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SPIRE ALABAMA INC.,

Respondent,

OFFICE OF THE ATTORNEY GENERAL OF ALABAMA,

Intervenor,

ENERGY ALABAMA,

Intervenor.

INVESTIGATION OF THE TERMS OF RATE STABILIZATION AND EQUALIZATION

DOCKETS 18046 AND 18328
CASE NO. 2026-1

ORDER

By Order issued on June 8, 2026, the Commission initiated an investigation of the terms of Rate Stabilization and Equalization ("RSE") for Spire Alabama Inc. ("Spire Alabama" or "Respondent"), pursuant to Ala. Code § 37-1-83. This investigation included a public hearing where Spire Alabama and the above-listed intervenors had an opportunity to present their positions on identified RSE issues and offer evidence to support those positions. This order concludes the investigation, resolves the identified issues, and sets the relevant RSE terms for Spire Alabama. The following sections: 1) provide background and procedural history; 2) summarize the parties' positions and supporting evidence; and 3) describe the Commission's analysis and findings.

I. Background and Procedural History

RSE is a ratemaking formula designed to provide periodic revenue adjustments that allow Spire Alabama to earn a return on its common equity capital within a range approved by the Commission. The Commission adopted RSE as a rate-setting mechanism for Alabama Gas Corporation (now Spire Alabama) by Order issued on January 25, 1983. Since its original adoption, the Commission has renewed and extended RSE by order on eight occasions, most recently in 2022. Under RSE, customer rates for Spire Alabama are established each year based on the budget approved by the utility's board of directors and an authorized return range determined by the Commission. Those rates are also reviewed at points of test throughout the year, which can yield only decreases or no change.

Beginning in January of 2026, Commission Staff met with representatives of Spire Alabama and the Office of the Attorney General of Alabama ("Attorney General") to discuss the terms of RSE renewal. After several months of meetings, the parties could not reach agreement on the terms and conditions. Because Spire Alabama and the Attorney General could not reach an agreement, the Commission found it necessary and appropriate to initiate this investigation into the terms of the RSE.

As stated above, the most recent RSE renewal and extension occurred through a Commission Order issued in 2022. The 2022 Commission Order, among other things, set the following terms:

1. Authorized Return on Equity ("ROE") range of 9.5% to 9.9%
2. ROE adjusting point of 9.7%
3. RSE Term of 3 years
4. Three points of test completed annually in March, June, and September
5. 13-month Average Common Equity growth capped at 6% annually
6. Include Cost Control Measurement ("CCM") mechanism

The 2022 Order directed Spire Alabama to continue operating under RSE through September 30, 2025, and beyond that date absent a Commission Order modifying its tariff. Spire Alabama has been operating under the RSE terms set in the 2022 Order.

Following the June 8, 2026 Order initiating this investigation, the Commission received Notice of Intervention from the Attorney General. That intervention was recognized. The Commission also received a Petition to Intervene from Energy Alabama on June 15, 2026. That petition was addressed at a virtual status conference held on June 16, 2026, and approved in a procedural ruling issued on June 18, 2026.

At the status conference on June 16, 2026, the parties discussed the scope of this investigation. As a result of that discussion, the following issues related to RSE were identified:

1. ROE
2. ROE Range
3. Term of RSE
4. CCM Mechanism
5. Customer Charge

The June 18, 2026 procedural ruling recognized these five issues and stated the intent to limit the scope of the proceeding to these identified issues. The parties were directed to notify the Commission by filing if they disagreed on the identified scope. No parties filed any disagreement.

A hearing was held on August 6, 2026, in which all parties and Commission Staff participated.[1] Spire Alabama presented evidence through three witnesses (President Joseph Hampton, Chief Financial Officer and accounting expert Brittany Mathis, and ROE expert Dr. Bruce Fairchild). The Attorney General and Energy Alabama each presented evidence through

[1] Interested parties were made aware of the August 6, 2026 hearing through a notice of public hearing issued by the Secretary of the Commission on June 24, 2026.

their own expert witnesses (ROE expert Dr. George Ford for the Attorney General and ROE expert Dr. David Garrett for Energy Alabama).

II. Summary of Parties' Positions and Supporting Evidence

All parties submitted pre-filed testimony[2] and offered evidence at the hearing. Each party presented its position on the five issues for consideration in this investigation. The following describes each party's positions and supporting evidence.

A. Spire Alabama's Case

As presented through testimony and confirmed in a closing statement, Spire Alabama's positions on the five issues are as follows:

ROE (Adjusting Point)	10.5%
ROE Range	10.3% to 11%
RSE Term	5 Years
CCM Mechanism	Maintain Previous CCM Mechanism
Customer Charge	$5 per Month Increase

Spire Alabama presented testimony from three witnesses to support the above positions: Joseph Hampton, Brittany Mathis, and Dr. Bruce Fairchild. The following summarizes the testimony from those witnesses.

1. Joseph Hampton

On direct examination, Joseph Hampton testified that he is the Senior Vice President, Southeast, and President, Spire Alabama, Spire Gulf Inc., Spire Mississippi Inc., and Spire Tennessee Inc. (Hampton Prefiled Test. 1:6-8). He stated that the purpose of his testimony is to explain, from an operational perspective, why Spire Alabama supports fair and reasonable RSE

[2] Spire Alabama prefiled testimony from Joseph Hampton, Brittany Mathis, Dr. Bruce Fairchild, and Scott Sabbert. The first three testimonies were admitted as if given at the hearing. Spire Alabama withdrew the testimony of Mr. Sabbert. The Attorney General prefiled testimony from Dr. George Ford, which was admitted as if given at the hearing. Energy Alabama prefiled testimony from Dr. David Garrett, which was admitted as if given at the hearing.

terms in this proceeding, describe the operations in Alabama, address how those operational considerations relate to the authorized ROE and the effective term of the RSE mechanism, and explain why Spire Alabama recommends a five-year RSE term. (Hampton Prefiled Test. 2:12-23). He described Spire Alabama's operations as engaging "in the purchase, retail distribution, and sale of natural gas principally in central and northern Alabama, serving more than 400,000 residential, commercial and industrial customers." (Hampton Prefiled Test. 3:7-4:2).

