

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSE**

IN RE:)	
)	
APPLICATION OF PIEDMONT)	
NATURAL GAS COMPANY, INC. AND)	DOCKET NO. 25-00074
SPIRE TENNESSE INC. FOR)	
APPROVAL OF A TRANSFER OF)	
AUTHORITY TO PROVIDE UTILITY)	
SERVICES PURSUANT TO T.C.A. 65-4-)	
113 AND RELATED AUTHORIZATIONS)	

**DIRECT TESTIMONY
OF
CLARK D. KAML**

**ON BEHALF OF
THE CONSUMER ADVOCATE DIVISION
OF THE
OFFICE OF THE TENNESSEE ATTORNEY GENERAL**

DECEMBER 1, 2025

Table of Contents

I.	INTRODUCTION	1
II.	TRANSACTION	5
III.	PURPOSE OF THE PROCEEDING	10
IV.	DEFINITIONS	12
V.	PURPOSE OF THE TRANSACTION	16
VI.	COSTS AND RATE IMPACT	20
VII.	SPIRE’S TECHNICAL, MANAGERIAL AND FINANCIAL ABILITY	28
VIII.	FINANCING AND CAPITAL STRUCTURE	30
IX.	STATED BENEFITS	42
X.	CONCLUDING COMMENTS AND RECOMMENDATION	47

1 **I. INTRODUCTION**

2 **Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND**
3 **OCCUPATION FOR THE RECORD.**

4 A1. My name is Clark Kaml. My business address is the Office of the Tennessee
5 Attorney General, John Sevier State Office Building, 500 Dr. Martin L. King Jr.
6 Blvd, Nashville, Tennessee 37243. I am a Financial Analyst employed by the
7 Consumer Advocate Division in the Office of the Tennessee Attorney General
8 (“Consumer Advocate”).

9 **Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND**
10 **PROFESSIONAL EXPERIENCE.**

11 A2. I received a Bachelor of Science Degree in Economics from the University of North
12 Dakota in 1987 and a Master of Arts Degree in Economics from the University of
13 North Dakota in 1988. I have more than 30 years of experience working in the
14 regulated utilities industries including electric, natural gas, telephone, and water. I
15 have worked for various agencies including the Public Service Commission of
16 North Dakota, the Kansas Corporation Commission, the Minnesota Public Utilities
17 Commission, the Minnesota Office of the Attorney General, and the Grant County
18 Public Utility District. I have worked with private companies, municipalities, and
19 served on a Rate Committee. I served as Co-Chair of the National Association of
20 State Utility Commissioners (“NARUC”) Staff Subcommittee on Strategic Issues
21 and am currently Co-Chair of the National Association of State Utility Consumer
22 Advocates (“NASUCA”) Gas Committee. In addition, I am the author of the book

1 “Don’t Fear the Cost Study.”¹

2 **Q3. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THE**
3 **TENNESSEE PUBLIC UTILITY COMMISSION (“TPUC” OR THE**
4 **“COMMISSION”)?**

5 A3. Yes. I filed testimony in the Tennessee-American Water Company’s (“TAWC”
6 or “Tennessee-American”) recent rate case, TPUC Docket No. 24-00032, the
7 Limestone Water Utility Operating Company’s recent rate case, TPUC Docket No.
8 24-00044, Chattanooga Gas Company’s Annual Rate Review, TPUC Docket No.
9 25-00028, the Kingsport Power Company’s Alternative Rate Mechanisms, TPUC
10 Docket No. 25-00022, Piedmont’s Annual Rate Review Filing, TPUC Docket No.
11 25-00036, TAWC’s Approval of Merger, TPUC Docket No. 25-00040,
12 Limestone’s Petition for Approval of Loan Agreement, TPUC Docket No. 25-
13 00066, and Integrated Resources Management’s Petition for an Alternative Rate
14 Mechanism, TPUC Docket No. 25-00072.

15 **Q4. ON WHOSE BEHALF ARE YOU TESTIFYING?**

16 A4. I am testifying on behalf of the Consumer Advocate.

17 **Q5. WHAT IS THE SCOPE OF YOUR REVIEW IN THIS PROCEEDING?**

18 A5. My testimony addresses the Consumer Advocate’s analysis of the potential
19 customer impact of the Application of Piedmont Natural Gas Company, Inc.
20 (“Piedmont”) and Spire Tennessee Inc. (“Spire-Tennessee”) (together the
21 “Applicants”) for Approval of a Transfer of Authority to Provide Utility Services

¹ Clark Kaml, Don’t Fear the Cost Study (2022).

1 Pursuant to T.C.A. § 65-4-113 and Related Authorizations (“*Application*”).

2 **Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF**
3 **YOUR TESTIMONY?**

4 A6. I have reviewed the *Application*, the Pre-Filed Testimony, the exhibits and
5 workpapers filed with the *Application*, as well as the Applicants’ Responses to
6 Discovery.

7 **Q7. WHAT ISSUES ARE YOU ADDRESSING?**

8 A7. My testimony addresses the following topics:

- 9 a. Purpose of the Review;
10 b. Definitions;
11 c. Purpose of the Transaction;
12 d. Cost and Rate Impact;
13 e. Financing and Capital Structure; and
14 f. Benefits of the Transaction.

15 **Q8. WHAT ARE YOUR RECOMMENDATIONS?**

16 A8. I recommend the Commission:

- 17 • Determine in this proceeding the recoverability of any costs associated
18 with the acquisition.
- 19 • Deny recovery of all costs associated with this transaction that are not
20 specifically allowed. Spire is willing to pay an acquisition premium of
21 approximately \$880 million (\$2.48 billion less \$1.6 billion of new rate
22 base) for the right to provide the same service currently being provided
23 to customers. Those customers should not be required to pay for a
24 change in ownership. The determination should include:
- 25 ○ transaction costs;
26 ○ acquisition premiums;
27 ○ transition costs;
28 ○ due diligence costs; and

- 1 ○ any other cost-related term that may be used, now or in the
- 2 future, to differential a related cost from those listed above.
- 3 • Debt financing costs are estimated to increase by approximately \$10
- 4 million as a result of this transaction. In future revenue requirement
- 5 determinations, the Commission should protect customers from
- 6 increased debt costs resulting from this transaction. Secondly, that Spire
- 7 Tennessee’s capital structure in future revenue requirement
- 8 determinations not reflect hypothetical levels of equity is truly debt.

9 Refund the difference in financing costs to ratepayers, to the extent that debt

10 financing is used as part of the purchase, in both temporary and permanent

11 financing, in place of equity. There are other recommendations that are addressed

12 by other Consumer Advocate witnesses.

13 **Q9. WHAT ARE YOUR GENERAL OBSERVATIONS OF THE**

14 **APPLICATION?**

15 A9. The *Application* is missing critical components, analysis and explanations that

16 would identify costs, demonstrate customer benefits, ensure that consumers are

17 protected from the potential negative impacts of the transaction, and ensure that the

18 transaction is in public interest.

19 An acquisition application should provide a detailed explanation of the relevant

20 quantitative and qualitative customer effects and clearly indicate what will or will

21 not change. This includes changes in services, processes and rates. Much of this

22 is missing from the *Application*. The *Application* focuses primarily on the

23 transaction and Spire-Tennessee’s abilities to serve, suggesting that since there is

24 no change as a result of the transaction it is a benefit and explains that [REDACTED]

25 [REDACTED]

26 [REDACTED]

1 [REDACTED]

2 [REDACTED]

3 [REDACTED].”²

4 There is no comparison of alternatives to the alleged benefits in Appendix F. The
5 term benefit as used in the *Application* indicates that it does not have to be a change,
6 and that it can [REDACTED] suggesting that the service currently
7 being provided is a benefit. The plain language suggests that Piedmont’s ongoing
8 provision of service is a benefit.

9 The *Application* does not demonstrate that there is a clear “benefit to the consuming
10 public to be gained from the transfer.” Consumer Advocate witness David
11 Dittmore discusses his conclusion that the *Application* is premature.

12 **II. TRANSACTION**

13 **Q10. WHO ARE THE PARTIES TO THE TRANSACTION?**

14 A10. There are three parties to the transaction:

- 15
- 16 • Piedmont Natural Gas Company, Inc., a North Carolina
17 company engaged in the business of transporting, distributing,
18 and selling natural gas in the states of Tennessee, North
19 Carolina, and South Carolina. Piedmont is a wholly owned
20 subsidiary of Duke Energy Corporation (“Duke Energy”).
21 Piedmont’s Corporate Headquarters is 525 S Tryon St,
Charlotte, NC, 28202.
 - 22 • Spire Inc. (“Spire”), a gas distribution utility providing natural
23 gas service to residential and business customers in Missouri,
24 Alabama, and Mississippi through its utility subsidiaries.
 - 25 • Spire Tennessee Inc. (“Spire-Tennessee”), a newly created
26 wholly owned subsidiary of Spire.
- 27

² Piedmont Response to Consumer Advocate DR No. 1-17.

1 The property being sold in this transaction is Piedmont’s property and operations
2 in Tennessee.³

3 Piedmont is identified in the Seller in the [REDACTED]:

4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED]⁴

9 **Q11. HOW IS THE TITLE “PIEDMONT” USED IN THE APPLICATION?**

10 A11. The *Application* and accompanying materials should be read carefully. “Piedmont”
11 refers to the corporate entity operating across three states. When the Petitioners
12 discuss Tennessee operations, it usually clarifies such as “in Tennessee,”
13 “Tennessee customers,” and “Tennessee operations.” However, there are several
14 instances where the *Application* references “Piedmont” without clarifiers, which
15 can create the impression that Piedmont is solely a Tennessee company being sold.
16 Examples are:

- 17 • “*Interim Adoption of Piedmont Rates, Tariffs, and Regulatory*
18 *Requirements*”⁵ – This heading does not specify Tennessee-only
19 rates tariffs, and regulatory requirements.
- 20 • “*Piedmont has its principal offices in Tennessee at 83 Century*
21 *Boulevard, Nashville, Tennessee, and is engaged in the business*
22 *of furnishing natural gas to customers located in Nashville as*
23 *well as portions of the counties of Cheatham, Dickson,*
24 *Robertson, Rutherford, Sumner, Trousdale, Williamson, and*
25 *Wilson and in certain incorporated towns and cities located*
26 *therein.*”⁶ – Read in isolation, this could be misinterpreted that
27 Piedmont’s principal offices are in Nashville Tennessee, and it
28 only operates in Tennessee.

3 *Direct Testimony of Mike Switzer* at 3:15-16.

4 *Application*, Exhibit A.

