash flow and earnings. If cash flow and earnings are lower this can certainly limit dividends (i.e. dividends from Spire Missouri to Spire Inc.) because you cannot pay dividends for earnings that never appear. Similarly, capital structure can be impacted as leverage increases to cover necessary costs unless additional equity is contributed. There is nothing obscure about it.

Q. DR. WON STATES THAT OTHER FACTORS CAN LEAD TO UNDER-EARNING SUCH AS OPERATIONAL EFFICIENCY, MARKET CONDITIONS, AND INVESTMENT DECISIONS. HAVE THESE FACTORS CONTRIBUTED TO SPIRE MISSOURI'S DETERIORATED FINANCIAL CONDITION?

A. As I have already stated in my direct and rebuttal testimonies, Spire Missouri's deterioration in its earned ROE is caused by the insufficient recovery of both cost of capital and cost of service, as well as impacts from warmer-than-normal weather that were not

[2] Staff Response to DR 0345.

offset by the weather normalization adjustment mechanism. Spire Missouri has been excited to deliver top quartile operational efficiency despite experiencing higher inflationary impacts. This has provided a positive impact on earned returns and cost of service. Similarly, the Company's cost of debt is very competitive. Spire Missouri elected not to limit its capital program as it would not be in the best interests of customers. These are not "high-risk or low return projects." Staff's continued dismissal of these actual causes detracts from their position that their COE estimates, recommended ROE, and recommended ROR are just and reasonable.

Q. DOES STAFF ACKNOWLEDGE THAT THE COMPANY MAY BE UNDER-EARNING?

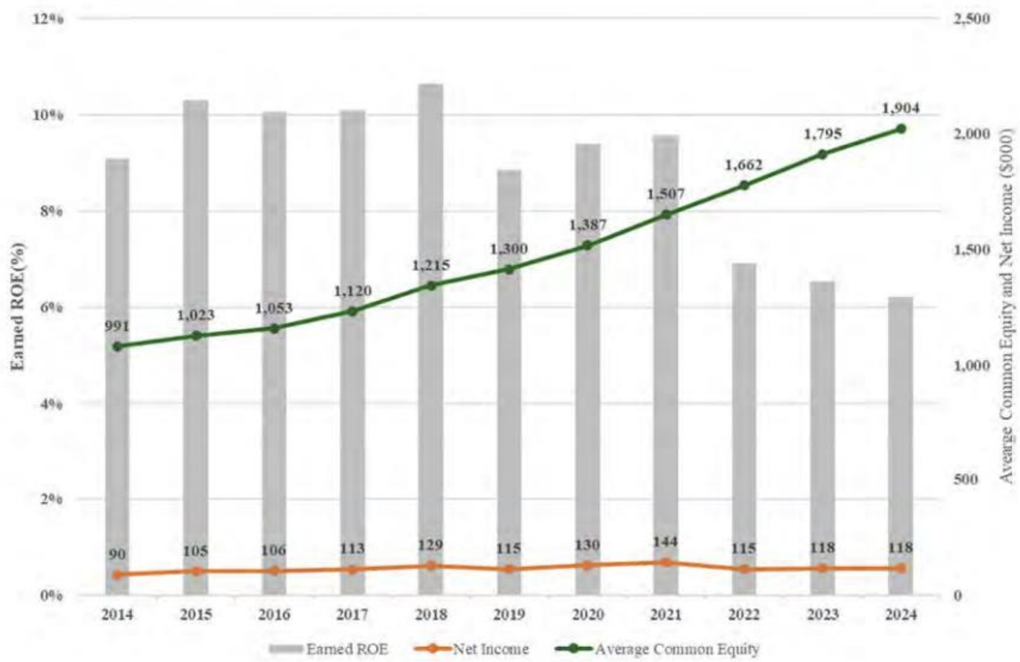
A. Dr. Won seems to imply that the Company is under-earning, however, I disagree with his reason for why Spire Missouri is under-earning.

Q. WHAT IS STAFF'S EXPLANATION FOR WHY SPIRE MISSOURI IS UNDER-EARNING?

A. To support his position that "it is a baseless argument to claim that Spire Missouri's recent years of underearning resulted from its lower authorized ROE,"[3] which is again a mischaracterization of the Company's position, Dr. Won posits that Spire Missouri's increased retained earnings is to blame. Returning equity back to the Company is not a "cause" of under-earning, but a necessary component of balanced capital funding for infrastructure investments, and such a position conflates accounting outcomes with causation. If equity did not increase as Spire Missouri continued to invest in the safety and soundness of its distribution system, then leverage would have exploded higher. This

[3] Won Reb. Test. 9 at 6-7.

would not be in the best interests of ratepayers and would further destabilize the Company's financial condition and capital structure. Dr. Won modifies a chart from my Schedule AWW-D-1, provided below, to support his theory that the increase in common equity over the last three years correlates with a decrease in earnings.



While Spire Missouri does not contest that equity has increased over the last three years, what Dr. Won's position ignores is that this trend also existed from 2014-2022, a period during which net income stayed relatively constant, common equity increased, and earned ROE remained steady. And while Dr. Won has clearly reviewed the figure above, he has declined to answer the question of whether Spire Missouri has earned its authorized ROE over the last three years.[4]

[4] Staff Response to DR 0346.