On further direct examination, Mr. Hampton represented that "[c]onsistent recovery and sustainable regulatory outcomes are paramount to Spire's commitment to its customers" and that the "RSE mechanism has successfully balanced the costs to customers, while avoiding the disruptive effects of larger rate hikes associated with non-RSE rate case proceedings, and ensuring that Spire can attract capital for investments in its system." (Hampton Prefiled Test. 5:5-10). As to the authorized ROE, he asserted that a "fair and reasonable ROE for Spire allows it to attract capital to invest in its system at a lower cost to customers." (Hampton Prefiled Test. 5:23-6:1). He stated that he views "as highly inappropriate" any ROE reduction recommended by other parties in this proceeding, adding that ROE reductions are generally, "the result of utilities operating unsafely or inefficiently," which he asserts is "not the case here." (Hampton Prefiled Test. 6:4-7).

On further direct examination, Mr. Hampton indicated that RSE renewals have historically been effective for three to five years, which he claimed promotes stability and cost control. (Hampton Prefiled Test. 6:10-15). He confirmed that Spire Alabama is requesting a five-year term. (Hampton Prefiled Test. 6:23). Mr. Hampton asserted that "reasonable outcomes in this proceeding will not only reflect Spire's record of delivering on its commitments but will also support and incentivize Spire to continue performing well, investing responsibly, and providing the safe, reliable service that customers expect and deserve." (Hampton Prefiled Test. 7:15-21).

On cross-examination by the Attorney General, Mr. Hampton conceded that he is not a rate of return expert, but that he relied on the analysis and findings of the expert witness offered by Spire Alabama in this case. (Hearing Tr. 28:2-23). He admitted that he did not have evidence that utilities that perform well are rewarded with higher ROEs. (Hearing Tr. 29:12-31:5). Mr. Hampton testified that a five-year term versus a three-year term gives his leadership team time to implement strategies more efficiently. (Hearing Tr. 33:10-17).

2. Brittany Mathis

On direct examination, Brittany Mathis[3] testified that she is employed by Spire Services Inc. as the Chief Financial Officer ("CFO") for Spire Alabama Inc., Spire Gulf Inc., Spire Mississippi Inc., and Spire Tennessee Inc., which collectively comprise the "Southeast Utilities" of Spire Inc. (Mathis Prefiled Test. 1:6-10). She indicated that the purpose of her testimony is to support Spire Alabama's positions on the identified RSE issues. (Mathis Prefiled Test. 2:19-3:1). She stated that Spire Alabama earns a return on investment "through its ROE, which is reflective of investor expectations, including their perception of utility risk." (Mathis Prefiled Test. 5:5-7). She represented that Spire Alabama's "ROE is below the regional average, and certainly under that of the other major utility in the state, Alabama Power, which impacts its ability to compete for investment." (Mathis Prefiled Test. 5:7-9). Ms. Mathis stated that Spire Alabama's RSE "does provide protective measures for consumers: for example, customers are protected from rising internal costs by the CCM mechanism, which gives Spire a reason to control costs and beat inflation." (Mathis Prefiled Test. 5:9-13). She added that customers "are fully protected from Spire over-earning by the effect of the top-end of the ROE band as it's applied to Spire, resulting in a

[3] Based on evidence of her education and experience, Ms. Mathis is qualified as an expert in the areas of general accounting principles and utility financial accounting, specifically as applied to the natural gas industry. (Hearing Tr. 121:3-122:5, 125:8-11).

giveback to customers.... at the same time, Spire currently must accept risk by not having similar protections at the bottom-end of the band." (Mathis Prefiled Test. 5:13-17).

On further direct examination, Ms. Mathis explained that customer bills are comprised of different components. (Mathis Prefiled Test. 16:19-20). She indicated that those components include the customer charge, a fixed monthly amount, and a base rate, or pricing that is applied to the volumetric rate. (Mathis Prefiled Test. 17:1-4). Ms. Mathis described the intended purpose of the customer charge as covering the utility's fixed costs, or costs that persist even if the customer does not use any gas. (Mathis Prefiled Test. 18:2-14). She stated that such costs include customer-related operating expenses, fixed plant and equipment costs, administrative and general expenses, storage-related costs, and readiness-to-serve obligations. (*Id.*). Ms. Mathis testified that Spire Alabama's current residential customer charge of $7.98 is below the 2024 national average of $18.85 and the regional average of $17.54, adding that it had not been adjusted since before 1950. (Mathis Prefiled Test. 18:20-19:6, Exhibit[4] BBM-9, 13). She explained that the requested five-dollar-per-month increase would impact the customer charge component of their bill but "by shifting the recovery of the fixed costs to the customer charge, there are less costs being recovered in the volumetric rate, which should ultimately offset the increased customer charge." (Mathis Prefiled Test. 19:9-16). She elaborated that customers most impacted by this change would be those with little to no usage. (*Id.*). Ms. Mathis stated that the customers would benefit from this change because their bills would remain more stable through the year rather than fluctuating based on usage. (Mathis Prefiled Test. 19:18-19).

On further direct examination, Ms. Mathis testified that "[t]he CCM mechanism is a component of Spire's RSE tariff provisions, which incentivizes keeping the Operation and

[4] At times, the terms "exhibit" and "schedule" were used interchangeably in the filings and the hearing. For clarity, this order will only use the term "exhibit."

Maintenance ("O&M") expense levels below the level of inflation." (Mathis Prefiled Test. 20:18-20). She explained that Spire receives a penalty if the O&M metric exceeds the band around inflation, but a benefit if kept under the band. (Mathis Prefiled Test. 20:22-21:1). Ms. Mathis attributed Spire Alabama's 10% decrease in O&M spending from 2019 to 2024 to CCM and acknowledged that comparable local distribution company counterparts saw a 12% increase over that same period. (Mathis Prefiled Test. 21:15-19, citing Exhibit BBM-10).