5 *Application* at 9.

6 *Application* at 3.

- 1 • *“The APA contemplates Spire’s acquisition, as a going concern,*
2 *of the totality of Piedmont’s property, operations, and*
3 *authorizations to operate as a natural gas public utility within*
4 *the State of Tennessee as of the Closing Date specified in the*
5 *APA.”*⁷ – Without context, this could be read as Spire is
6 acquiring all of Piedmont’s property, operations and
7 authorization, rather than only those in Tennessee.
- 8 • *“The Applicants respectfully request that the Commission*
9 *approve the transfer of Piedmont’s franchise agreements to*
10 *Spire Tennessee under its current statutory authority and any*
11 *subsequent statutory authority that may be granted prior to final*
12 *approval of the relief requested herein.”*⁸

13 **Q12. WHY IS THE CLARIFICATION AND DISTINCTION BETWEEN**
14 **PIEDMONT AND THE TENNESSEE OPERATIONS IMPORTANT?**

15 A12. Piedmont’s operations in Tennessee are part of a larger integrated corporate
16 operation. The sale of the Tennessee operations requires breaking up an operation,
17 untangling employees, equipment, overhead allocations, billing systems and other
18 shared services. Spire’s language suggests minimal change stating “[i]nasmuch as
19 Spire-Tennessee intends to “step into the shoes” of Piedmont. . .”⁹

20 Spire witness Brittany Mathis stated, “Spire’s goal throughout this process is for
21 there to be very limited, if any, financial impact to Tennessee customers as a result
22 of the Proposed Transaction.”¹⁰

23 However, even limited operation changes introduce complexity to potential
24 customer impacts. The transaction is not a simple transfer ownership; it involves
25 restructuring and integration that must be carefully reviewed and evaluated.

7 *Id.*
8 *Application at 10.*
9 *Application at 9.*
10 *Direct Testimony of Brittany Mathis at 12:7-9.*

1 Consumer Advocate witness Bradley Dixon discusses considerations that result
2 from the Nashville system not having dedicated IT systems supporting its business,
3 making the technology migration to Spire a complex undertaking. The
4 development of IT Systems could take significant time and costs.¹¹

5 **Q.13 HOW IS THE TRANSACTION DESCRIBED IN THE APPLICATION?**

6 A13. Under the title THE PROPOSED TRANSACTION, the *Application* states:

- 7 6. Piedmont and Spire entered into the APA on July 27, 2025, which
8 has been approved and its execution authorized by resolutions of the
9 boards of directors of both Duke Energy and Spire. The APA
10 contemplates Spire's acquisition, as a going concern, of the totality
11 of Piedmont's property, operations, and authorizations to operate as
12 a natural gas public utility within the State of Tennessee as of the
13 Closing Date specified in the APA.
- 14 7. Consistent with its practice in other States, Spire intends to operate
15 in Tennessee through a new wholly-owned subsidiary, Spire
16 Tennessee, which is a Delaware corporation formed for the purpose
17 of owning and operating Piedmont's assets in Tennessee. Spire has
18 assigned its rights and obligations under the APA to Spire Tennessee
19 as of August 7, 2025, subject to a guaranty of Spire Tennessee's
20 obligations under the APA by Spire. A copy of the executed
21 Assignment is attached as Exhibit B.
- 22 8. Upon approval by the Commission of the transfer of Piedmont's
23 authority to provide utility service to Spire Tennessee and upon the
24 closing of the Proposed Transaction, Spire – through Spire
25 Tennessee – intends to assume and continue to provide, without
26 interruption, natural gas sales and distribution service to Piedmont's
27 existing Tennessee customers pursuant to the tariffs, service
28 schedules, franchise rights and other authorizations under which
29 Piedmont currently provides such service.
- 30 9. Neither Piedmont nor Spire seek any change in any of these
31 authorizations. The sole differences between Piedmont's operations
32 in Tennessee prior to the Proposed Transaction and Spire's
33 operations following the Proposed Transaction will be the identity of
34 the owner of these properties, operations, and authorizations.¹²

11 *Direct Testimony of Bradley Dixon* at 5.

12 *Application* at 3-4.

1 The *Application* characterizes the transaction as a seamless continuation of service
2 with primary difference being ownership. This is more of an explanation of how
3 Spire intends to operate and a conclusory statement of the customer impact.
4 Confidential Exhibit A containing the Asset Purchase Agreement is 252 pages. A
5 review of that document demonstrates that the proposal is not a simple transaction,
6 either on paper or in physical operation. A few items are:

- 7 • [REDACTED];
- 8 • [REDACTED];
- 9 • [REDACTED];
10 [REDACTED];
11 [REDACTED];¹³
- 12 • [REDACTED];
13 [REDACTED];
14 [REDACTED];
15 [REDACTED];
16 [REDACTED];
- 17 • [REDACTED];
18 [REDACTED];
19 [REDACTED];
20 [REDACTED];
- 21 • [REDACTED];
22 [REDACTED];¹⁴ and
- 23 • [REDACTED].¹⁵

24 **Q14. WHAT IS THE RELEVANCE OF THE AMOUNT OF DETAIL**
25 **CONTAINED IN EXHIBIT A?**

26 A14. The extensive detail in the agreement underscores the complexity of the transaction
27 This complexity introduces uncertainty and risk to customers. It emphasizes the
28 need for caution, understanding of the transaction, and reinforces the need for the

13 *Application*, CONFIDENTIAL Exhibit A at 152-157.

14 *Id.* at 190-199.

15 *Id.* at 199-202.

1 Commission to conduct a careful analysis and ensure strong consumer protection.

2 **Q15. HOW WOULD YOU DESCRIBE THE TRANSACTION?**

3 A15. Duke Energy's November 7, 2025, 10Q has the following summary of the
4 transaction:

5 On July 27, 2025, Piedmont entered into a purchase agreement with
6 Spire Inc., a Missouri corporation, for **the sale of Piedmont's**
7 **Tennessee business** with expected proceeds of \$2.48 billion, subject to
8 closing adjustments, with proceeds due at closing. **Piedmont's**
9 **Tennessee business is included within the GU&I segment of Duke**
10 **Energy and Piedmont.**¹⁶ [*Emphasis added*]

11 This description highlights the essence of the transaction; Duke Energy is selling
12 Piedmont's Tennessee business to Spire for \$2.48 billion.

13 **Q16. DOES THE SUPPORTING TESTIMONY REFLECT THE COMPLEXITY**
14 **AND POTENTIAL IMPACT OF THE PROPOSED TRANSACTION?**

15 A16. No, it does not. The *Application* has only four witnesses providing a total of 47
16 pages of supporting testimony for a \$2.45 billion transaction. This level of
17 testimony is insufficient to address the complexity and potential consumer impact
18 of the proposed sale.

19 **III. PURPOSE OF THE PROCEEDING**

20 **Q17. WHAT IS THE PURPOSE OF THIS PROCEEDING?**

21 A17. This proceeding is for the Commission to consider the transfer of Piedmont's
22 authority to provide utility services in Tennessee to Spire-Tennessee pursuant to
23 Tenn. Code Ann. § 65-4-113.

¹⁶ Duke Energy 10Q at 46, <https://d18rn0p25nwr6d.cloudfront.net/CIK-0001326160/2a85c8fb-1dc2-494d-9c0b-a9dc094e5bc5.pdf>.

1 **Q18. WHAT GUIDANCE IS PROVIDED BY THE STATUTES WITH REGARD**
2 **TO THE TRANSFER OF SERVICE?**

3 A18. Transfer of authority to provide utility service is addressed in Tenn. Code Ann. §
4 65-4-113. It states in part:

- 5 a) No public utility, as defined in § 65-4-101, shall transfer all or any
6 part of its authority to provide utility services, derived from its
7 certificate of public convenience and necessity issued by the
8 commission, to any individual, partnership, corporation or other
9 entity without first obtaining the approval of the commission.
- 10 b) Upon petition for approval of the transfer of authority to provide
11 utility services, the commission shall take into consideration all
12 relevant factors, including, but not limited to, the suitability, the
13 financial responsibility, and capability of the proposed transferee to
14 perform efficiently the utility services to be transferred and the
15 benefit to the consuming public to be gained from the transfer. The
16 commission shall approve the transfer after consideration of all
17 relevant factors and upon finding that such transfer furthers the
18 public interest.

19 Two points are:

- 20 • The suitability, the financial responsibility, and capability of the
21 proposed transferee to perform efficiently the utility services to be
22 transferred and
- 23 • The benefit to the consumer public to be gained from the transfer.

24 After consideration of these two points, the Commission may approve the transfer
25 only upon finding that it furthers the public interest.

26 **Q19. WHY IS THE REQUIREMENT OF A “BENEFIT TO THE CONSUMING**
27 **PUBLIC” IMPORTANT?**

28 A19. The Consumer Advocate notes that the second point specifically states a benefit to
29 consumers to be gained. For such a determination to be made, future rate impacts
30 must be assessed rather than limited to no change at the time of transfer.

1 **Q20. WHY IS IT NOT SUFFICIENT THAT THE COMPANY STATED THAT**
2 **CURRENT RATES WILL REMAIN THE SAME, AND SOME COSTS**
3 **ASSOCIATED WITH THE TRANSACTION WILL BE REVIEWED FOR**
4 **FUTURE RECOVERY?**

5 A20. There are three basic reasons that this assurance is inadequate:

- 6 1. The first is that this statement puts a misleading focus on immediate
7 rates. Applicants emphasize that existing rates will remain unchanged
8 initially, but that they have already stated that they will seek recovery
9 of transaction costs in the future. “It is noteworthy that Spire’s initial
10 capitalization of Piedmont’s Tennessee operations will not impact
11 customers inasmuch as Spire proposes to utilize existing approved rates
12 and terms/conditions of service.”¹⁷ Rate increases from transaction
13 costs would be a direct result of the acquisition. Cost of capital impacts
14 are indirect costs that may result from the transaction.
- 15 2. The second is that it does not provide an adequate cost-benefit analysis.
16 A meaningful evaluation of consumer impact requires quantification of
17 transaction-related costs and their effect on rates. Without this
18 information, the Commission cannot determine whether the transaction
19 provides a net benefit to consumers.
- 20 3. The third is that this assurance does not fulfil the plain statutory
21 requirement to include customer benefit. Tenn. Code Ann. § 65-4-113
22 requires consideration of consumer benefit. Ignoring future rate impact
23 fails to meet this statutory obligation.