Q. WHAT IS DR. WON'S OVERARCHING CRITIQUE OF THE COMPANY'S ROE RECOMMENDATION?

A. It is too high. He goes on to state that in the past three fully litigated Spire Missouri rate cases, the Commission has authorized a lower ROE than the prevailing national average at the time. Dr. Won seems to be therefore implying that because the Commission has authorized ROEs lower than the national average before, the Commission should continue to take that approach here, which would suggest ignoring cost of equity analyses suggesting the contrary. To further support this position, he also suggests that Missouri's lower cost of living should contribute to lower ROEs.

Q. DOES THE COST OF LIVING HAVE ANY CORRELATION TO AUTHORIZED ROEs AS DR. WON SEEMS TO ASSERT IN HIS REBUTTAL?

A. No, and this is quite frankly a misguided assertion. The two lowest authorized gas utility ROEs in the last twelve months were in Connecticut (9.15%) and New York (9.35%). These two jurisdictions have among the highest cost of living in the nation and routinely have among the lowest authorized ROEs. Meanwhile, Illinois Staff recently recommended 9.93% in the current Ameren Illinois and Northern Illinois Gas rate cases.

Q. DOES DR. WON MISSTATE THE RANGE OF FFO TO DEBT FOR OPERATING GAS UTILITIES?

A. Yes. Despite receiving reports to the contrary, Dr. Won cites to the average FFO to Debt of utility holding companies, not the operating utilities themselves, to support a lower acceptable FFO to Debt for Spire Missouri. Spire Missouri is a utility operating company, which would be expected to have a higher FFO to debt than a holding company. This is according to rating agencies' reports, not just the Company, that are included in the

Company's response to Staff DRs and discussed in my previous testimony. Specifically, S&P states they expect Spire Missouri's FFO to debt to be at least **[redacted]**,[5] while Moody's states that **[redacted]**.[6]

Q. WHAT IS DR. WON'S ISSUE WITH THE PROXY GROUPS INCLUDED IN THE COST OF EQUITY ANALYSIS BY SPIRE MISSOURI?

A. Dr. Won states that the Company is ignoring the "most fundamental principle" of cost of equity analysis: the companies used should be comparable to the target company. He does not believe that Chesapeake, NiSource or UGI are of commensurate risk with Spire Missouri. His issue with Chesapeake is that it does not receive a rating from S&P and Moody's. While that is true and I have acknowledged that fact, Chesapeake's utility subsidiary does have investment grade ratings from Fitch, making it certainly a comparable company. Next, despite NiSource routinely being included in similar proxy groups and Spire certainly considering it a peer company, Dr. Won cites a November 2024 Value Line report in stating that NiSource had financing records showing "several instances" of decreased revenue per share and dividend per share over the past ten years. However, Dr. Won clearly did not review the transaction that adjusted NiSource's dividend in 2015. Regardless, according to a Value Line report on the company published February 21, 2025, NiSource is in its tenth year of dividend growth and should certainly be a peer company. Finally, Dr. Won states that UGI's propane business is too large to qualify it as a natural gas utility. While it is diversified, UGI is currently listed by Value Line as a "standout" natural gas utility, and in fact, Chesapeake and NiSource are also recognized by Value Line

[5] S&P Global Ratings, Spire Missouri Inc., Published June 6, 2024.
[6] Moody's Ratings, Spire Inc. Credit Opinion, Published August 22, 2024.

as part of the peer group. He appears to be selecting proxy group companies that support his position.

Q. DOES STAFF HAVE CONCERNS ABOUT THE COMPANY'S EXPANDED PROXY GROUP?

A. Yes. Dr. Won does not want to include electric or water utilities and does not consider MDU Resources Group, Inc. or National Fuel Gas Company utilities, despite them having utility businesses regulated by state utility commissions. Ultimately, Dr. Won is concerned the recommended ROE may not be just and reasonable if cost of equity estimates are set including other kinds of regulated utilities in the proxy group.

Q. IS THIS A VALID CONCERN?

A. No. There are many combination utilities that include gas utilities with other types of regulated utilities (including Ameren and Liberty in Missouri). Spire Missouri and these utilities in the expanded group have similar risk profiles: all are oriented to the distribution of a utility service, are capital intensive, and are subject to rate of return regulation and bear similar rates of return. In fact, the companies in this proxy group are often included in similar utility indices in the financial markets, are followed by the same group of equity research analysts and also meet with the same group of investors at financial conferences.

Dr. Won can criticize this proxy group on various grounds, but he still must recognize that these utilities are actively compared to the Company in practice, not just in theory. My direct testimony highlighted the fact that this expanded proxy group is also used in its annual proxy statement, a peer group that is assembled by Spire management, an independent consultant and approved by the Board of Directors.

Q. OTHER THAN THE PROXY GROUP, WHAT IS STAFF'S CONCERN WITH THE COMPANY'S DCF MODEL?

A. Dr. Won suggests the growth rate utilized is too high based on the position that a singular analyst growth rate from Value Line is superior to the consensus growth rates of multiple equity research analysts that cover the Company.

Q. IS THE GROWTH RATE TOO HIGH?

A. No. Dr. Won insists that that the growth rates used in my DCF model were "unreasonably" high. "Staff has consistently held the view that while it is possible that a company or industry may grow at a rate faster than Gross Domestic Product ("GDP") in the short to medium term, no company or industry will do so in perpetuity."[7] However, if Dr. Won's own calculations, which used dated dividend values, are used to back into a growth rate using his recommended ROE of 9.63% as the cost of equity, a **6.35%** perpetual growth rate would be implied. This directly contradicts his assertion that longer term growth can't exceed Congressional Budget Office ("CBO") estimates of nominal GDP growth of 3.90%. However, Dr. Won's reliance on CBO projections is part of the problem with his analysis. Market participants, particularly investors, do not use or consider CBO projections.