On further direct examination, Ms. Mathis testified that Spire Alabama has three points of test: March 31, June 30, and September 30. (Mathis Prefiled Test. 25:3-4). She acknowledged the Procedural Order issued on June 18, 2026, wherein it was recognized that the Parties agreed on which points of test to use in RSE. (Mathis Prefiled Test. 24:21-23). Ms. Mathis stated that the agreed-upon points of test are March 31 and September 30. (Mathis Prefiled Test. 24:21-25:1).

On cross-examination by Energy Alabama, Ms. Mathis addressed the requested increase to the customer charge, stating that a "below-average-use" customer would feel the most effect from the increase. (Hearing Tr. 177:22-178:3). She further testified that out of Spire's roughly 475,000 customers, 15,000 do not use natural gas during the year and 55,000 do not use natural gas during the summer, adding that these are the customers who will be most impacted by the customer charge increase. (Hearing Tr. 179:14-18, 180:14-18).

3. Dr. Bruce Fairchild

On direct examination, Dr. Bruce Fairchild[5] testified that he is the "principal in Financial Concepts and Applications, Inc. ("FINCAP"), a firm engaged in financial, economic, and policy consulting to business and government. (Fairchild Prefiled Test. 1:6-8). He stated that the purpose of his testimony is to present his analyses of the rate of return that investors require for the use of

[5] Based on evidence of his education and experience, Dr. Fairchild is qualified as an expert in the areas of economics, specifically in cost of capital, rate of return, and return on equity. (Hearing Tr. 64:5-16).

their equity capital invested in Spire Alabama and to recommend an ROE adjustment point and adjustment range under its RSE mechanism. (Fairchild Prefiled Test. 2:16-20). Dr. Fairchild recognized the risks facing local distribution companies ("LDCs"), stating that "LDCs face a variety of market, operating, capital-related, and regulatory risks," and that Spire Alabama is exposed to these same industry risks. (Fairchild Prefiled Test. 6:19-8:21). After commenting on the U.S. economy, he asserted that, "[o]nly an ROE that reflects the current capital market conditions faced by LDCs will fairly compensate a utility's investors, enable LDCs to attract new capital on reasonable terms, and maintain their financial integrity." (Fairchild Prefiled Test. 13:3-6).

On further direct examination, Dr. Fairchild stated that the purpose of his testimony "is to develop a current cost of equity for an industry group of LDCs having similar risks to Spire Alabama." (Fairchild Prefiled Test. 14:5-6). He explained the fundamental economic principle that underlies the cost of equity concept, indicating that the "cost of equity concept is predicated on the notion that investors are risk averse and willingly accept additional risk only if they expect to be compensated for bearing that risk." (Fairchild Prefiled Test. 15:2-4). Dr. Fairchild testified that, "the cost of equity for a particular utility must be estimated by analyzing information about capital market conditions generally, assessing the relative risks of the utility specifically, and employing various quantitative methods that focus on investors' required rates of return." (Fairchild Prefiled Test. 18:1-5). He indicated that he conducted various analyses to estimate the cost of equity, including the Discounted Cash Flow model ("DCF") and the Capital Asset Pricing Model ("CAPM"). (Hearing Tr. 46:5-22).

a. Dr. Fairchild's Application of the Discounted Cash Flow Model

On further direct examination, Dr. Fairchild explained that the "use of DCF models to estimate the cost of equity is essentially an attempt to replicate the market valuation process that led to the price investors are willing to pay for a share of a company's common stock." (Fairchild Prefiled Test. 18:18-20). He stated that "DCF models are derived from a theory of valuation which posits that the price of a share of common stock is equal to the present value of the expected cash flows (i.e., future dividends and stock price) that will be received while holding the stock, discounted at investors' required rate of return, or the cost of equity." (Fairchild Prefiled Test. 19:10-13). Dr. Fairchild discussed assumptions and rearranged terms in the general form of the DCF model into a simple formula that isolates the cost of equity, presented as follows: Cost of Equity = Dividend Yield + Growth. (Fairchild Prefiled Test. 20:18-19). He indicated that he "applied the constant growth form of the DCF model to a proxy group of publicly traded LDCs.... consisting of 1) Atmos Energy, 2) Chesapeake Utilities, 3) New Jersey Resources, 4) NiSource, Inc., 5) Northwest Natural Gas, 6) ONE Gas, 7) Southwest Gas, and 8) Spire." (Fairchild Prefiled Test. 22:7-13).

On further direct examination, Dr. Fairchild discussed his inputs and calculations for the constant growth DCF model for his proxy group. He described the calculation of the dividend yield component, testifying that the "dividend yield was calculated by dividing an estimate of dividends to be paid by each of the LDCs in the group over the next twelve months, obtained from the index to Value Line's June 5, 2026, edition, by the average closing price of each firm's stock during the month of May 2026." (Fairchild Prefiled Test. 23:3-7). He stated that the average dividend yield for the proxy group is 3.11%. (Fairchild Prefiled Test. 23:8-11). Dr. Fairchild then described the calculation of the growth component of the constant growth DCF model for his proxy group,

representing that in "constant growth DCF theory, earnings, dividends, book value, and market price are all assumed to grow in lockstep, and the growth horizon of the DCF model is infinite." (Fairchild Prefiled Test. 23:14-16). Dr. Fairchild determined that "investors expect long-term growth from the LDC group in the 7.0% to 8.0% range." (Fairchild Prefiled Test. 26:10-11). He concluded that "the LDC group's average dividend yield of approximately 3.1% with my growth rate range of 7.0% to 8.0%... indicates a current DCF cost of equity for the LDC industry group of between 10.1 % and 11.1 %." (Fairchild Prefiled Test. 27:10-12).

b. Dr. Fairchild's Application of the Capital Asset Pricing Model

On further direct examination, Dr. Fairchild explained his cost of equity estimates using the CAPM, which he stated is "a theory of market equilibrium that serves as the basis for current financial education and management." (Fairchild Prefiled Test. 27:16-17). He stated that under the CAPM, "investors are assumed fully diversified, so that the relevant risk of an individual asset (e.g., common stock) is its volatility relative to the market as a whole, which is measured using a 'beta' coefficient," and adding that, "[b]eta reflects the tendency of a stock's price to follow changes in the market." (Fairchild Prefiled Test. 27:17-21). Dr. Fairchild presented the following as the mathematical expression of CAPM: $Rj = Rf + \beta j (Rm - Rf)$. (Fairchild Prefiled Test. 28:1). He stated that "Rj = required rate of return for stock j; Rf = risk-free interest rate; Rm= expected return on the market portfolio; and βj = beta, or systematic risk, for stock j." (Fairchild Prefiled Test. 28:2-5).