24 **IV. DEFINITIONS**

25 **Q21. ARE THERE ANY DEFINITIONS OF TERMS THAT MIGHT**
26 **FACILITATE THE DISCUSSION?**

27 A21. Yes. For the purposes of my testimony, the following terms are defined as used by
28 the Consumer Advocate:

- 29 • **Benefit**: A result that produces an advantage of profit, or that
30 promotes well-being.
- 31 • **Certificate of Convenience and Necessity**: Certificate required for

¹⁷ *Application at 7, fn 2.*

- 1 a public utility to establish, construct or operate utility service in a
2 specified area, pursuant to Tenn. Code Ann. § 65-4-201 et seq.
- 3 • **Obligation to Serve**: A utility’s requirement to provide service to
4 anyone willing to pay its set rates. Utilities have traditionally
5 assumed this obligation in exchange for an exclusive monopoly
6 franchise.
 - 7 • **Public Interest**: The welfare or well-being of the general public.
 - 8 • **Tennessee Operations**: The portion of Piedmont being considered
9 in the Transaction.

10 **Q22. WHY HAVE YOU DEFINED BENEFIT?**

11 A22. The Applicants use the term “benefit” where no change occurs. The Consumer
12 Advocate does not consider the absence of harm to be a benefit. Under Tenn. Code
13 Ann. § 65-4-113, the Commission must determine whether the transaction provides
14 a net gain to consumers. A lack of adverse impact does not satisfy this statutory
15 requirement.

16 **Q23. WHAT ARE THE BENEFITS AND OBLIGATIONS OF HOLDING A
17 CERTIFICATE OF CONVENIENCE AND NECESSITY (“CCN”)?**

18 A23. Holding a CCN provides significant financial advantages to a utility including:

- 19 • The right to provide an essential service within a defined territory.
- 20 • Protection from competition within the territory.
- 21 • The ability to earn a rate of return with minimal risk.
- 22 • The ability to request rate increases with minimal concern about
23 losing market share.

24 With these benefits come some obligations:

- 25 • Rates charged are approved by regulatory agency.
- 26 • All customers seeking service must be served within existing service
27 territory subject to state-approved tariff provisions.
- 28 • Selling a service with a CCN is subject to a determination that such
29 transaction is in the public interest by state regulatory agency.

- 1 • Service must be provided efficiently, reliably, and with quality that
2 meets Commission standards.

3 **Q24. ELABORATE ON THE OBLIGATION TO SERVE AND ITS**
4 **IMPORTANCE IN THIS PROCEEDING.**

5 A24. The obligation to serve is fundamental to public utility regulation. Utilities receive
6 monopoly franchises in exchange for the duty to furnish adequate efficient and
7 nondiscriminatory services. A utility does not get to choose who to serve:

8 A public utility must hold itself out to provide service on reasonable
9 terms to all who desire service within the utility’s franchised territory.
10 A public utility is not free to choose to serve only those customers which
11 it is convenient or currently profitable to serve.¹⁸

12 The *Application* indicated that the proposed transaction is based on Duke’s decision
13 to sell its Tennessee Operations for various reasons. Duke’s decision to sell does
14 not obviate its obligation to serve. The value of the right to provide the monopoly
15 service and the CCN is demonstrated by Spire’s willingness to pay an acquisition
16 premium for the service area and operations.

17 **Q25. IS THE OBLIGATION TO SERVE WELL KNOWN AND UNDERSTOOD?**

18 A25. Yes. The obligation to serve is a well-established principle across all states and is
19 a cornerstone of utility regulation. Providers are fully aware of this requirement as
20 part of the regulatory framework.

21 **Q26. DO THE APPLICANTS RECOGNIZE THE OBLIGATION TO SERVE?**

22 A26. Yes. The *Application* states “[a]s a certificated Tennessee utility, Piedmont is

¹⁸ Robert W. Kehres, *Obligation to Serve and Economic and Legal Incentives*, Energy Regulatory Partnership Program, Lansing, Michigan (November 30 to December 6, 2008). A copy of this presentation is available at <https://pubs.naruc.org/pub.cfm?id=53858446-2354-D714-5131-AC518E6391BC>.

1 obligated to provide safe and reliable utility service to the citizens within its service
2 territory in accordance with the requirements of this Commission and Tennessee
3 law.”¹⁹

4 **Q27. WHAT TENNESSEE STATUTE ADDRESSES THE OBLIGATION TO**
5 **SERVE?**

6 A27. Title 65 of the Tennessee Code addresses Public Utilities and Common Carriers.
7 Chapter 4 addresses the Regulation of Public Utilities by the Commission, and
8 Section 114 has service requirements:

9 The Commission has the power, after hearing, upon notice, by order in
10 writing, to require every public utility, as defined in § 65-4-101, to:

- 11 (1) Furnish safe, adequate, and proper service and to keep and
12 maintain its property and equipment in such condition as
13 to enable it to do so; and
- 14 (2) Establish, construct, maintain, and operate any reasonable
15 extension of its existing facilities where, in the judgment
16 of the commission, such extension is reasonable and
17 practicable, and will furnish sufficient business to justify
18 the construction, operation, and maintenance of the same,
19 and when the financial condition of the public utility
20 affected reasonably warrants the original expenditure
21 required in making such extension, or to abandon any
22 service when, in the judgment of the commission, the
23 public welfare no longer requires the same.

24 **Q28. WHY IS THIS STATUTE IMPORTANT TO THE CURRENT**
25 **PROCEEDING?**

26 A28. The obligation to serve is inseparable from the CCN. Duke’s corporate decision to
27 sell its Tennessee operations does not entitle it to auction off its CCN to the highest
28 bidder without a demonstration that benefits will accrue to the customers from the

¹⁹ *Application* at 11.

1 transaction. The duty of the regulator is to ensure that any transfer protects
2 consumers and serves the public interest.

3 The Consumer Advocates position is that Spire may choose to pay a premium for
4 Piedmont's Tennessee rate base, but Tennessee customers should not be required
5 to absorb increased costs resulting from that corporate decision.

6 V. **PURPOSE OF THE TRANSACTION**

7 **Q29. WHAT IS THE PURPOSE OF THE TRANSACTION?**

8 A29. The *Application* is clear that the transaction is being driven by corporate investment
9 decisions, not consumer need. Beginning on page 3, the *Application* outlines
10 expectations of the transaction, corporate structure, and future operation. It does
11 not identify any necessity for the transaction.

12 Piedmont witness Mike Switzer stated “[a]t its core” Duke is selling its Piedmont
13 operations in Tennessee to “fund accelerating investment opportunities” in its other
14 regulated jurisdictions and “give us greater confidence in delivering our earnings
15 per share (“EPS”) objectives.”²⁰ He testified that:

16 [W]e [Piedmont] have had to limit capital available to the Tennessee
17 jurisdiction because of needs in other areas of Duke Energy in order to
18 sustain funding for our capital plan. Entering into this Proposed
19 Transaction, thus, was an extremely attractive capital recycling
20 opportunity.²¹

21 He further explained that:

22 [t]he proceeds from the Proposed transaction will help fund Duke
23 Energy's \$83 billion five-year capital plan, which is focused on energy
24 modernization investments that Duke Energy will implement over time

²⁰ *Direct Testimony of Mike Switzer* at 4:17 – 5:2.

²¹ *Id.* at 6:16-7:1.

1 to deliver value for its customers and shareholders.²²

2 Closing the transaction “would help Duke Energy deliver on the reaffirmance of its
3 2025 adjusted EPS guidance range and long-term adjusted EPS growth rate through
4 2029.”²³

5 **Q30. WHAT COMMENT DO YOU HAVE REGARDING MIKE SWITZER’S**
6 **TESTIMONY?**

7 A30. In his Testimony, Mr. Switzer explains corporate goals rather than consumer
8 benefits. Three aspects are particularly concerning in the context of a rate regulated
9 utility:

- 10 1. The emphasis on earnings per share or “EPS” is a driver of the
11 decision making.
- 12 2. The statement that Duke has limited capital available for
13 Tennessee operations.
- 14 3. The characterization of the sale as an “extremely attractive cap
15 recycling opportunity.”

16 These statements underscore that the transaction is motivated by shareholder
17 objectives. It is, however, not the obligation to serve Tennessee customers, nor a
18 demonstration of a need to leave Tennessee due to financial stress, nor an inability
19 to earn a fair return in Tennessee that has driven this transaction.

20 **Q31. WHY WOULD A COMPANY LIMIT CAPITAL AVAILABLE TO ANY**
21 **PORTION OF ITS OPERATION IF IT COULD OBTAIN FINANCING?**

22 A31. A company may limit capital for reasons such as budget constraints, opportunity
23 costs, expected profitability, market management, or long-term strategic plans.

²² *Direct Testimony of Mike Switzer* at 3:10-13.

²³ *Id.* at 7:7-9.

1 These are legitimate corporate considerations, but they do not equate to consumer
2 benefits. Moreover, they do not entitle the company to an acquisition premium or
3 justify a shift of risk to customers.

4 **Q32. EXPLAIN THE DUTY OF CORPORATE EXECUTIVES AND HOW IT**
5 **AFFECTS DECISION-MAKING?**

6 A32. Corporate officers have a fiduciary duty to act in the best interest of shareholders.
7 Focusing on earnings and capital considerations is consistent with that duty.
8 However, the fiduciary obligations often conflict with regulatory goals of just and
9 reasonable rates. This distinction highlights the need for the Commission to
10 separate corporate rationale from the statutory requirements that the transaction
11 serves the public interest.

12 **Q33. EXPLAIN THE EARNINGS PER SHARE FOCUS AND WHY IT STANDS**
13 **OUT.**

14 A33. EPS is calculated by dividing company earnings by the number of shares. The
15 introduction of “per share” adds another variable (“number of shares”) to the
16 earnings discussion and shifts the focus away from corporation earnings, which is
17 a focus on the company, to the return on individual shares.

18 Issuing new shares can dilute earnings per share, while share buybacks can increase
19 earnings per share. A strict focus on EPS may discourage equity expansions or debt
20 issuances.

21 **Q34. WHY SHOULD THE FOCUS ON EPS BE A CAUTION?**

22 A34. EPS can be engineered with short-term decisions that do not consider long-term

1 goals or overall long-term operations of the company. Their EPS values are often
2 reflected in quarterly or annual values, while long-term utility decisions are much
3 longer, with 20 or 30 payback periods.

4 **Q35. HOW CAN LIMITING EQUITY EXPANSION AFFECT DEBT**
5 **ISSUANCES?**

6 A35. A company attempting to maintain a consistent ratio of debt to equity will increase
7 the two funding sources by a similar amount. If equity increases are restricted, debt
8 increases will also be constrained by the amount that equity is increasing. As a
9 result, an EPS target may also limit a company's willingness to expand through
10 debt issuance.