Q. SHOULD CONSENSUS GROWTH RATES BE USED IN DCF ANALYSIS?

A. Yes. Staff's reluctance to use consensus growth rates, in favor of Value Line projections, is perplexing. Value Line projections rely on the growth projections of the single analyst following the assigned company. The Value Line analyst is not included in consensus estimates along with other equity research analysts and typically operates in a relatively detached fashion. In fact, until recently, management had never had contact of any kind

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[7] Won Reb. Test. 22 at 17-19.

with Frederick L. Harris, III, the Value Line analyst that writes reports on Spire Inc. Contributing further to the issue with Value Line being out of touch with the rest of the financial community is that Dr. Won exclusively uses the quarterly reports released by Value Line, despite Value Line updating its projections more often than quarterly. On the other hand, consensus growth estimates reflect the actual growth rates that the financial community is observing in companies across the industry. Moreover, there are multiple services that provide consensus estimates. I use FactSet which is a reliable source used by many market participants. Bloomberg and S&P Global IQ are a couple of other sources of consensus estimates. Each service compiles the estimates of all equity analysts that stay current with their coverage. There is no set time for updates so consensus can and does change based on real time factors. However, Dr. Won holds this against the consensus estimates, and he interprets this as "volatility" and declares consensus estimates to be "unsuitable for use as a stable long-term projection."[8] I would note that consensus estimates are used in the DCF analysis offered by both Mr. Murray and Mr. Walters, both of which had lower COE estimates than me, although Dr. Won does not mention this fact.

Q. DOES STAFF TAKE ISSUE WITH THE COMPANY'S CAPM ANALYSIS?

A. Yes. While Dr. Won does approve of the Company's use of the Value Line betas, he takes issue with the other two variables in the analysis, the assumed risk-free rate and the market risk premium.

Q. WHY DOES DR. WON DISAGREE WITH THE RISK-FREE RATE USED BY THE COMPANY IN ITS CAPM ANALYSIS?

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[8] Won Reb. Test. 22 at 3-4.

A. I used the 30-year U.S. Treasury spot rate as of November 15, 2024 (ten days before direct testimony was filed). The 30-year U.S. Treasury rate at the time was 4.62%. The Company later updated this rate to 4.91% as of May 15, 2024 (fifteen days before rebuttal testimony was filed). Dr. Won's issue with using the 30-year U.S. Treasury rate is that it could be "cherry-picked," highlighting the fact that it dropped to 4.41% as of April 4, 2025 in rebuttal testimony filed May 30, 2025 (56 days before rebuttal testimony was filed). I agree that it should be updated, which is why after direct, I updated the rate to the current value, 4.91%. Dr. Won suggests that a quarterly average of the U.S. 30-year treasury rate should instead be used. However, he does the exact thing that he says the Company did, cherry picking the fourth quarter of 2024 value, 4.50%, instead of updating it through the quarter end closer to the date of rebuttal testimony. The first quarter average of 2025 was 4.71%.

Q. WHAT IS STAFF'S CONCERN WITH THE MARKET RISK PREMIUM USED IN THE COMPANY'S CAPM ANALYSIS?

A. Dr. Won's sole issue with the market risk premium ("MRP") I used is that it was calculated using arithmetic mean returns. He believes that it is problematic because it produces higher-end estimates compared to other methods. He then compares this with a misstated current Kroll equity risk premium. Dr. Won describes in rebuttal testimony that Kroll decreased its MRP to 5.0% on June 5, 2024. However, Kroll increased its MRP to 5.50% on April 15, 2025, before his direct testimony was filed. He does attempt to offer support for using geometric means but is simply ignoring the fact that arithmetic means are by far the most used input in CAPM for regulatory purposes supported by Kroll, Ibbotson, Morin and many other commentators. As was discussed in my direct testimony, arithmetic means are preferred in regulatory settings because it better reflects investors' expectations for returns in a single period, which is relevant for ratemaking and cost of capital estimation. CAPM is a single period analysis. The geometric mean return is most appropriate for measuring actual realized performance over a longer time horizon. Dr. Won is aware of this fact, citing sources that state that "the geometric mean was superior to arithmetic in predicting *long-term* returns,"[9] is just attempting to average down his estimate by blending in geometric means, again simply because the arithmetic means are too high.

Q. DOES THE COMPANY PROVIDE A BYPRP ANALYSIS SIMILAR TO OTHER PARTIES IN THE CASE?

A. Yes. In my analysis, instead of making an assessment based upon a Moody's bond index, the benchmark risk-free rates were used. This is not uncommon, and the data is more straightforward and accessible. The premium is simply the spread between the risk-free rate and authorized ROEs as reported by Regulatory Research Associates, quantified most recently in my Schedule AWW-R-16.