On further direct examination, Dr. Fairchild testified that the CAPM is "predicated on the risk premium for the market as a whole," which he described as "the difference between investors expected return on the market portfolio (Rm) and a risk free rate of interest (Rf)." (Fairchild Prefiled Test. 28:10-12). He indicated that he used two methods to determine the market risk

premium in his applications of the CAPM, stating that the "first was based on historical rates of return and the second was based on forward-looking estimates of investors' required rates of return." (Fairchild Prefiled Test. 28:13-15). He explained that "the historical rate of return approach is based on the assumption that, given a sufficiently large number of observations over long historical periods, average market rates of return will converge to investors' required rates of return." (Fairchild Prefiled Test. 28:25-29:2). He testified that "the market risk premium based on historical average annual rates of return is 7.37%." (Fairchild Prefiled Test. 29:15-16). Dr. Fairchild indicated that the second method based on forward-looking required rates of return "estimated the market risk premium using current indicators of investors' required rates of return." (Fairchild Prefiled Test. 29:19-21). He testified that the market risk premium based on the forward-looking required rates of return is 7.72%. (Fairchild Prefiled Test. 30:16-17).

On further direct examination, Dr. Fairchild testified that, after calculating the market risk premiums, the next step in applying the CAPM "is to calculate specific risk premiums for the LDC industry group." (Fairchild Prefiled Test. 30:20-21). He explained that this "is done by multiplying the alternative market risk premium estimates by the LDC group's average beta of 0.77, calculated using firm betas obtained from Value Line… which produces LDC industry risk premiums of 5.67% and 5.93%." (Fairchild Prefiled Test. 30:21-31:2). Dr. Fairchild then testified on the resulting theoretical CAPM cost of equity estimate stating that the "[s]ummation of the industry risk premiums of 5.67% and 5.93% with a risk-free interest rate equal to the May 2026 30-year Treasury bond yield of 5.03% produces current theoretical CAPM cost of equity estimates for LDCs of 10.70% and 10.97%." (Fairchild Prefiled Test. 31:5-8).

On further direct examination, Dr. Fairchild testified that "the theoretical CAPM cost of equity estimates need to be increased by 60 basis points to account for the industry group's

relatively smaller size relative to the market." (Fairchild Prefiled Test. 32:9-11). He stated that "increasing the theoretical CAPM cost of equity estimates for the LDC group by this average size premium results in current CAPM cost of equity estimates based on historical and forward-looking rates of return of 11.30% [based on historical rates of return] and 11.56% [based on forward-looking rates of return]." (Fairchild Prefiled Test. 32:12-15).

c. Dr. Fairchild's Other Methods

On further direct examination, Dr. Fairchild explained that he "also estimated the cost of equity using a risk premium method based on ROEs previously authorized for LDCs by state regulatory commissions." (Fairchild Prefiled Test. 32:18-19). He indicated that this method "produces a current risk premium cost of equity range of between 10.42% and 11.11 %." (Fairchild Prefiled Test. 35:21-22). Dr. Fairchild indicated that he also used the comparable earnings method to estimate the cost of equity. (Fairchild Prefiled Test. 36:2-3). He indicated that "this approach looks to the rates of return that other firms of comparable risk that compete for investors' capital are expected to earn on their book equity." (Fairchild Prefiled Test. 36:3-5). Dr. Fairchild stated that, using this method, "the average expected book ROE for this group is 9.8% in 2026, 9.9% in 2027, and 10.2% for 2029-2031, with medians of 9.4%, 9.3%, and 9.9%, respectively." (Fairchild Prefiled Test. 36:13-15).

d. Dr. Fairchild's Conclusions and Recommendation

On further direct examination, Dr. Fairchild testified that "[t]aken together, and ignoring the size-adjusted CAPM estimates, I conclude that investors currently require a ROE from an LDC in the range of 10.0% to 11.0%, with a midpoint of 10.5%." (Fairchild Prefiled Test. 37:5-7). The following table summarizes Dr. Fairchild's cost of equity estimates from the methodologies that he applied.

Method	Cost of Equity Estimate
Discounted Cash Flow	10.1% -- 11.1%
Capital Asset Pricing Model:	
No Size Adjustment	10.7% -- 11.0%
With Size Adjustment	11.3% -- 11.6%
Risk Premium Method	10.4% -- 11.1%
Comparable Earnings Method	9.3% -- 10.2%
Conclusion	**10.0% -- 11.0%**

(Fairchild Prefiled Test. 37:7). He stated that "Spire Alabama serves residential, commercial, and industrial, as well as other end-users of natural gas, which is typical of most LDCs, and it faces operating and financial risks similar to other LDCs… [a]ccordingly, [he] recommend[s] an ROE adjustment point for Spire Alabama equal to the 10.5% midpoint of [his] 10.0% to 11.0% LDC cost of equity range." (Fairchild Prefiled Test. 38:16-20).