11 **Q36. COMMENT ON THE "EXTREMELY ATTRACTIVE CAPITAL**
12 **RECYCLING OPPORTUNITY."**

13 A36. Duke's decision to sell Piedmont Tennessee operations for a premium above book
14 value allows it to capture immediate financial returns that otherwise would take
15 years to realize under traditional rate of return regulation. While this may be a
16 rational corporate decision it does not demonstrate consumer benefit, nor does it
17 comport with traditional rate base rate of return concepts.

18 **Q37. WHAT ARE YOUR GENERAL COMMENTS REGARDING THE**
19 **RATIONAL FOR THE TRANSACTION?**

20 A37. The Applicant's testimony focuses primarily on Spire's qualifications to operate
21 the Tennessee assets. Four witnesses sponsored testimony, each of them provide
22 high level overviews that do not adequately address consumer impacts or
23 demonstrate how the transaction provides a net benefit to Tennessee customers as

1 required by Tenn. Code Ann. § 65-4-113.

2 **VI. COSTS AND RATE IMPACT**

3 **Q38. WHAT ARE THE APPLICANT'S POSITIONS REGARDING RATES AND**
4 **COSTS ASSOCIATED WITH THE TRANSACTION?**

5 A38. The Applicants state that current rates will remain unchanged and that Spire-
6 Tennessee will continue service under Piedmont's existing tariffs. They further
7 acknowledge that certain transaction-related costs may be reviewed for recovery
8 and future rate proceedings.

9 **Q39. WHY IS THIS POSITION INADEQUATE?**

10 A39. There are three fundamental reasons:

- 11 1. Immediate versus future impacts. Applicants emphasize that existing
12 rates will not change at the time of the closing. This is misleading
13 because they have also stated their intent to seek recovery of transaction
14 costs and future proceedings. Any such recovery would directly
15 increase customer rates because of the transaction.
- 16 2. Statutory requirement. Tenn. Code Ann. § 65-4-113 requires the
17 Commission to determine whether the transfer provides a benefit to the
18 consuming public. That determination cannot be made without
19 consideration of the cost implications of the transaction.
- 20 3. Cost benefit analysis. A full assessment of consumer impact requires
21 quantification of transaction-related costs such as transition expenses,
22 due diligence costs, and their effect on rates. Without this analysis the
23 Commission cannot conclude that the transaction furthers the public
24 interest.

25 **Q40. WHY SHOULD TREATMENT OF THESE COSTS BE ADDRESSED AT**
26 **THE TIME THAT THE COMMISSION MAKES A DECISION**
27 **REGARDING APPROVAL?**

28 A40. The statute discusses a net benefit to customers. Maintaining the current rates in

1 the short term does not satisfy this requirement if customers are later burdened with
2 higher costs because of the transaction. So long as treatment of the costs associated
3 with the acquisition remains undecided, they add to the regulatory risk and potential
4 costs that can impact both the company and customers.

5 To address these regulatory risks a determination needs to be made at this time
6 rather than to frame the issues for future cases.

7 **Q41. HOW CAN A DELAYED DECISION INCREASE RISK?**

8 A41. Whether and how those costs will be recovered directly impacts cash flow and
9 earnings for years to come.

10 If an acquiring company does not have a decision on the acquisition costs and
11 proceeds with the transaction, reasonable conclusion is that the company believes
12 that it will recover the premium, either through overt approval or some other means.

13 Viewed from another perspective, if the company is willing to proceed with the
14 transaction ahead of a decision on cost recovery, a possible interpretation is that
15 cost recovery is not an essential component of the transaction and therefore
16 unnecessary.

17 The risk to customers is that they will be required to pay for the acquisition costs
18 or have higher rates without any corresponding benefits. The risk to consumers is
19 heightened by the fact that once the transaction is complete, if the new provider is
20 placed at financial risk, the ratepayer may suffer, either through lower quality of
21 service or higher rates with limited recourse.

22 **Q42. HOW CAN THESE RISKS BE ADDRESSED?**

1 A42. The Commission can identify risks for all parties by making final decisions or
2 establishing metrics regarding how it will approach future regulatory decisions
3 associated with this transaction. In doing so, the Commission can remove
4 regulatory uncertainty and reduce or eliminate some of the risk for investors and
5 ratepayers alike.

6 **Q43. WHY WOULD THERE BE AN ACQUISITION PREMIUM?**

7 A43. The purpose and terminology around an acquisition premium for a rate regulated
8 utility is different from those in other industries.

9 In a free market, the acquisition premium is the amount a buyer is willing to pay
10 above the market value. For publicly traded companies, the stock price prior to the
11 announcement of a merger or acquisition is often considered a proxy for the market
12 price above which is considered an acquisition premium.

13 From a financial perspective, as an investment, the current market price represents
14 the net present value of the expected cash flow from the investment. The
15 willingness to pay above market value reflects a belief that the transaction will
16 produce economic value that would not otherwise exist. This could be due to a
17 combination of factors including cost reductions, increased sales, undervalued
18 assets, increased market share, and excess earnings. The expectation that the
19 acquisition will produce economic value is often reflected in the acquisition
20 premium.

21 From a financial perspective, it is reasonable to assume that a company thinks that
22 a business transaction will be profitable. Otherwise, it would not engage in the

1 transaction. For a regulated utility to be profitable, the owner needs to recover the
2 cost associated with the transaction, which would include transaction costs, fees,
3 and the purchase price, as well as a return on those assets over time.

4 In this *Application*, Spire is paying an acquisition premium and will be incurring
5 transaction costs. A critical question is how Spire Inc. plans to recover these costs
6 and how customers can be protected to ensure that the costs are not recovered from
7 ratepayers without a counterbalancing of cost savings or measured benefits.

8 **Q44. HOW IS THE ACQUISITION PRICE DETERMINED?**

9 A44. In a free market, the determination of the price is often unknown to any outside
10 party. The price is often the result of negotiations between the parties, reaching an
11 agreement. In some instances, different parties are bidding against each other for
12 the rights to secure the purchase. Even then, the highest bid does not assure an
13 agreement.

14 **Q45. DID PIEDMONT AND SPIRE EXPLAIN HOW THE PURCHASE PRICE**
15 **WAS DETERMINED?**

16 A45. Yes. Duke Energy [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED],²⁴ Piedmont acknowledged that [REDACTED]
20 [REDACTED]

²⁴ Piedmont Response to Consumer Advocate DR No. 1-36.

1 [REDACTED]²⁵

2 This is a market-based approach to selling the assets. However, it does not reflect
3 rate base rate of return relation that is used to set rates. It is incumbent on
4 regulators to ensure that customers are not harmed by the transaction through
5 increased costs and rates resulting from the transaction.

6 **Q46. ARE THERE ANY COST RECOVERY RESTRICTIONS THAT WOULD**
7 **PROTECT CUSTOMERS?**

8 A46. To ensure that the acquisition is not recovered from customers or consumers, the
9 Commission should explicitly exclude recovery of the acquisition premium from
10 Tennessee customers or consumers, or any Spire subsidiary operations in
11 Tennessee.

12 **Q47. DID SPIRE ADDRESS DUE DILIGENCE SEPARATELY FROM**
13 **TRANSACTION COSTS?**

14 A47. Not entirely. Spire's discussion of transaction costs and due diligence costs were
15 addressed simultaneously in testimony.

16 **Q48. SHOULD DUE DILIGENCE COSTS BE VIEWED SEPARATELY FROM**
17 **TRANSACTION COSTS?**

18 A48. Yes. Due diligence is the review and investigation of a potential investment that a
19 reasonable or prudent company would take prior to entering a contract or making
20 an investment. This review, and associated cost, is conducted prior to and apart
21 from the transaction as part of normal investment process. Due diligence costs are

²⁵ Piedmont Response to Consumer Advocate DR No. 1-5.

1 incurred for the benefit of the purchasing entity, prior to entering into a purchase
2 agreement. As such, due diligence should be viewed as separate from transaction
3 costs, as they are the responsibility of the purchasing entity, and not recoverable
4 from customers.

5 **Q49. IS SPIRE PROPOSING TO RECOVER THE TRANSACTION COSTS?**

6 A49. The *Application* is inconsistent on this topic. Spire stated:

7 We are still collecting and quantifying transaction costs, which include
8 corporate costs such as advisor fees, financing fees, legal fees, and
9 antitrust application fees. We do not intend to seek rate recovery of any
10 of these fees. However, we may seek to recover reasonable and prudent
11 due diligence costs for the Proposed Transaction or legal fees relating
12 to required Tennessee regulatory approvals and Tennessee operating
13 company capitalization/financing in rates at a later date.²⁶

14 The statement indicates that Spire does not intend to seek recovery of some fees
15 but has not precluded recovery of all transaction or due diligence costs. However,
16 the Applicants also stated “[c]ustomers will not bear any acquisition premium or
17 **transaction costs** associated with this merger, which shall be paid exclusively by
18 Spire Inc.”²⁷ [*Emphasis added*]

19 **Q50. HOW DO YOU INTERPRET SPIRE’S COMMENTS?**

20 A50. Spire’s comments are not clear and are cause for concern. The costs are not
21 currently quantified, and the proposed treatments are not specific.

22 **Q51. HOW DO YOU RECOMMEND THAT UNCERTAINTY BE ADDRESSED?**

23 A51. The Consumer Advocate recommends that for clarity, any approval should
24 explicitly exclude rate recovery of transaction costs. This recommendation is based

²⁶ Direct Testimony of Brittany Mathis at 13:3-9.

²⁷ *Application*, Exhibit F at 165/166.

1 on the following:

- 2 • Transaction costs should not be recovered from ratepayers without
- 3 a clear demonstration of counterbalancing benefits.
- 4 • The specific transaction costs have not been identified.
- 5 • Spire stated that it does not intend to seek rate recovery of any of the
- 6 transaction fees.

7 [REDACTED]

9 **Q52. WHAT IS YOUR RECOMMENDATION REGARDING DUE DILIGENCE**
10 **COSTS?**

11 A52. Due diligence costs should not be recovered from customers. These costs have
12 been incurred prior to the decision to enter into a purchase agreement. They are for
13 the benefit of the purchasing company not the consumer. Furthermore, these costs
14 should have been known by this time.