Q. WHAT IS STAFF'S ISSUE WITH THE COMPANY'S BYPRP ANALYSIS?

A. Dr. Won disagrees that the Company is providing an analysis similar to that which Staff has previously used, because I do not use public utility bond rates that do not reflect natural gas risk. One of the critiques is that the U.S. Treasury (or risk-free) rate does not allow for risk premium that reflects the specific sector risk of natural gas utilities. However, the spread between authorized return on equity of natural gas utilities and the risk-free rate accurately captures this in a relatively straightforward way. In Staff's analysis, Dr. Won supposes that the Moody's indices he uses are in some way capturing natural gas utility specific risk, when in fact, they are not. These are general corporate bond indices. Bond

[9] Won Reb. Test. 27 at 2-3.

yields consist of the risk-free rate plus a spread. The Company is simply providing its analysis directly to the risk-free rate as have other cost of capital witnesses in the past. Further in his review of the Company's analysis, Dr. Won also incorrectly states that the major determinant of 30-year U.S. Treasury bond yields is intervention of the Federal Reserve's monetary policy. While this can influence trading levels, it is certainly not the major determinant and, even if it was, these yields that he attempts to discredit are a major component (as the underlying risk-free rate) in the Moody's indices he himself uses.

Q. DOES THE COMPANY AGREE WITH TABLE 2 ON PAGE 32 OF DR. WON'S TESTIMONY, WHICH ATTRIBUTES DATA POINTS TO YOU?

A. No. Dr. Won attempts to apply my regression analysis performed for 2024 to prior years. This is not appropriate or reflective of the actual analysis I performed. To apply the analysis to prior years, the analysis would need to be re-run for those years. The analysis I performed should not have been misrepresented in Dr. Won's testimony.

Q. DO YOU AGREE WITH DR. WON'S CHARACTERIZATION OF RECENT RATING AGENCY REPORTS ON SPIRE MISSOURI?

A. No. Dr. Won also continues to ignore that rating agencies are clearly highlighting regulatory lag as impacting the Company, despite citing them directly.[10] Specifically, the S&P downgrade report quoted at length by Dr. Won in rebuttal testimony mentions weak metrics **[redacted]"**. Despite generously quoting from the report, Dr. Won neglects to provide important context contained in the report, which **[redacted]**.

[10] Won Reb. Test. 35 at 7-20.

S&P spells it out even more directly in a report **[redacted]**.[11]

Q. IS THE MAIN REASON FOR THE S&P DOWNGRADE SPIRE INC.'S "HIGH RATIO OF LONG-TERM DEBT"?

A. I think Dr. Won is alluding to a weak FFO to Debt metric not "high ratio of long-term debt."[12] If this is the case, then a weak metric certainly played a role in the downgrade of both Spire Inc. and Spire Missouri. This metric is a measure of how much cash flow is supporting an enterprise as expressed relative to total debt (both long-term and short-term). If recovery mechanisms are not adequately compensating the enterprise, this creates a deficiency of cash flow and can increase leverage as the business still has costs that must be paid for either by equity or debt (in the absence of cash flow). Spire Missouri is the largest business within Spire Inc. and has experienced significant cash flow weakness as repeatedly described by the Company and third parties, including the rating agencies cited by Dr. Won. This weakness was the primary driver for the S&P downgrade of both Spire Missouri and Spire Inc. Staff continues to focus on the *result*, instead of the *cause*.

Q. DOES SIGNIFICANT REGULATORY LAG EXIST UNDER THE CURRENT MISSOURI FRAMEWORK?

A. Yes. Staff only challenges what I conservatively estimated it to be in my direct testimony.[13] The furthest Dr. Won goes is to state that "all U.S. utility ratemaking processes involve some degree of regulatory lag, so Spire Missouri is not uniquely affected,"[14] but even this

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[11] S&P Global Ratings, L*egislation In Missouri Would Improve Spire Missouri Inc.'s Regulatory Framework,* Published March 25, 2025.
[12] Won Reb. Test. 36 at 21-22.
[13] Staff did send a data request to the Company asking for support for the regulatory lag estimate, and the Company provided a hypothetical, but detailed, response clearly demonstrating the impacts of expense inflation, depreciation, and interest on earned returns. This analysis actually supported a regulatory lag estimate closer to 100 basis points.
[14] Won Reb. Test. 38 at 11-12.

statement misses the point of my testimony Dr. Won is trying to refute. If a certain amount of earnings degradation is expected due to some amount of regulatory lag, is it beneficial to the Company or the ratepayer to recommend an authorized return on equity that, in the first place is not sufficient, and is also not achievable?

Q. DOES THE COMPANY SUGGEST THAT SPIRE INC. SHOULD INCREASE ITS LONG-TERM DEBT TO RAISE SPIRE MISSOURI'S EQUITY RATIO?

A. No. It is peculiar for Dr. Won to state this given Spire Inc.'s established practice of supporting Spire Missouri's financial position by contributing equity that has been simultaneously raised in the public market. Spire Inc. has never increased long-term debt to raise Spire Missouri's equity ratio and has no plans to do that in the future.

Q. DID THE COMPANY PROVIDE A VALID REASON TO USE A HYPOTHETICAL CAPITAL STRUCTURE WITH AN EQUITY LAYER IN EXCESS OF ITS ACTUAL EQUITY LAYER?

A. Yes. Underearning impacts capital structure because it increases leverage unless capital expenditures are limited. Spire Missouri has prioritized system modernization in the state to ensure safe and reliable service to its customers and continues to support economic development efforts in the state. If Staff wants to limit earnings on Spire Missouri's investment in the state, then the Company, and investors, will shift capital elsewhere.