e. Dr. Fairchild's Response to Intervenors' Witnesses

On further direct examination, Dr. Fairchild stated that Dr. Ford, the witness presented by the Attorney General, and Dr. Garrett, the witness presented by Energy Alabama, performed a similar analysis. (Hearing Tr. 50:22-23). He asserted that, in their DCF analyses, "[t]heir long-term growth for the proxy companies and their group relied to a significant extent not on the specific growth of a company, but on a general measure of growth in the economy as a whole." (Hearing Tr. 51:1-5). He also referred to Dr. Morin, an authority referenced by Dr. Ford, representing that his 2021 publication finds "the use of GDP growth as a proxy for expected growth in earnings is highly questionable as an input in the DCF analysis." (Hearing Tr. 55:1-3). Dr. Fairchild represented that, in the CAPM analysis, both witnesses "relied on substantially overlapping sources to arrive at market risk premiums of approximately five percent, which are materially

below the historical [and] forward-looking market risk premiums I used and described earlier." (Hearing Tr. 51:10-14).

f. Cross-Examination of Dr. Fairchild

On cross-examination by the Attorney General, Dr. Fairchild addressed the differences between his conclusions and the other experts, stating that they used the same models and that "[i]t's not the model that's the problem, it's the application." (Hearing Tr. 71:10-13). He indicated that the "difference between my application of the DCF model and Mr. Garrett's and Mr. Ford's, are, as I indicated, both of them consider to a large degree this notion that the growth of LDCs will incorporate -- investors will incorporate the U.S. economy as opposed to my view is, no, when we're trying to apply a discounted cash flow model, we are trying to replicate investor expectations for growth." (Hearing Tr. 71:14-21). He added that "to assume that all of the LDCs in the country are going to revert to the growth of general economy doesn't make sense." (Hearing Tr. 71:23-25). Dr. Fairchild stated that he used Value Line for the beta inputs to CAPM. (Hearing Tr. 91:8-11). He indicated that he used a different risk-free rate than Dr. Ford but added that he "didn't really quarrel with the risk-free rates" and that "the main difference was on the equity risk premium." (Hearing Tr. 91:13-22).

On cross-examination by Energy Alabama, Dr. Fairchild defended his CAPM inputs compared to the other witnesses. (Hearing Tr. 103:16-105:5). He asserted that Damodaran, who is relied on by the other witnesses, is "not challenged" and may not be considered by investors. (Hearing Tr. 103:16-22). Dr. Fairchild also represented that the other witnesses' approaches contrast with his methods, referring to the use of historical and prospective "looks." (Hearing Tr. 104:6-105:5).

B. Attorney General's Case

As presented through testimony and confirmed in a closing statement, the Attorney General's positions on the five issues are as follows:

ROE (Adjusting Point)	9.2%
ROE Range	9.0% to 9.4%
RSE Term	2 Years
CCM Mechanism	Suspend
Customer Charge	No Increase

The Alabama General presented testimony from an expert witness (Dr. George Ford) to support the above positions on ROE and ROE Range.

1. Dr. George Ford

On direct examination, Dr. George Ford[6] testified that he holds a Ph.D. in Economics from Auburn University, with concentrations in Industrial Organization, Regulatory Economics, and the History of Economic Thought, and he described his experience as a professional economist. (Ford Prefiled Test. 7). He indicated that the subject of his testimony is "the allowed return on equity (ROE) applicable to Spire Alabama under its Rate Stabilization and Equalization (RSE) mechanism." (*Id.*). He stated that he estimated the cost of equity by using the DCF model and the CAPM. (Ford Prefiled Test. 9). Dr. Ford noted that these are "the same approaches used by the other witnesses in this case." (Hearing Tr. 202:13-15).

a. Dr. Ford's Application of the Discounted Cash Flow Model

On further direct examination, Dr. Ford described the DCF as based on the logic that "when an investor considers what price to pay for a stock (or other asset), she will not pay more than what the investor believes that stock will provide in value over time." (Ford Prefiled Test. 12). He

[6] Based on evidence of his education and experience, Dr. Ford is qualified as an expert in the areas of regulatory economics, economics, and industry economics. (Hearing Tr. 193:10-17).

testified that he used Value Line for the "forward-looking dividend, which is the first term in the DCF model." (Hearing Tr. 202:19-21). Dr. Ford observed that "the dividend yield across the testimonies you see are about 3.1." (Hearing Tr. 204:16-18). He states that he used a two-stage DCF model which "captures a period of higher near-term growth followed by a transition to a sustainable long-run rate." (Ford Prefiled Test. 13). Dr. Ford explained that the two-stage DCF is "where you have a weighted growth rate short-term" and a long-term growth rate that "shouldn't be any more than the growth long-run expected growth in the economy." (Hearing Tr. 203:6-17). He further explained that this approach "traps the firm's growth conceptually to be equal to the long-run growth of the economy so that the firm does not outgrow the economy, which is silly to assume that they – that Spire will eventually eat the entire U.S. economy." (Hearing Tr. 203:18-22). He indicated that he used an eight percent short-term growth rate, weighted by two-thirds. (Hearing Tr. 204:8-13). Dr. Ford indicated that he used the "long-run nominal GDP growth rate, which is now estimated to be 4.1% over the next ten years by the Congressional Budget Office's Economic Outlook 2026 to 2036." (Ford Prefiled Test. 14). In summarizing the results from his two-stage DCF, he states that "instead of a constant growth DCF model with an 8 percent growth rate, it's a constant DCF model with about a 6.6 percent growth rate, the 8 percent weighted by two-thirds, and the 4 percent weighted by one-third." (Hearing Tr. 204:8-13).

b. Dr. Ford's Application of the Capital Asset Pricing Model

On further direct examination, Dr. Ford described CAPM as formalizing the "well-established rule of investing that higher risk commands a higher reward." (Ford Prefiled Test. 9). He explained that, in CAPM, the cost of equity is estimated using three variables: 1) the risk-free rate; 2) beta, which is a risk parameter measuring the stock's systematic risk; and 3) the equity risk premium, referred to as ERP. (Ford Prefiled Test. 10). Dr. Ford stated that he used the "10-year

treasury yields as the risk-free rate consistent with Damodaran's procedure, which, in June 2026, was 4.47%." (Ford Prefiled Test. 12). He testified that he used "Value Line's reported betas from its latest May 2026 reports," which he represents "are commonly used and accepted in rate proceedings, including those before the Federal Energy Regulatory Commission." (*Id.*).