15 **Q53. WHAT ARE YOUR COMMENTS REGARDING TRANSITION COSTS?**

16 A53. Transition costs are being addressed by Consumer Advocate witness David
17 Dittimore.

18 **Q54. HAS THE COMMISSION PREVIOUSLY TAKEN A POSITION ON THE**
19 **RECOVERY OF DUE DILIGENCE COSTS?**

20 A54. Yes. Regarding ratepayers having the burden of due diligence costs, the
21 Commission stated:

22 The majority of the panel reasoned that while due diligence costs are
23 not costs associated with the delivery of water services, such costs
24 may be incurred to safeguard the assets of the Company, thus
25 protecting the interests of the shareholders and ratepayers. To allow

1 recovery of a cost incurred to benefit shareholders but funded solely
2 by ratepayers is unacceptable.²⁸

3 More recently the Commission stated:

4 The second category includes costs incurred for due diligence in the
5 Company's evaluation and assessment of a particular acquisition's
6 viability, generally occurring before the Company applies for
7 acquisition approval. These costs traditionally have no direct
8 relationship to providing utility service to customers and would
9 occur whether or not an acquisition transaction was ultimately
10 consummated. Commission Rule 1220-04-14- .06(5) states that
11 regulatory, transaction, and closing costs are not recoverable where
12 an acquisition application is withdrawn or denied, safeguarding
13 customers from bearing the costs of the Company's exploration and
14 research of potential investment opportunities. In general, it is
15 understood that a utility purchases a system when it identifies a
16 benefit for its shareholders. Finally, the panel noted that although
17 ratemaking decisions are not always treated per generally accepted
18 accounting guidelines, due diligence costs are typically expensed as
19 incurred rather than capitalized as an investment that provides future
20 benefits. Upon review, the panel identified \$3,837 in water-related
21 due diligence costs. The panel found that the Company's
22 shareholders should bear the substantial burden of associated costs
23 since they predominantly benefit from the due diligence activities.²⁹

24 **Q55. WHAT IS YOUR RECOMMENDATION REGARDING RECOVERY OF**
25 **THE TRANSACTION COSTS?**

26 A55. Because the prudence review and associated costs are conducted prior to and as
27 part of a normal investment process for the protection of the owners, these costs
28 should not be recovered from captive customers.

29 The Consumer Advocate is not convinced that there are direct benefits to
30 consumers that would justify allowing recovery of the transaction costs. If these
31 costs are to be reviewed in the future for possible recovery, the amount allowed in

²⁸ *Order Approving Purchase Agreement, Franchise Water Agreement and Certificate of Public Convenience and Necessity*, at 21, TRA Docket No. 12-00157 (October 15, 2013).

²⁹ *Order Setting Utility Rates*, at 49, TPUC Docket No. 24-00044 (July 10, 2025).

1 rates should be limited to demonstrated customer savings, thus ensuring that
2 ratepayers are not subject to rate increases simply due to a change in ownership.

3 **Q56. ARE THERE OTHER OPTIONS THAT MIGHT BE CONSIDERED FOR**
4 **CUSTOMER PROTECTION?**

5 A56. Yes. One common method used to protect ratepayers from potential negative
6 impacts from acquisitions is to impose a rate freeze for several years.

7 **Q57. DO YOU RECOMMEND A RATE MORATORIUM IN THIS SITUATION?**

8 A57. Yes. As discussed by Consumer Advocate witness David Dittmore, the effects on
9 customers from this transaction are unknown. A rate moratorium will provide
10 opportunity to assess whether ratepayers should incur transition costs of this
11 transaction.

12 **VII. SPIRE'S TECHNICAL, MANAGERIAL AND FINANCIAL ABILITY**

13 **Q58. WHAT IS SPIRE'S POSITION REGARDING ITS TECHNICAL**
14 **MANAGERIAL AND FINANCIAL ABILITY?**

15 A58. The Applicant's assert that Spire is technically, managerially, and financially
16 capable of operating the Tennessee assets. They emphasized Spire's experience in
17 other jurisdictions and its ability to provide safe and reliable service.

18 **Q59. HOW SHOULD THE COMMISSION EVALUATE THESE CLAIMS?**

19 A59. There are two aspects to this evaluation. One is whether Spire has the capability.
20 The other is whether the corporate priorities align with the statutory requirements
21 of serving the public interest. Capability alone does not demonstrate consumer
22 benefit.

1 **Q60. DID THE CONSUMER ADVOCATE REVIEW SPIRES CAPABILITIES IN**
2 **THIS REGARD?**

3 A60. The Consumer Advocate has reviewed each of these topics.

4 **Q61. WHAT CONCERNS HAVE BEEN IDENTIFIED?**

5 A61. Consumer Advocate witnesses David Dittmore and Bradley Dixon address the
6 technical and managerial capabilities of Spire. Consumer Advocate witness
7 Bradley Dixon addresses concerns that have been identified. He noted that Spire-
8 Tennessee will be able to provide safe and reliable natural gas during the transition
9 process “with the extensive assistance of Piedmont.”³⁰

10 There has been no demonstration that Piedmont does not have the technical,
11 managerial and financial ability to provide the service.

12 **Q62. WHAT IS YOUR CONCERN REGARDING THE FINANCIAL**
13 **CAPABILITY?**

14 A62. Spire’s financial ability must be considered in light of the \$2.48 billion purchase
15 price and the premium paid above book value. This transaction introduces
16 significant financial obligations. The price represents the net present value of the
17 expected cash flow from the investment. The willingness to pay above market
18 value reflects a belief that the transaction will produce economic value that would
19 not otherwise exist. A reasonable conclusion is that Spire thinks that this
20 transaction will be profitable, and that the acquisition premium will be recovered
21 in a manner other than through the amortization of this balance directly to

³⁰ *Direct Testimony of Bradley Dixon at 8.*

1 consumers. Although Spire has made a commitment not to amortize the acquisition
2 premium to its revenue requirement in a direct fashion, Spire intends to recover the
3 premium from customers in some form. A critical question is how Spire expects to
4 recover these costs and how will the acquisition premium impact Spire's financing
5 costs. Future cost recovery decisions may further impact the cost of accessing
6 capital.

7 The Applicants have compared the bond ratings and financial strength of Spire with
8 Duke as they stand today. The analysis must look to the future financial condition
9 of Spire. Discussed in greater detail below, the Spire capital structure, post
10 transaction, is uncertain and has the possibility of being much more leveraged. This
11 can translate into financial uncertainty, affect the cost of capital, and ultimately
12 affect rates.

13 **VIII. FINANCING AND CAPITAL STRUCTURE**

14 **Q63. BRIEFLY EXPLAIN THE FINANCING ISSUES IN THIS PROCEEDING.**

15 A63. There are four financing issues that I am highlighting: (1) the use of a bridge loan
16 to finance the transaction, (2) the potential increase in the cost of debt, (3) the
17 increase in the percentage of debt financing at the corporate level, and (4) double
18 leveraging. Each of these is associated with the percentage of debt financing in the
19 capital structure, the weighted cost of capital, and financial risk.

20 **Q64. WHAT IS SPIRE'S CURRENT LONG-TERM DEBT AND CURRENT** 21 **CAPITAL STRUCTURE?**

22 A64. As of June 30, 2025, Spire had a capital structure comprised of outstanding long-
23 term debt totaling \$2.91 billion – \$1.97 billion was issued by Spire-Missouri, \$750

1 million was issued by Spire-Alabama, and \$216 million was issued by other
2 subsidiaries.³¹

3 **Q65. WHAT IS THE ROLE OF A BRIDGE LOAN?**

4 A65. A bridge loan is a short-term loan, often a year or less in duration. The primary
5 purpose is to provide immediate cash, enabling a transaction to proceed without
6 waiting for permanent financing.

7 **Q66. THE PURCHASE IS EXPLAINED AS A \$2.48 BILLION CASH**
8 **TRANSACTION. HOW IS SPIRE FINANCING THE TRANSACTION?**

9 A66. The entire purchase is in being financed through a bridge facility with BMO Capital
10 Markets Corporation.³²

11 **Q67. WHY IS THE BRIDGE LOAN IMPORTANT TO THE POST-**
12 **ACQUISITION COST OF CAPITAL ANALYSIS?**

13 A67. The bridge loan changes the capital structure and is likely to change the cost of
14 capital. In addition, with the use of a bridge loan, the permanent financing has not
15 been determined; thus, the final capital structure and overall cost of capital, and
16 cost impact, is unknown.

17 **Q68. WHAT IS SPIRE'S EXPECTATION WITH REGARD TO THE BRIDGE**
18 **LOAN?**

19 A68. Notwithstanding the testimony cited above in Q65/A65, Spire stated “[i]t is not our
20 intent or belief that the bridge will be utilized at all.”³³ Spire acknowledged that if

31 *Direct Testimony of Brittany Mathis at 10:10 – 12:1.*

32 *Direct Testimony of Brittany Mathis at 5:7-9.*

33 Spire Response to Consumer Advocate DR No. 2-26.

1 used, the bridge loan would be debt financing.³⁴

2 **Q69. WHAT ARE THE TERMS OF THE BRIDGE LOAN?**

3 A69. The bridge loan provides up to \$2.48 billion in committed financing, consisting of
4 a \$1.88 billion bridge term loan and a \$600 million delayed draw term loan. The
5 interest is at the Adjusted Term Secured Overnight Financing Rate (“SOFR”) plus
6 1.375% or Base Rate plus 0.375% and maturing within 364 days after funding.³⁵
7 Assuming a one-month SOFR as the base, the rate would be 5.6% annualized to
8 draw on the bridge loan of 11/4/25.³⁶

9 **Q70. WHAT POTENTIAL CONCERNS ARE ASSOCIATED WITH A BRIDGE**
10 **LOAN?**

11 A70. Bridge loans often have higher borrowing costs than other loans, and due to their
12 short-term nature, after completion of the transaction, the investor is in the position
13 of needing to obtain permanent financing with terms that may not have been
14 established. As noted in the example above, a draw on the bridge loan would be
15 5.6% compared to the Tennessee operations’ year end 2024 cost of long-term debt
16 which was 4.25%, a difference of 1.35%.³⁷

17 **Q71. WHAT IS THE EFFECT ON THE TOTAL COST OF CAPITAL?**

18 A71. Applying the 1.35% difference to a rate base of \$1,379,895,299 funded with a
19 capital 43.98% long-term debt results in an annual increase of \$8,192,852 (1.35%

34 Spire Response to Consumer Advocate DR No. 2-26.

35 Spire 10k at 107.

36 Spire Response to Consumer Advocate DR No. 2-23.

37 Piedmont 2025 Annual Arm Filing Schedule 10.

1 X 43.98% X \$1,379,895,299) in interest expense.³⁸

2 **Q72. IS SPIRE AWARE THAT THE FINANCING MAY RESULT IN AN**
3 **INCREASE IN THE INTEREST EXPENSE?**

4 A72. Yes. Spire is aware that the interest rates may be different than what is currently in
5 rates. It stated:

6 Current rate trends suggest the interest rate on this debt may be higher
7 than that of the historical debt at Duke Energy/Piedmont. However, that
8 risk is mitigated by the fact that Spire has proposed to adopt Piedmont's
9 existing rates (which are built on Piedmont's capital structures and debt
10 rates), pending further action by the Commission.³⁹

11 Although this statement was made regarding new operating debt, it also applies to
12 the bridge loan financing. This does not address the issue of substituting debt for
13 equity in the short run. The risk mitigation is only in effect until new rates become
14 effective. Customers are facing potentially higher debt costs due to this transaction.