Q. STAFF IDENTIFIES IT COULD HAVE RECOMMENDED A CAPITAL STRUCTURE INCLUDING SHORT-TERM DEBT THAT IS IN EXCESS OF RATE BASE. HOW DOES THIS WORK?

A. First, Staff continues to recommend Spire Missouri's actual long-term capital structure for ratemaking purposes, which I am in agreement with. However, Staff has mentioned including short-term debt that is in excess of rate base, and therefore, this topic warrants rebuttal. As Staff compiles its version of capital structure, which may or may not include short-term debt, it is important to recognize the purpose it serves. Regulated capital structure is meant to capitalize a utility's rate base, or the amount that the utility is earning a return on. The components of capitalization should not add up to more than the value of the rate base. In fact, it is unrealistic (and overly precise) to have capitalization specifically equal rate base. In a jurisdiction that has a significant amount of regulatory lag (such as Missouri), an overly precise rate base determination would require the utility to substantially "pre-fund" rate base prior to actually recovering on it, thus exacerbating regulatory lag and driving earned returns even lower. In assessing short-term debt balances relative to short-term assets, the Company has repeatedly requested an explanation as to where the various carried balances are included in rate base and which assets are currently receiving a return. In fact, the Company has provided a detailed spreadsheet identifying its short-term assets to Staff, and asked Staff to identify which assets were receiving a rate base return so the Company may understand Staff's position better. The Company received a one-word response: "None."[15] Based on this response, Staff agrees with Spire Missouri's assessment of short-term debt balances relative to short-term assets.

Q. HAS STAFF GIVEN ANY INDICATION ON WHEN IT WOULD DECIDE WHETHER TO RECOMMEND THE INCLUSION OF SHORT-TERM DEBT?

A. Yes. Staff Witness Bolin testifies that Staff will evaluate including short-term debt in Spire Missouri's capital structure in its true-up filing.[16]

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[15] Staff Response to DR 0362.
[16] Bolin Reb. Test. 4 at 11-14.

III. <u>RESPONSE TO OPC WITNESS MURRAY</u>

Q. DOES MR. MURRAY ADDRESS THE COMPANY'S CAPITAL STRUCTURE RECOMMENDATION?

A. Not really. Mr. Murray alludes to Spire Inc. not doing its part to support Spire Missouri's credit rating and capital structure, citing Spire Inc. board materials and corporate plans to support using a unregulated holding company capital structure and ignoring the actual capital structure of Spire Missouri.

Q. IS IT SPIRE INC.'S STRATEGY TO MAINTAIN A MUCH HIGHER COMMON EQUITY RATIO AT SPIRE MISSOURI IN AN ATTEMPT TO INCREASE CASH FLOWS TO SPIRE INC. SO IT CAN AVOID ISSUING COMMON EQUITY AND ATTEMPT TO DELIVER OVER TIME, AS MURRAY STATES IN HIS REBUTTAL?

A. I'm surprised Mr. Murray does not refer to "dividends" rather than "cash flow" as Mr. Murray is fully aware that the owner of Spire Missouri is entitled to a dividend. In fact, Mr. Murray has criticized Spire Missouri for not providing enough dividends to Spire Inc. It is Spire Missouri's unstable financial condition caused by its significant underearning that has prevented a more consistent dividend – which directly contradicts Mr. Murray's description of the strategy of Spire Inc. (or Spire Missouri).

Q. IS SPIRE MISSOURI PAYING A DIVIDEND TO SPIRE INC.?

A. As I have mentioned above, currently no. Spire Missouri would typically expect to pay dividends to Spire Inc., however, Spire Missouri suspended dividends when Spire Missouri's margin started to deteriorate. This was done to ensure the utility retained the funds necessary to continue operating safely and reliably.

Q. IS SPIRE INC.'S DEBT STRUCTURALLY SUBORDINATE TO SPIRE MISSOURI'S DEBT?

A. Yes. Holding company creditors are only paid after subsidiary creditors are satisfied. This is a basic principle that applies to most, if not all, utility holding companies. Structural subordination is a standard topic in the CFA curriculum. Structural subordination leads to lower ratings at the holding company relative to the operating company. This does not lead one to conclude that the holding company rating is an appropriate rating for the operating utility company. This concept is recognized in the methodology of both S&P and Moody's.

Q. IS SPIRE INC.'S CONSOLIDATED CREDIT RISK PROFILE WEAKER THAN SPIRE MISSOURI'S STAND-ALONE CREDIT RISK PROFILE DUE TO STRUCTURAL SUBORDINATION?

A. Yes. A holding company's creditworthiness depends on the financial health of its subsidiaries and its ability to receive dividends. Spire Inc. owns other utility companies, midstream companies, and a marketing company that all provide credit support to its owner. Spire Missouri is not only the largest company owned by Spire Inc., but it has also experienced the most inconsistent returns among its various operating units. The direct credit weakness of Spire Missouri was the primary reason for the S&P downgrade and has been the most significant credit concern expressed by Moody's.