On further direct examination, Dr. Ford recognized that the "ERP is an important input to the CAPM and, consequently, likely the input subject to the most dispute." (Ford Prefiled Test. 11). He testified that the ERP "is an estimate and every estimate carries uncertainty" and that he treats the ERP "not as a point but as a range." (*Id.*). Dr. Ford stated that he uses Damodaran's ERP for the 2006-2025 period, which is 5.16%, and an alternative high value of the ERP set at one standard deviation above the mean, or 5.91%. (*Id.*).

c. Dr. Ford's Conclusions and Recommendation

On further direct examination, Dr. Ford stated that he recommends setting an allowed ROE at 9.2%. (Ford Prefiled Test. 16). The following table summarizes Dr. Ford's cost of equity estimates from the methodologies that he applied.

Exhibit GSF-3. Cost of Equity Estimates

Company	Symbol	CAPM ERP = 5.16%	CAPM ERP = 5.91%	DCF	Average 5.16%	Average 5.91%
Atmos Energy	ATO	8.34%	8.90%	9.33%	8.86%	9.12%
Chesapeake Utilities	CPK	8.34%	8.90%	10.44%	9.23%	9.67%
New Jersey Resources	NJR	8.34%	8.90%	8.87%	8.70%	8.88%
NiSource	NI	8.86%	9.49%	9.97%	9.44%	9.73%
NW Natural Holdings	NWN	8.34%	8.90%	9.60%	8.95%	9.25%
ONE Gas	OGS	8.34%	8.90%	9.23%	8.83%	9.07%
Spire Inc	SR	8.34%	8.90%	10.93%	9.39%	9.92%
Mean						
Excluding Spire					9.00%	9.29%
Including Spire					9.06%	9.38%
Median						
Excluding Spire					8.90%	9.16%
Including Spire					8.95%	9.25%

(Ford Prefiled Test. 19, Exhibit GSF-3). He testified that "9.2% reflects the upper bound of the reasonable ERP range, not its center: it is the return implied when the premium is placed one standard deviation above its mean." (Ford Prefiled Test. 16). Dr. Ford added that this 9.2% recommendation protects financial integrity and capital access, consistent with the relevant case law. (*Id.*). He stated that, "under a 20-basis-point dead band, a 9.2% midpoint produces an allowed range of 9.0% to 9.4%, essentially the full span of these estimates, so the mechanism cannot carry the return beyond what the evidence supports." (*Id.*). Dr. Ford indicated that "the resulting 50-basis-point reduction from the current 9.7% is meaningful but measured," moving "the allowed return toward the evidence without overcorrecting." (*Id.*).

d. Dr. Ford's Response to Intervenors' Witnesses

On further direct examination, Dr. Ford represented that the difference between his findings and Dr. Fairchild's findings in the DCF model is the "second piece of the growth rate," adding that "I take the 8, weight it in a two-stage growth formula and get 6.6." (Hearing Tr. 204:25-205:1). Comparing his conclusions to those of Dr. Fairchild, he states that they "just disagree on whether or not Spire can outgrow the economy and consume the whole economy." (Hearing Tr. 208:1-2). Regarding this difference, Dr. Ford testified that this is "one of the few places you kind of have to draw the line" and that for him, "that line is that we can't make a calculation where a firm is implied to be larger than the economy it operates in at some point." (Hearing Tr. 208:8-209:1).

On further direct examination, Dr. Ford stated that the main difference in the expert witnesses' CAPM analyses is the equity risk premium. (Hearing Tr. 209:4-5). He testified that his "earnings risk premium is 5.16 or 5.91" and is "based on Professor Damodaran's calculator and supported by multiple sources." (Hearing Tr. 209:21-23). Dr. Ford referenced that, by regulation, Spire Alabama is restricted to equity growth of six percent and that, as an alternative, six percent

"would be a reasonable point to contemplate" as the growth rate for the DCF model. (Hearing Tr. 210:19-24). He then states that "a 6 percent [growth rate] and 3.1 percent dividend yield, that's a 9.1 percent cost of equity." (Hearing Tr. 210:24-25).

On further direct examination, Dr. Ford testified, "a part of me that says the customer charge should be higher," adding that "if it hasn't changed in 100 years or whatever it has been, you know, well, that really needs to be looked at." (Hearing Tr. 235:15-18). He stated that Spire Alabama operates a "fixed network that's delivering a variable product at various times of the year" and that "there are households that don't use any gas at all in August, but they have the option to," adding that "I don't have a problem with -- with higher customer charges." (Hearing Tr. 235:19-25).

e. Cross-Examination of Dr. Ford

On cross-examination by Spire Alabama, Dr. Ford responded to questions about his testimony in prior cases before the Commission. He explained that he used Spire Alabama as part of his analysis in the prior case, adding that Spire Alabama was one of a mixture of water and gas companies he used to estimate the cost of equity. (Hearing Tr. 244:12-249:13).

C. Energy Alabama's Case

As presented through testimony and confirmed in a closing statement, Energy Alabama's positions on the five issues are as follows:

ROE (Adjusting Point)	8.3%
ROE Range	8.3% to 8.7%
RSE Term	No Position
CCM Mechanism	No Position
Customer Charge	No Increase

Energy Alabama presented testimony from an expert witness (Dr. David Garrett) to support the above positions on ROE and ROE Range.