15 **Q73. WHAT IS THE IMPLICATION OF SUBSTITUTING DEBT FOR EQUITY**
16 **WITH THE BRIDGE LOAN?**

17 A73. Piedmont's current capital structure contains equity supplied by Duke. By making
18 a cash purchase of assets financed entirely with debt, the new capital structure is no
19 longer consistent with that reflected in rates. Current rates include equity financing
20 of 49.33% with a cost at 9.80%, adjusting for taxes, the cost of equity is
21 approximately 13.52%, approximately 791 basis points higher than the SOFR rate
22 of 5.6% discussed above.⁴⁰ In this instance, customers would be paying

38 *Id.*

39 *Direct Testimony of Brittany Mathis* at 12:11-15.

40 Piedmont 2025 Annual Arm Filing Schedule 10A.

1 approximately \$58 million (7.91% X 49.33% (equity financing) X \$1,379,895,299
2 (Rate Base)) more on an annualized basis for the equity cost of capital in rates than
3 those being incurred by Spire to fund that capital.

4 Current rates are paying for a level of financing security and access that will not
5 exist with a higher level of debt funding because of this transaction. While the debt
6 funding through the bridge loan is in place, customers would be paying for service
7 that they would not be receiving.

8 **Q74. WHAT DOES SPIRE PLAN FOR PERMANENT FINANCING?**

9 A74. The permanent financing has not been established. Spire plans to use a mix of debt,
10 equity and hybrid securities.

11 **Q75. HOW WILL THE NEW DEBT BE OBTAINED?**

12 A75. The new debt is expected to be issued at the operating company level. Spire-
13 Tennessee is expected to obtain approximately the same amount as that which was
14 allocated to the Tennessee operations from Piedmont.⁴¹

15 **Q76. HOW WILL THE COST OF THE NEW DEBT IMPACT CUSTOMERS?**

16 A76. At this time, the final interest rates for the Tennessee operations are unknown.
17 Moody's Seasoned Baa bond rates on November 18, 2025, were 5.91%, which is
18 166 basis points above the current cost of debt reflected in rates. This would
19 translate into approximately a \$10 million dollar per year increase in interest
20 expense (1.66% X 43.94% (LT Debt financing) X \$1,379,895,299=10,074,174).

⁴¹ *Direct Testimony of Brittany Mathis at 6:6-9.*

1 **Q77. HOW WILL THE REMAINDER OF THE FINANCING BE OBTAINED?**

2 A77. Additional financing will start at the Spire holding company level and is expected
3 to consist of a combination of common equity, equity-linked, and hybrid
4 securities.⁴²

5 Equity will be contributed down to Spire-Tennessee. Spire stated that the equity
6 will be contributed “consistent with how Spire manages the capital structures of our
7 other utility operating companies.”⁴³ Spire intends to have a capital structure with
8 equity near 50-55%.⁴⁴

9 **Q78. WHAT ARE HYBRID SECURITIES?**

10 A78. Hybrid securities are financial instruments that combine features of both debt and
11 equity, with flexibility depending on the specifics of the security. Some options
12 are:

- 13 • Regular income payments like bonds or variable payments based on
- 14 stock performance or returns;
- 15 • Convertible or callable; and
- 16 • Payment deferrals.

17 Hybrid securities are considered a higher risk than bonds and generally provide a
18 higher yield than standard bonds. For its purposes, Spire explained:

19 ‘Hybrid’ securities are junior subordinated notes that have elements of
20 debt and equity and receive 50% equity credit by both major rating
21 agencies despite residing on the long-term debt side of the balance sheet.
22 As subordinated notes, these notes rank below senior debt in terms of
23 repayment priority in case of liquidation or bankruptcy, meaning
24 investors are repaid after senior debt obligations are met. They typically
25 have very long maturities and grant the issuer the ability to defer or

42 *Id.* at 6:9 – 12.

43 *Id.* at 6:12 – 14.

44 *Direct Testimony of Brittany Mathis* at 6:9-16.

1 suspend interest payments under specific circumstances.⁴⁵

2 **Q79. WHAT ARE EQUITY-LINKED SECURITIES?**

3 A79. Equity-linked securities are a type of hybrid security. They are debt instruments
4 with a variable payment tied to an underlying equity, giving them characteristics of
5 both debt and equity. They are often mature in one year, have a higher yield, and
6 typically not traded on the financial market exchange. The specifics depend on the
7 security's structure. These are complex financial instruments that may contain
8 unique risks. For its purposes, Spire stated:

9 'Equity-linked' securities are mandatory convertible securities which
10 have temporary debt-like qualities (including the payment of an interest
11 rate) but convert into equity at a date certain in the future. These kind
12 of securities allow for full equity credit from the rating agencies
13 immediately while preserving some upside in the price of the shares to
14 be issued.⁴⁶

15 **Q80. WHAT CAPITAL STRUCTURES AND FINANCING ISSUES MIGHT**
16 **EXIST WITH SPIRE'S PROPOSAL TO ISSUE HYBRID SECURITIES AT**
17 **THE SPIRE CORPORATE LEVEL?**

18 A80. A few concerns are:

- 19
- 20 • The actual funding is currently unknown. The absence of the long-
21 term funding structure and costs prevents a cost/benefit analysis of
22 the transaction. The potential for higher costs or financing risks are
costs associated with the transaction.
 - 23 • Spire's capitalization at June 30, 2025, was 47% equity. Utilization
24 of the hybrid securities will increase the percentage of debt
25 financing.
 - 26 • Issuing debt at the Spire corporate level creates a situation of double

45 Exhibit CDK-1.

46 Exhibit CDK-1.

1 leverage.

2 **Q81. HOW DOES SPIRE'S OWNERSHIP AND BORROWING OF FUNDS TO**
3 **SUPPLY EQUITY TO A SUBSIDIARY DIFFER FROM AN INVESTOR**
4 **BORROWING MONEY TO BUY STOCK?**

5 A81. Generally, a shareholder of a public company owns individual shares of a company
6 and does not directly interact with the management or financing of the company.
7 When those shares are purchased from or sold to another shareholder, the
8 transaction does not affect the equity or management of the company. The
9 company is a separate legal entity, distinct from its owners, the risk associated with
10 the owners is not reflected in the corporate risk.

11 In the case of a wholly owned subsidiary, the parent company has financial and
12 management control of the subsidiary. This control enables the parent company to
13 determine how funds are obtained and where they are directed. The operations and
14 risks of the subsidiaries and the hold company affect each other. As demonstrated
15 in *Application's* Exhibit E, the income statements and balance sheets for the two
16 wholly owned subsidiaries are reported along with the Spire consolidated balance
17 sheets and income statements.

18 On a stand-alone basis, the Spire regulated subsidiaries (Spire Alabama and Spire
19 Missouri) are 78% of the Spire's consolidated total capitalization. However, they
20 represent 89.84% of equity and only 67.89% of total debt.⁴⁷ This leaves the
21 remaining operations that represent approximately 21.87% of the consolidated

⁴⁷ Exhibit CDK-2.

1 operations with an equity ratio of approximately 22% and debt ratio of 78%. This
2 would indicate that the remaining operations are highly leveraged on a stand-alone
3 basis.

4 **Q82. HOW WOULD THE ACQUISITION CHANGE THE CAPITAL**
5 **STRUCTURES?**

6 A82. As proposed, Spire is financing the transaction with short term debt, and will be
7 refinancing with debt, with some at the subsidiary level and some at the parent
8 level. Adding the long-term debt financing of \$2.48 billion increases the debt level
9 in the consolidated capital structure to 66% debt financing.⁴⁸

10 If Spire applies a 50% equity financing “allocation” to the Tennessee operations
11 (the midpoint of its target range), the regulated subsidiaries will have a total equity
12 of \$3,602 million, representing 111.11% of the Spire consolidated equity.

13 **Q83. HOW CAN THE EQUITY FOR THE SUBSIDIARIES EXCEED THE**
14 **EQUITY OF THE CONSOLIDATED COMPANY?**

15 A83. The individual stand-alone statements include the intercompany transactions, such
16 as allocation of equity. The consolidated financial statements combine the assets,
17 liabilities, and equity of the parent and its subsidiaries, eliminating intercompany
18 transactions such as loans and equity investments.

19 **Q84. HOW DOES THIS IMPACT A REGULATED UTILITY?**

20 A84. The relationship of allocating equity enables the existence of a double leverage
21 situation. Double leverage is when a holding company uses its own debt to fund

⁴⁸ Exhibit CDK-3.

1 the equity allocated to its subsidiaries. The regulated utility has obtained its own
 2 debt financing at the subsidiary level. The parent then obtains debt at the holding
 3 company level to supply “equity” to the subsidiary. This second tier of leverage
 4 increases the financial risk while reducing the cost of financing the subsidiary, as it
 5 is financed with debt rather than equity. In summary, the corporate entity incurs
 6 debt costs, but the subsidiary utility charges its customers a much higher cost of
 7 equity. Adoption of this approach for ratemaking purposes masks the true risks of
 8 providing utility service and provides the utility with margins more than its true
 9 financing costs, thus encouraging the practice of double leverage.

10 For a rate regulated utility, an adjustment is necessary to reflect the actual capital
 11 structure supporting the utility investment. A higher percentage of debt financing
 12 increases financial risks such as increasing earnings sensitivity to changes in sales
 13 volumes and increasing the cost of access to additional capital. If the capital
 14 structure is not accurately reflected, customers can be left in a situation of paying a
 15 higher cost of capital for service from a company with less financial security.