Q. SHOULD SPIRE INC.'S ACTUAL CAPITAL STRUCTURE BE USED AS SPIRE MISSOURI'S RATEMAKING CAPITAL STRUCTURE?

A. No. Spire Missouri issues its own long-term debt, which is independently rated by the rating agencies. These ratings are based on Spire Missouri's standalone financials, not Spire Inc.'s consolidated position. Spire Inc. does not guarantee any of the securities issued by Spire Missouri (and vice versa). Spire Missouri's capital structure is independent of its parent: Spire Inc. has not raised debt in order to contribute equity to Spire Missouri. While Spire Inc. does own some non-utility operations, they remain a relatively small percentage of the overall enterprise. These are the capital structure considerations offered in the SURFA Cost of Capital guide, and Spire Missouri has repeatedly met the standards detailed in that guide. The only difference between prior reviews and this proceeding is that Spire Missouri's financial position has destabilized through multiple years of underearning. This led to the Company's recommendation to use a slightly higher than its actual 53% equity layer. Its 55% recommendation is consistent with its historical equity position, which would have been maintained but for the significant underearning.

Q. HAS THE COMMISSION CONSISTENTLY DELIVERED AN ORDER SPECIFYING THE USE OF SPIRE MISSOURI'S CAPITAL STRUCTURE?

A. Yes. This happened in the amended report and order in GR-2017-0215 and the amended report and order in GR-2021-0108.

Q. DID MR. MURRAY RECOMMEND THAT THE COMMISSION INCLUDE SHORT-TERM DEBT IN SPIRE MISSOURI'S RATEMAKING CAPITAL STRUCTURE?

A. Yes.

Q. SHOULD SHORT-TERM DEBT BE INCLUDED IN THE RATEMAKING CAPITAL STRUCTURE AS MURRAY SUGGESTS?

A. No and including short-term debt in the capital structure would suggest the Company receives a rate base return on the assets reflected in the Company's short-term balances. Mr. Murray does not address the schedule that has been provided to both Staff and OPC regarding *Spire Missouri's* carried balances not receiving a rate base return, which is separate and distinct to cash working capital testimony.

Q. DOES MR. MURRAY CALCULATE AN ADJUSTMENT RELATED TO SHORT-TERM DEBT?

A. Yes. Mr. Murray ultimately recommends an adjustment to Staff's capital structure recommendation, utilizing Staff's ROE, cost of long-term debt, and Staff's 13-month average of short-term balances. In its rebuttal testimony, Staff stated that short-term debts exceeded short-term assets and that it would continue to monitor the short-term balances. Mr. Murray did not perform his own review or analysis of Spire Missouri's short-term debts or short-term assets, which were provided in detail throughout this case. Mr. Murray uses his own short-term debt rate of 4.55% based on the approximate cost of 30-day AS/P2 commercial paper since January 1, 2025.[17] His resulting adjustment to Staff's revenue requirement would be $12.3 million.

Q. YOU HAVE MADE IT CLEAR THAT NO SHORT-TERM DEBT BE INCLUDED IN SPIRE MISSOURI'S RATEMAKING CAPITAL STRUCTURE. HOWEVER, ARE THERE ANY ISSUES WITH MR. MURRAY'S CALCULATION OF HIS SHORT-TERM DEBT ADJUSTMENT?

A. Yes. First, his reliance on Staff's short-term balances is misguided. The Company maintains a detailed ledger tracking its short-term debts and short-term assets. The Company has provided this ledger to Staff in Data Request 0054 and has updated it numerous times throughout this rate proceeding, most recently through May 30, 2025.

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[17] Murray Dir. Test. 46 at 17-18; Murray Reb. Test. 18 at 14-15.

Second, the short-term debt rate Mr. Murray uses does not reflect the short-term debt rate that the Company is actually experiencing. The Company has provided its actual short-term debt rate to Staff in response to DR 0055.1, and it is **[redacted]**. Anything less than that would not reflect current market conditions affecting the Company.

Q. ARE YOU PROVIDING ANY OTHER RECOMMENDATIONS TO THE COMMISSION AROUND SHORT-TERM DEBT?

A. Not at this time. The Company's recommendation remains that the Commission should not include short-term debt in Spire Missouri's capital structure. However, as I mentioned above, I will be updating my schedules and recommendations on cost of capital and capital structure based on true-up information in my true-up direct testimony. I will also address any new positions introduced in other party surrebuttal testimony around cost of capital or capital structure issues, including short-term debt, at that time.

Q. WHAT OTHER CAPITAL STRUCTURE RECOMMENDATION HAS MR. MURRAY MADE?

A. He has recommended to exclude goodwill. Similar to his short-term debt recommendation, he has only evaluated how this will adjust down Staff's revenue requirement.

Q. HAS OPC RECOMMENDED EXCLUDING GOODWILL FROM SPIRE MISSOURI'S CAPITAL STRUCTURE BEFORE?

A. Yes. Mr. Murray has advocated for the confiscation of the Company's equity in every Spire Missouri rate proceeding since 2018 when, on page 39 of the *Report and Order* in Case Nos. GR-2017-0215 and GR-2017-0216, the Commission declared, "No portion of the $210 million of the goodwill asset is included in the company's rate base," which was found to be consistent with the Stipulation and Agreement in GM-2018-0254 in which the Commission approved of the acquisition of Missouri Gas Energy by Laclede Gas.

Q. WHY DOES MR. MURRAY CONTINUE TO RECOMMEND A SIGNIFICANT EQUITY EXCLUSION FROM THE COMPANY'S CAPITAL STRUCTURE?

A. It appears that OPC is advocating for the consumer by attempting to destabilize the Company thereby increasing risks (including that of recovery) and decreasing returns to investors. This would obviously impact Spire Missouri's ability to efficiently raise capital. This would not only be incredibly harmful to Spire Missouri, but the jurisdiction as a whole, along with our customers.