1. Dr. David Garrett

On direct examination, Dr. David Garrett[7] testified that he is "a consultant specializing in public utility regulation," and "the managing member of Resolve Utility Consulting PLLC." (Garrett Prefiled Test. 1:2-3). He indicated that the purpose of his testimony is to present his cost of capital analysis for Spire Alabama along with his recommendation of a fair and reasonable authorized rate of return. (Garrett Prefiled Test. 2:2-4). Dr. Garrett stated that the "cost of capital is comprised of several factors, including the cost of equity, cost of debt, and capital structure," adding that the "cost of equity can be closely estimated using several financial models, including the Discounted Cash Flow ('DCF' Model) and the Capital Asset Pricing Model ('CAPM')." (Garrett Prefiled Test. 2:9-12). He testified that the authorized ROE should be based on the Company's cost of equity. (Garrett Prefiled Test. 2:12-13). Dr. Garrett indicated that he used multiple variations of DCF and CAPM on a proxy group of publicly traded companies to assess Spire Alabama's cost of equity. (Garrett Prefiled Test. 2:13-17).

a. Dr. Garrett's Application of the Discounted Cash Flow Model

On further direct examination, Dr. Garrett stated that the "DCF Model is based on a fundamental financial model called the 'dividend discount model,' which maintains that the value of a security is equal to the present value of the future cash flows it is anticipated to generate." (Garrett Prefiled Test. 20:7-9). He indicated that there "are three primary inputs to the DCF Model: (1) stock price; (2) dividend; and (3) the long-term growth rate," adding that "stock prices and dividends are known inputs based on recorded data, while the growth rate projection must be estimated." (Garrett Prefiled Test. 20:14-16). Dr. Garrett stated that he used a 30-day average for the stock prices for each company in the proxy group (Garrett Prefiled Test. 21:3-22:6) and "used

[7] Based on evidence of his education and experience, Dr. Garrett is qualified as an expert in matters of the cost of capital in a regulatory proceeding. (Hearing Tr. 280:5-15).

forward-looking annualized dividends published by Yahoo! Finance for the dividend input to [his] constant growth DCF Model." (Garrett Prefiled Test. 22: 9-16). He calculated the average dividend yield for the proxy group to be 2.98%. (Garrett Prefiled Test. Exhibit DJG-4).

On further direct examination, Dr. Garrett testified that the growth rate is the "most critical input in the DCF model" and that, unlike the stock price and dividend inputs, it must be estimated. (Garrett Prefiled Test. 22:19-20). He stated that for utility companies, "it is necessary to focus primarily on a long-term growth rate in dividends." (Garrett Prefiled Test. 23:19-20). Dr. Garrett asserted that it is not necessary to use multi-stage DCF models to analyze the cost of equity of regulated utility companies because regulated utilities are already in their sustainable, low-growth stage. (Garrett Prefiled Test. 24:21-23). He indicated that a "fundamental concept in finance is that no firm can grow forever at a rate higher than the growth rate of the economy in which it operates" and thus "the terminal growth rate used in the DCF Model should not exceed the aggregate economic growth rate." (Garrett Prefiled Test. 26:3-5). Dr. Garrett added that "it is reasonable to assume that a regulated utility would grow at a rate that is less than the U.S. economic growth rate." (Garrett Prefiled Test. 26:10-11).

On further direct examination, Dr. Garrett indicated that he also conducted an "analyst growth" variation of his DCF Model, even though it "runs the risk of overstating utility cost of equity" because it is commonly used by regulators. (Garrett Prefiled Test. 27:5-9). He stated that in this case, the analyst growth variation produced a result that is "actually lower than [his] CAPM result." (Garrett Prefiled Test. 27:9). Dr. Garrett found the average analyst growth rate for the proxy group to be 4.6%. (Garrett Prefiled Test. Exhibit DJG-6).

On further direct examination, Dr. Garrett testified that "Gross Domestic Product ("GDP") is one of the most widely used measures of economic production and is used to measure aggregate

national economic growth," and that he used GDP for the growth rate for each company in the proxy group for the sustainable growth variation of his DCF model. (Garrett Prefiled Test. 26:14-27:2). Dr. Garrett found the average sustainable growth rate for the proxy group to be 3.8%. (Garrett Prefiled Test. Exhibit DJG-6).

On further direct examination, Dr. Garrett summarized the results of his DCF analysis. He stated that he "considered two variations: one using analysts' growth rates, and one using the maximum sustainable growth rate," and that the "results of these models are 7.7% and 6.9%, respectively." (Garrett Prefiled Test. 27:12-14; Exhibit DJG-6).

b. Dr. Garrett's Application of the Capital Asset Pricing Model

On further direct examination, Dr. Garrett testified that the "CAPM is a market-based model founded on the principle that investors expect higher returns for incurring additional risk." (Garrett Prefiled Test. 27:16-17). He stated that the "basic CAPM equation requires only three inputs to estimate the cost of equity: (1) the risk-free rate; (2) the beta coefficient; and (3) the equity risk premium." (Garrett Prefiled Test. 28:9-10). Dr. Garrett indicated that, to estimate the current risk-free rate, he "calculated a recent 30-day average of daily spot yield rates on 10-year U.S. Treasury notes" and that "[u]sing 10-year Treasury notes is a standard and widely accepted practice for estimating the risk-free rate." (Garrett Prefiled Test. 29:3-5). He stated that he "used betas recently published by Value Line Investment Survey." (Garrett Prefiled Test. 30:10).

On further direct examination, Dr. Garrett indicated that the equity risk premium ("ERP") "is the level of return investors expect above the risk-free rate in exchange for investing in risky securities." (Garrett Prefiled Test. 30:20-31:1). He asserted that the ERP is "arguably the single most important factor in estimating the cost of capital" in CAPM. (*Id.*). He explained that there are "three basic methods that can be used to estimate the ERP: (1) calculate a historical average;

(2) take a survey of experts; and (3) calculate the implied ERP." (Garrett Prefiled Test. 31:3-5). Dr. Garret referenced "survivorship bias" in using historical ERP, the tendency for failed companies to be removed from historical indices. (Garrett Prefiled Test. 32:2-3). He stated that "empirical evidence suggests that the prospective, forward-looking ERP is actually lower than the historical ERP." (Garrett Prefiled Test. 31:18-19). He indicated that he "primarily relied on both the ERP reported in expert surveys and the implied ERP method." (Garrett Prefiled Test. 33:2-3). Dr. Garrett stated that the expert survey he used (IESE Business School) reported an average ERP of 5.3%. (Garrett Prefiled Test.33:8-10). He asserted that arguably the best method is the Implied ERP, which relies on the stable growth model often referred to as the "Gordon Growth Model," which is a widely used basic stock valuation model. (Garrett Prefiled Test. 33:13-15). He indicated that, for his ERP estimate, he considered the results of the IESE survey, the estimated ERP reported by Kroll (a multinational financial and risk advisory company), the estimated ERP calculated by Dr. Damodaran using implied ERP variations, and his own implied ERP calculations. (Garrett Prefiled Test. 36:5-10). Dr. Garrett testified that he used the average of these results, which was 4.9%, in his CAPM. (Garrett Prefiled Test. 36:10-11). He then summarized the results of his CAPM analysis using the described inputs, estimating that Spire Alabama's CAPM cost of equity is 8.3%, if the proxy group average debt is applied to the company. (Garrett Prefiled Test. 36:13-15).

c. Dr. Garrett's Conclusions and Recommendation

The following table summarizes his cost of equity estimates from the methodologies that he applied.