16 **Q85. PROVIDE AN EXAMPLE OF DOUBLE LEVERAGE.**

17 A85. A regulated utility with a capital structure of 50% percent equity and 50% debt,
 18 with a cost of equity of 10% and a 5% cost of debt would have a non-tax adjusted
 19 weighted cost of capital of 7.5 %:

	<u>Capital Structure</u>	<u>Cost</u>	<u>Weighted Cost</u>
Equity	50%	10%	5.00%
Debt	50%	5%	2.50%
			<u>7.50%</u>

20
 21 If the parent had the same capital structure, substituting the parent company capital

1 structure for the subsidiary would result in a non-tax adjusted cost of capital of
 2 6.25%:

Double Leveraged Cost of Capital

	<u>Capital Structure</u>	<u>Cost</u>	<u>Weighted Cost</u>
Equity			
Parent Equity	25%	10%	2.50%
Parent Debt	25%	5%	1.25%
Debt	50%	5%	2.50%
			<u>6.25%</u>

3

4 In this example, employing double leverage aging, the company has decreased its
 5 non-tax adjusted cost of capital by 125 basis points.

6 Because income taxes are collected for equity returns, the impact of the double
 7 leverage is magnified when adjusted for taxes.

8 **Q86. HOW DOES THIS DIFFER FROM USING THE CONSOLIDATED**
 9 **CAPITAL STRUCTURE APPROACH?**

10 A86. The consolidated capital structure approach uses the combined debt and equity of
 11 the system to determine the cost of capital. The consolidated approach represents
 12 the total debt obligation of the system rather than isolating specific subsidiary debt
 13 and parent company debt obligations.

14 **Q87. HOW IS THIS FINANCING STRUCTURE RELEVANT TO THE**
 15 **CURRENT APPLICATION?**

16 A87. The permanent financing of the proposed transaction has not been determined. As
 17 proposed, Spire is likely to substitute debt for equity financing. However, the debt
 18 would be reflected as equity on Spire-Tennessee's books. Current rates have been

1 established with a specific level and cost of equity financing based on the financial
2 strength of Piedmont and Duke. That financial strength reflects the utility's ability
3 to obtain financing to meet its obligation to serve. Substituting debt for equity
4 financing, the capital structure no longer reflects the current financial health upon
5 which rates were set. Rather, the substitution increases financial risk and diverges
6 from cost-of-service ratemaking upon which existing rates have been established.
7 To the extent that this deviation indicates a need to review the cost of capital
8 component being recovered in rates.

9 This financing approach creates the opportunity to reduce the cost of capital that,
10 absent an adjustment, would be retained by Spire.

11 **Q88. WHAT CONCLUSIONS HAVE DO YOU HAVE REGARDING THE**
12 **FINANCING?**

13 A88. I have concluded that:

- 14 • Spire has the financial resources to operate the system;
- 15 • The transaction is likely to result in a higher interest rate for Spire than
16 what currently exists for the Tennessee operations with Piedmont.
17 Regulators are left in a difficult position either to pass along higher debt
18 costs to customers, or charging lower debt costs of the former Piedmont
19 ownership potentially causing financial distress to the utility;
- 20 • Both the short-term financing and the proposed long-term financing will
21 increase financial risk;
- 22 • The long-term financing proposal will need a review to ensure that
23 customers are not paying more for the cost of capital than is appropriate;
- 24 • Spire Tennessee will have more financial risk and uncertainty than what
25 currently exists with Piedmont; and
- 26 • To the extent that debt is being used in place of equity, until the capital
27 structure in rates is aligned with the authorized capital structure,
28 ratepayers are funding the transaction.

1 **Q89. WHAT ARE YOUR RECOMMENDATIONS REGARDING FINANCING**
2 **COSTS?**

3 A89. I recommend that the Commission closely scrutinize Spire's capital structure and
4 cost of capital for ratepayer impacts.

5 **IX. STATED BENEFITS**

6 **Q90. DID YOU REVIEW SPIRE'S CLAIMS THAT CUSTOMERS WILL**
7 **RECEIVE A BENEFIT FROM THE TRANSACTION?**

8 A90. Yes.

9 **Q91. PROVIDE A SUMMARY OF THE BENEFITS THAT SPIRE CLAIMS**
10 **THAT CUSTOMERS WILL RECEIVE FROM THE TRANSACTION.**

11 A91. The *Application* argued that Tennessee customers will benefit from Spire's
12 ownership of Piedmont's Tennessee operations. The alleged benefits were
13 identified and discussed in Exhibit F of the *Application*, which spans two pages.⁴⁹
14 The discussion is primarily rhetorical, relying on qualitative descriptions rather
15 than quantitative analysis. The items listed by Spire are:

- 16 • Financial Strength
- 17 • Mutual Aid and Regional Support
- 18 • System Reliability and Efficiencies
- 19 • Customer Growth
- 20 • Impact on Access to Upstream Gas Supply and Capacity
- 21 • Utility Governance and Operations
- 22 • No Change in Rates, Charges or Terms and Conditions of Service⁵⁰

⁴⁹ Exhibit CDK-4.

⁵⁰ *Application*, Exhibit F at 165/166.

1 None of these provide an analysis nor explain any new benefits stemming from the
2 transaction. They largely describe existing services that will continue under a
3 different owner.

4 **Q92. WHAT IS YOUR ANALYSIS OF THE BENEFITS DISCUSSION?**

5 A92. Spire has not demonstrated new or measurable benefits that will result from the
6 transaction. Instead, the *Application* acknowledges that many of the claimed
7 benefits are the continuation of services already provided by Piedmont. For
8 example, Piedmont confirmed:

9 Appendix F describes benefits of the proposed transaction upon Spire's
10 acquisition, which in some cases could include a continuation of
11 benefits to customers similar in kind to those previously provided by
12 Piedmont but different in degree as they will be provided by Spire
13 Tennessee pursuant to its assets, capabilities and commitments set forth
14 in Appendix F.⁵¹

15 Continuation of existing services did not constitute a net benefit under Tenn. Code
16 Ann. § 65-4-113. It is not a benefit for customers to be required to bear increased
17 costs or risks simply because of ownership changes. In a free market, customers
18 can change providers to seek a better rate or obtain better services or products.
19 Here, they are captive of a monopoly utility and cannot switch providers. Without
20 demonstrable improvements, the transaction exposes customers to risks without
21 any offsetting gains.

22 **Q93. SPIRE CLAIMED THAT IT “WILL HAVE GREATER ACCESS TO**
23 **CAPITAL TO EXPAND SERVICE TO NEW CUSTOMERS IN THE**
24 **STATE” WHAT IS YOUR RESPONSE TO THIS CLAIM?**

⁵¹ Piedmont Response to Consumer Advocate DR No. 1-17.

1 A93. No evidence supports this assertion. When asked about capital availability
2 Piedmont stated that it has consistently made expenditures and performed work to
3 meet the minimal safety guidelines for a Natural Gas Operator in Tennessee and
4 absent this transaction, Piedmont would continue performing work and making the
5 necessary capital expenditures to meet minimum safety standards.⁵²

6 Spire's resulting capital structure may be more leveraged than Piedmont's current
7 capitalization. Permanent financing, including terms and rates, for the acquisition
8 remains uncertain. At best, this claim is premature.

9 **Q94. COMMENT ON THE MUTUAL AID AND REGIONAL SUPPORT**
10 **DESCRIPTION.**

11 A94. This description goes to the ability of Spire being able to provide mutual support in
12 the event of a natural disaster. Operational capability to share resources with
13 nearby natural gas utilities already exists under Piedmont and this claim does not
14 represent a new benefit.

15 **Q95. COMMENT ON SPIRE'S SYSTEM RELIABILITY AND EFFICIENCIES.**

16 A95. Spire describes itself as an experienced multistate supplier that continually invests
17 in the system. The *Application* does not demonstrate that Piedmont has failed to
18 provide reliability or investment. There is no evidence to show Spire will provide
19 superior service.

20 **Q96. COMMENT ON SPIRE'S IDENTIFICATION OF CUSTOMER GROWTH**
21 **AS A BENEFIT.**

⁵² Piedmont Response to Consumer Advocate DR No. 1-16.

1 A96. Spire suggests customer growth is a benefit. Piedmont's Tennessee service
2 regulations already require that new service extensions be economically feasible
3 and provide a reasonable return. As noted by Spire:

4 Piedmont's existing Tennessee Service Regulations, as previously
5 approved by the Commission, adequately and appropriately protects its
6 existing customers by requiring that requests granted for new or
7 changed service, as well as new main and service line extensions for the
8 provision of gas service to new customers, be economically feasible by
9 providing the Company a reasonable rate of return. Furthermore,
10 economic feasibility is clearly, adequately and appropriately defined in
11 Piedmont's Tennessee Service Regulations as being achieved when the
12 total annual net revenue to be obtained from the customer(s) provides a
13 rate of return that is equal to or greater than the Company's authorized
14 overall cost of capital.⁵³

15 Whether customer growth is a benefit is dependent on the specifics of each
16 company and situation. There is no demonstration that the addition of new
17 customers will be any better for existing customers. Consumer Advocate witness
18 Bradley Dixon discusses concerns with the customer expansion projections and the
19 potential to increase costs without corresponding customers to support the
20 expenditures. Consumer Advocate witness David Dittmore suggested that new
21 customers at the install rates of Piedmont result in significant cost increases to
22 legacy customers. Spire's comments on seeking economic growth area
23 management that do not identify any quantifiable benefits at this time.

24 **Q97. IS SPIRE'S IMPACT ON ACCESS TO UPSTREAM GAS SUPPLY AND**
25 **CAPACITY A NET BENEFIT?**

26 A97. No. Spire seeks transfer of existing capacity rights. If completed, this is a

⁵³ Spire Response to Consumer Advocate DR No. 2-6(e).

1 continuation of current arrangements, not a new benefit.

2 **Q98. DOES SPIRE OFFER ANY QUANTIFIABLE BENEFITS FOR UTILITY**
3 **GOVERNANCE AND OPERATIONS?**

4 A98. No. Spire explains that it has the resources and experience to provide support and
5 services in Tennessee. Spire claimed that it believes its costs will be less or equal
6 to less than the costs of service provided by Duke Energy. There is no support for
7 this claim.