Q. DOES MR. MURRAY OFFER REBUTTAL TESTIMONY RELATED TO THE COMPANY'S COST OF EQUITY?

A. Yes. Similar to Dr. Won, Mr. Murray prefers a multi-stage DCF so he can arbitrarily manipulate future growth rates to lower his estimates of Spire Missouri's cost of equity. He also argues that the Company's CAPM analysis is overstating COE because the risk-free rate, market risk premium and betas used are too high. Mr. Murray also declares Spire Missouri's risk premium analysis to be circular.

Q. IS THE COMPANY'S DCF GROWTH RATE EXCESSIVE?

A. No. If Mr. Murray's own proxy group is used to back into a growth rate using his recommended ROE of 9.50% as the cost of equity it implies a **5.56%** perpetual growth rate. To be clear, the Company believes Mr. Murray's recommended ROE is arbitrary and too low.

Q. ARE THE INPUTS IN THE COMPANY'S CAPM ANALYSIS EXCESSIVE?

A. Not to the extent that Mr. Murray outlines in his rebuttal testimony. He does make a valid point about using the same risk-free rate that is driving the historical market risk premium analysis. The historical market risk premium was calculated using the difference of the arithmetic average return on S&P 500 (11.66%) and the 10-year U.S. Treasury bond (4.86%) from 1928 through 2023. The 10-year U.S. Treasury bond was used because it is the only longer-term Treasury bond that has been continuously issued for this amount of time. However, a 30-year bond was used as the risk-free rate, as it better aligns with the long-term nature of utility investment horizons. An argument can be made to use the 10-year bond for the risk-free rate in order to be consistent with the historical market risk premium. If the Company's CAPM analysis is updated using the current spot 10-year U.S. Treasury rate of 4.29%, the base CAPM analysis would shift to a 10.33% average and the expanded CAPM analysis would shift to a 10.21% average (ECAPM would shift to 10.57% and 10.48% respectively). These are 54bp and 55bp lower than an analysis that has been updated using the current spot 30-year U.S. Treasury rate. While it brings the CAPM COE estimates lower they still support quite a bit higher COE than the 9.50% recommended by Mr. Murray. Similar to Dr. Won, Mr. Murray also suggests the use of geometric means in CAPM in attempt to mute COE estimates. However, just as I said above, the arithmetic mean should be used to estimate the average return over a single period. It better reflects the risk and volatility that investors require compensation for in forward-looking estimates (such as regulatory rate-setting). The geometric mean is better suited for measuring the compound annual growth rate over multiple periods. Both the Company and Staff use Value Line betas in CAPM analysis. They are calculated using a regression analysis of the relationship between weekly percentage changes in the price of a stock and weekly percentage changes in the NYSE Composite Index over a period of five years. Value Line adjusts its calculation for the tendency of betas to revert to the market average over time. However, Mr. Murray is concerned that the volatility realized at the onset of the pandemic raised betas above "normal" levels. I disagree with this. This was volatility that the Company and most of its peers experienced during a period of time. Fundamental analysis cannot exclude periods of volatility because they are not deemed "normal". This is what volatility is, and the use of Value Line betas are widely accepted in regulatory analysis. Regardless, I did update my betas in my rebuttal testimony, so that the five-year period no longer includes early 2020.

Q. DOES OPC OFFER A VALID CRITIQUE OF THE COMPANY'S RISK PREMIUM ANALYSIS?

A. No. Mr. Murray describes it as "circular" in that it is dependent on regulatory decisions rather than market required returns. It is curious he did not repeat this criticism of Dr. Won's BYPRP analysis as it also is dependent on regulatory decisions. If this kind of analysis is to be properly labeled as circular, one would need to be convinced that regulatory decisions do not involve any investigation of market required returns. He offers his own "simple rule of thumb" risk premium analysis that omits any information gained by what various commissions are actually authorizing in favor of an arbitrary spread above current bond yields.

Q. DOES OPC SUPPORT THE RECOVERY OF FLOTATION COSTS ON EQUITY?

A. Spire Missouri has received periodic contributions of equity from its sole shareholder, Spire Inc. The holding company issues shares in the public market and simultaneously contributes equity to Spire Missouri. Costs are incurred in the issuance of all forms of capital, including equity. These costs typically include accounting, legal, and bank fees. Spire Missouri has requested recovery of these costs for equity contributions it has received in recent rate proceedings (including the current one). These are real costs used to raise capital at Spire Missouri that are not currently receiving recovery. Mr. Murray views this request as support for using Spire Inc.'s capital structure to be used in ratemaking. He also cites Spire Inc.'s master credit facility and commercial paper program in this regard. It should be noted that Spire Missouri is allocated its direct costs of the master credit facility and commercial paper program and receives recovery for them. Mr. Murray's conditional consideration of equity flotation costs, however strained the logic, is an acknowledgement that they are real costs.

IV. <u>RESPONSE TO MIEC WITNESS MR. WALTERS</u>

Q. CAN YOU SUMMARIZE YOUR ASSESSMENT OF THE REBUTTAL TESTIMONY OF MR. WALTERS?

A. Yes. Mr. Walters shares some of the same criticisms as other intervenors, so I will not address them all specifically. While previously asserting that the gas only proxy group is too small, Mr. Walters states that he disapproves of some of the companies included in the Company's proxy groups. His comments on COE estimates are that they are too high based on similar input critiques offered by OPC and Staff. MIEC endorses Spire Missouri's actual capital structure and believes that its credit metrics will be just fine based on an unclear calculation of FFO to debt.