8 **Q99. IS THE STATEMENT THAT THERE WILL BE NO CHANGE IN RATES,**
9 **CHARGES OR TERMS AND CONDITIONS OF SERVICE A BENEFIT TO**
10 **CUSTOMERS?**

11 A99. No. Spire stated that this is “[n]o detriment to customers.”⁵⁴ Lack of detriment is
12 not a benefit. The Applicants emphasize “[t]he acquisition will not result in any
13 immediate change” while indicating the potential for cost recovery in the future
14 proceedings.⁵⁵

15 **Q100. WHAT IS YOUR CONCLUSION REGARDING CUSTOMER BENEFITS?**

16 A100. The *Application* does not demonstrate a benefit to the consuming public to be
17 gained from the transfer. Consumers are likely to have the same quality of service
18 that they currently are experiencing but will face risks associated with the extraction
19 of Tennessee operations from an integrated utility and their transfer to a subsidiary
20 of another corporation. There is likely to be a significant increase in financing

54 *Id.*

55 *Id.*

1 costs, and the potential loss of the ADIT offset discussed by Consumer Advocate
2 witness Dittmore. Furthermore, there are long-run implications for Spire's
3 operating costs. These risks pose serious questions about the public interest aspect
4 of the transaction. Without quantifiable improvements or restrictions, the
5 transaction cannot be said to further the public interest.

6 **X. CONCLUDING COMMENTS AND RECOMMENDATION**

7 **Q101. DO YOU HAVE ANY CONCLUDING CONCERNS?**

8 A101. Yes. The shortage of sound financial and economic analysis, combined with
9 customer risk from the transaction, and no demonstrable benefits of the transaction
10 emphasizes the importance of establishing cost recovery parameters and
11 determinations for any approval in this proceeding. The proposed transaction
12 should not be approved without these conditions.

13 **Q102. DOES THIS COMPLETE YOUR TESTIMONY?**

14 A102. Yes. However, I reserve the right to incorporate any new information that may
15 subsequently become available.

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:)
)
APPLICATION OF PIEDMONT)
NATURAL GAS COMPANY, INC. AN)
SPIRE TENNESSEE INC. FOR)
APPROVAL OF A TRANSFER OF)
AUTHORITY TO PROVIDE UTILITY)
SERVICES PURSUANT TO T.C.A. §)
65-4-113 AND RELATED)
AUTHORIZATIONS)

DOCKET NO. 25-00074

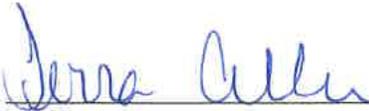
AFFIDAVIT

I, Clark Kaml, on behalf of the Consumer Advocate Division of the Attorney General's Office hereby certify that the attached Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Division.



CLARK KAML

Sworn to and subscribed before me
This 17th day of November, 2025



NOTARY PUBLIC



My Commission Expires: 1/31/2027

PIEDMONT NATURAL GAS COMPANY, INC.
SPIRE TENNESSEE INC.
DOCKET NO. 25-00074
CONSUMER ADVOCATE'S FIRST SET OF DISCOVERY REQUESTS
DATE ISSUED: SEPTEMBER 29, 2025
DATE DUE: OCTOBER 10, 2025

1-22. Financing. Refer to the Direct Testimony of Brittany Mathis at 6:9-16. She states:

“The remainder of the financing will take place at the Spire holding company level and will consist of some combination of common equity, equity-linked and hybrid securities. Equity will be contributed down to Spire-Tennessee consistent with how Spire manages the capital structures of our other utility operating companies. These utility operating companies have capital structures that consistently have had equity layers in the 50-55% range reflective of risks faced by the operating companies.”

- a. Provide an explanation of the following words and/or phrases as the Company understands them:
 - i. “Equity-linked” securities; and
 - ii. “Hybrid” securities.
- b. Explain in detail how “[e]quity will be contributed down to Spire-Tennessee consistent with how Spire manages the capital structures of our other utility operating companies.”
 - i. Does Spire only contribute equity to its operating companies?
 - ii. Does Spire only allocate equity? If so, how is debt utilized at the holding company?

RESPONSE:

- a. Spire is using the below as working definitions in reference to our financing plans:
 - i. “Equity-linked” securities are mandatory convertible securities which have temporary debt-like qualities (including the payment of an interest rate) but convert into equity at a date certain in the future. These kind of securities allow for full equity credit from the rating agencies immediately while preserving some upside in the price of the shares to be issued.
 - ii. “Hybrid” securities are junior subordinated notes that have elements of debt and equity and receive 50% equity credit by both major rating agencies despite residing on the long-term debt side of the balance sheet. As subordinated notes, these notes rank below senior debt in terms of repayment priority in case of liquidation or bankruptcy, meaning

PIEDMONT NATURAL GAS COMPANY, INC.
SPIRE TENNESSEE INC.
DOCKET NO. 25-00074
CONSUMER ADVOCATE'S FIRST SET OF DISCOVERY REQUESTS
DATE ISSUED: SEPTEMBER 29, 2025
DATE DUE: OCTOBER 10, 2025

investors are repaid after senior debt obligations are met. They typically have very long maturities and grant the issuer the ability to defer or suspend interest payments under specific circumstances.

- b. The utility operating companies owned by Spire have their own capital structures utilized for rate-making purposes.
- i. Spire does not allocate anything other than equity to the capital structures of its operating subsidiaries. The initial equity meant to recapitalize the utility assets to be acquired by Spire Tennessee will be contributed by Spire Inc. as the Spire Tennessee operating company will have no direct access to the external capital markets for equity. There is no intention for it to issue shares to any entity other than the Spire Inc. holding company. The preference of Spire Inc. is for its utility operating companies to support their capital programs through cash flow and additional operating company leverage. If some additional equity is required to balance and support the capital structure, Spire Inc. would simultaneously sell shares in the external market and contribute the proceeds raised to the Spire Tennessee operating company as equity. Spire Inc. has recently supported the capital program of Spire Missouri in this manner.
- ii. Refer to the Direct Testimony of Brittany Mathis at 6:6-9. Debt will be issued at the Spire Tennessee level in nearly the same amount as the debt that was allocated to Tennessee from Piedmont. Any remaining debt, at the parent company level, will not be allocated to Spire Tennessee. Spire Tennessee will initially be rated by Moody's on a private basis. After closing, Spire Inc. intends to have Spire Tennessee publicly rated by both Moody's and Standard & Poor's as support for its independently issued long-term debt.

Name and title of responsible person: Brittany Mathis, CFO & Controller, Spire Alabama

Response provided by Spire Tennessee Inc. on October 10, 2025.

Exhibit CDK-2

TPUC Docket 25-00074

Capital Structures

Capital Structure

	Alabama		Missouri		Total Regulated		Spire Consolidated		Regulated as % of Consolidated	Other Operations	
	Amount	%	Amount	%	Amount	%	Amount	%		Amount	%
Equity	\$ 948	57%	\$ 1,964	52%	\$ 2,912	54%	\$ 3,241	47%	89.84%	\$ 329	22%
Debt	\$ 711	43%	\$ 1,803	48%	\$ 2,515	46%	\$ 3,704	53%	67.89%	\$ 1,189	78%
Total	<u>\$ 1,660</u>	<u>100%</u>	<u>\$ 3,767</u>	<u>100%</u>	<u>\$ 5,427</u>	<u>100%</u>	<u>\$ 6,945</u>	<u>100%</u>	<u>78.13%</u>	<u>\$ 1,519</u>	<u>100%</u>

Date From Exhibit E, at 55, 60 and 65

Exhibit CDK-3
TPUC Docket 25-00074
Capital Structures

Capital Structure

	Spire		Additional	Post	
	Consolidated	%	Debt	Merger	%
Equity	\$ 3,241	47%		\$ 3,241	34%
Debt	\$ 3,704	53%	\$ 2,480	\$ 6,184	66%
Total	<u>\$ 6,945</u>	<u>100%</u>		<u>\$ 9,425</u>	<u>100%</u>

Summary of Customer Costs and Benefits

The following table provides a summary of the anticipated benefits identified at this time, which will be applicable to customers with respect to the proposed transaction. The integration process currently underway between Piedmont Natural Gas of Tennessee and Spire is anticipated to yield additional economic benefits to customers which have not yet been quantified. Additional on-going, but currently non-quantifiable, customer benefits are discussed in the pages that follow. Customers will not bear any acquisition premium or transaction costs associated with this merger, which shall be paid exclusively by Spire Inc.

Item	Description	Benefit / Detriment
Financial Strength	Given Spire's financial strength, and commitment to investing in Tennessee, as outlined in the testimony of Brittany Mathis, Spire will have greater access to capital to expand service to new customers in the state and ensure continued safe and reliable operations.	This is a long-term benefit for customers and the state.
Mutual Aid and Regional Support	Spire is a natural gas utility at its core with large utility operations in other jurisdictions surrounding Tennessee. In the event of a natural disaster or need for mutual aid, Spire is fully capable of providing immediate and significant support.	This is a long-term benefit and risk mitigation item for customers and the state.
System Reliability and Efficiencies	Spire is an experienced multi-state utility provider that currently operates more than 60,000 miles of mains and services across our operating footprint. Spire continually invests in its systems to ensure safe and reliable service to its customers. This approach will continue in Tennessee with system investments to maintain and enhance the safety and reliability of the existing 3,800 miles of distribution and transmission pipelines.	This is an ongoing benefit, and Spire will seek to make system enhancements to maintain and enhance safety and reliability of the existing infrastructure.

Customer Growth	Spire has a history of deploying capital and has established business and economic development groups which focus on expansion within its utilities. Spire intends to focus heavily on expansion in Tennessee and will focus on economic development within the state as well.	This is an ongoing benefit that will provide economic development opportunities in the state and increase the number of natural gas customers, providing an opportunity to spread costs over a larger customer base.
Impact on Access to Upstream Gas Supply and Capacity	Spire is seeking the transfer of existing capacity rights in conjunction with the approval of the acquisition of Piedmont Natural Gas of Tennessee which will ensure the seamless supply of natural gas to Tennessee customers. Additionally, Spire has a very established and experienced gas supply team who will maintain or increase the access to affordable and reliable natural gas for Tennessee customers.	This is an ongoing benefit that will continue to ensure reliable and affordable natural gas supply to Tennessee customers.
Utility Governance and Operations	<p>Spire is an experienced multi-state utility provider with a history of successful acquisitions and subsequent integrations and is fully capable of continuing to provide support and services to Tennessee.</p> <p>Spire has a mature services function in place to seamlessly provide corporate and administrative functions essential to replace the functions currently provided by Duke Energy. These functions include but are not limited to finance, legal, human resources, information technology, corporate communications, engineering.</p>	<p>The ability of Spire to step in and serve Tennessee customers is an on-going benefit.</p> <p>Spire believes the costs of providing shared services support will be less than or equal to the cost of service provided by Duke Energy.</p>
No Change in Rates, Charges or Terms and Conditions of Service	The acquisition will not result in any immediate change to rates or terms and conditions of service Piedmont currently provides to customers in Tennessee. Any future changes proposed in the future will be subject to the TPUC approval.	Status quo. No detriment to customers.