Q. DOES MIEC ADD ANYTHING TO PRIOR CRITICISM OF SPIRE MISSOURI'S PROXY GROUPS?

A. Not really, although in direct testimony Mr. Walters asserts that the "gas only" proxy group is too small and includes some water utilities in his proxy group but is evidently not in favor of the Company's expanded proxy group. While it may not have a rating from S&P or Moody's, Chesapeake does have a Fitch rating and should certainly be regarded as investment grade. It is curious that no cost of capital witness acknowledges the fact that the expanded proxy group is identical to the one disclosed in the Spire Inc. proxy statement. This expanded proxy group was deliberated on by management, the Spire Inc. Board of Directors, and outside consultants as a comparable group of companies to measure performance against. As the CFO of Spire Inc. and an active participant in all investor and rating agency discussions, I can attest to the fact that this expanded group shares similar risks and investors with Spire Inc. The performance of Spire Inc. is actively being measured against this group. The use of a more focused gas utility proxy group and an expanded utility proxy group provides useful information in the development of a ROE recommendation.

Q. MR. WALTERS IS CRITICAL OF THE COMPANY'S CONSTANT GROWTH MODEL? IS THE DCF GROWTH RATE EXCESSIVE?

A. No. If Mr. Walters's own proxy group is used to back into a growth rate using his recommended ROE of 9.45% as the cost of equity, it implies a **6.41%** perpetual growth rate. To be clear, the Company believes Mr. Walters's recommended ROE is arbitrary and too low.

Q. WHAT IS MR. WALTERS'S CONCERN ABOUT THE COMPANY'S USE OF VALUE LINE BETAS IN CAPM?

A. Mr. Walters shares Mr. Murray's concern about the impact of the pandemic driven volatility on beta estimates. He specifically cites the market fallout in early 2020. The Company updated its models in its rebuttal testimony capturing beta estimates from May of 2025. This is more than five years after the most extreme stock market volatility experienced during the pandemic. It is unclear what Mr. Walters's definition of "normal" betas are, but the Company's CAPM model does not include beta estimates from early 2020.

Q. IS MR. WALTERS CALCULATING FFO TO DEBT CORRECTLY IN HIS REBUTTAL TESTIMONY?

A. While I appreciate his attention to the importance of depreciation in the cash flow calculation, his alternative version of the FFO to debt metric is not correct. The Company's inputs are sourced directly from audited financial statements that are publicly available through SEC filings, and the relevant numbers can be found in Schedules AWW-R-1. The depreciation rate is equal to depreciation and amortization as stated in Spire Missouri's income statement over the average of the current and prior year gross plant from Spire Missouri's balance sheet. The rate expressed as a percentage has not changed materially over the last ten years, and the Company does expect it to deviate materially through the outcome of the current proceeding. Mr. Walters appears to be overstating the impact by comparing the depreciation rate to proposed rate base rather than gross plant. Over the last ten years, depreciation has grown at approximately the same rate as gross plant. If the outcome of this proceeding raises this depreciation rate materially, that would have a positive cash flow impact on the Company and could lower ROE and capital structure requirements. The FFO to debt calculations included the Company's direct testimony and workpapers are correct. Spire Missouri is merely seeking to restore this metric to its historical levels.

Q. IS MR. WALTERS STILL ASSUMING SB4 PROVIDES BENEFITS TO SPIRE MISSOURI IN THE CURRENT RATE PROCEEDING?

A. Yes. However, Spire Missouri cannot file for a future test year per the SB4 until July of 2026, so any potential benefit this may have cash flow is not available in this proceeding.

Q. IS MR. WALTERS SUPPORTIVE OF USING SPIRE MISSOURI'S CAPTIAL STRUCTRUE?

A. Yes.

V. CONCLUSION

Q. CAN YOU SUMMARIZE YOUR OBSERVATIONS OF INTERVENOR REBUTTAL TESTIMONY?

A. Yes. While offering criticism of the Company's recommended ROE position, it should be noted that each witness offers a recommendation below the average authorized ROE for gas utilities over the last year ignoring the obvious upward trend in ROEs in jurisdictions throughout the country. Further, despite Spire Missouri's continued focus on *impact* of earned (or actual) and authorized returns in its direct and rebuttal testimony, the intervenors continue to be completely disengaged on this issue. There is no recognition of the current financial position of the Company in their respective testimonies on the significantly low earned ROE as compared to national averages or averages in the state and that regulatory lag is not impacting Spire Missouri to the degree that the Company has clearly demonstrated.

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	))))	File No. GR-2025-0107

AFFIDAVIT

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

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

1. My name is Adam W. Woodard. I am the Executive Vice President & Chief Financial Officer for Spire Inc. My business address is 700 Market Street, St. Louis, Missouri 63101.

2. This affidavit is attached to my surrebuttal testimony, which is filed on behalf of Spire Missouri Inc.

3. I hereby swear and affirm that my answers to the questions contained in my surrebuttal testimony are true and correct to the best of my knowledge, information, and belief.

Adam W. Woodard

Subscribed and sworn to before me this 26th day of June 2025.

Tammy L. Kirksey
Notary Public

TAMMY L. KIRKSEY
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES NOVEMBER 20, 2028
ST. LOUIS CITY
COMMISSION #24459582