Model	Cost of Equity
CAPM (at Proxy Debt Ratio)	8.3%
Hamada CAPM (at Company's Current Debt Ratio Limit)	8.1%
DCF Model (Analyst Growth)	7.7%
DCF Model (Sustainable Growth)	6.9%
Cost of Equity Modeling Range	6.9% - 8.3%
Authorized ROE Recommend Range	**8.3% - 8.7%**
Authorized ROE Recommendation	**8.3%**

(Garrett Prefiled Test. 3:2). Dr. Garrett recognized that it was "appropriate for the Commission to consider the regulatory principle of gradualism when setting a fair authorized ROE." (Garrett Prefiled Test. 3:10-11). He recommended 8.3% as an authorized ROE, stating that it would be above Spire Alabama's cost of equity but also "arguably be fair for customers because it would reduce the excess wealth transfer from customers to shareholders compared to the current range." (Garrett Prefiled Test. 4:6-8).

d. Dr. Garrett's Response to Intervenors' Witnesses

On further direct examination, Dr. Garrett testified that the proxy group that he used was substantially similar to the other experts, noting a difference with Dr. Fairchild's group that included Spire, Inc., but adding "that's not what's really driving the differences in our modeling results." (Hearing Tr. 287:2-7).

e. Cross-Examination of Dr. Garrett

On cross-examination by Spire Alabama, Dr. Garrett agreed that his recommended ROE is significantly lower than any recommendation in Exhibits BM-11 and BM-13. (Hearing Tr. 295:3-18). When asked whether he had pause about the difference between his recommendation and

decisions rendered in the last 30 years, he testified that, "as far as what I'm recommending in this case, no, that's a confident recommendation." (Hearing Tr. 296:13-21). Dr. Garrett stated that he found the email survey a reliable source for his equity risk premium input for CAPM, indicating that he trusted the opinion of the experts surveyed and adding that, "I guess you could argue that even better sources like Dr. Damodaran is much lower." (Hearing Tr. 298:1-18).

III. Commission Analysis and Findings

In this investigation, the Commission considered five issues related to Spire Alabama's RSE mechanism, as set out in the procedural ruling issued on June 18, 2026. Those five issues are: 1) Return on Equity ("ROE"), 2) ROE Range; 3) RSE Term; 4) Cost Control Measurement ("CCM") mechanism; and 5) Customer Charge. The following describes the Commission's analysis and findings regarding each of these issues.

A. Return on Equity (ROE)

ROE, which is the allowed return on the equity portion of Spire Alabama's rate base, is the predominant issue in this proceeding and was the subject of most of the testimony at the hearing. The following briefly addresses the standard and then describes the Commission's analysis and findings related to ROE.

1. Standard

Alabama law states that a utility is entitled to "earn a fair net return on the reasonable value of its property devoted to the public service." Ala. Code § 37-1-80. The Alabama Supreme Court has recognized that the "rate of return must be equal to that generally being earned by others in the same general locality in business undertakings attended by corresponding risks and uncertainties" and "must be sufficient to assure the investors' confidence in the financial soundness of the enterprise and enough to maintain and support its credit, so that the utility will be able to raise the

necessary capital to improve and expand its service in the discharge of its public duties." *Birmingham Elec. Co. v. Ala. Pub. Serv. Com.*, 254 Ala. 140, 146 (1949) (recognizing the legal standards set out in the U.S. Supreme Court cases, *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n*, 262 U.S. 679 (1923) and *Fed. Power Com. v. Hope Nat. Gas Co.*, 320 U.S. 591 (1944)).

The ROE expert witnesses in this case all agree on the legal standards for considering return, citing the same U.S. Supreme Court cases, *Bluefield* and *Hope.*[8] *Bluefield* established that a utility's rate of return must equal that generally earned by other businesses with corresponding risks in the same locality and must be sufficient to support its credit and enable it to raise necessary expansion capital. 262 U.S. at 692. *Hope* states that, "[r]ates which enable the company to operate successfully, to maintain its financial integrity, to attract capital, and to compensate its investors for the risks assumed certainly cannot be condemned as invalid." 320 U.S. at 605. However, "[w]hat constitutes just and reasonable rates for a utility is a question of fact calling for the exercise of common sense, sound and just judgment, not bound by any hard and fast rule or set formula." *Birmingham Elec. Co. v. Ala. Pub. Serv. Com.*, 254 Ala. 140, 146 (1949).

2. Analysis

The analysis of the appropriate ROE for Spire Alabama involves evaluating the expert witness testimony, including the reasonableness of their assumptions. All three experts used DCF

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[8] Dr. Fairchild stated that, consistent with *Bluefield* and *Hope*, "rates should provide the utility a reasonable opportunity to earn a rate of return on equity sufficient to: 1) fairly compensate capital presently invested in the utility, 2) enable the utility to offer a return adequate to attract new capital on reasonable terms, and 3) maintain the utility's financial integrity." (Fairchild Prefiled Test. 3:3-9). Dr. Ford stated that *Bluefield* holds that a utility is entitled to a return "equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks," but that it "has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." (Ford Prefiled Test. 7). He indicated that *Hope* adds that the return "should be commensurate with returns on investments in other enterprises having corresponding risks" and "sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital." (Ford Prefiled Test. 8). Dr. Garrett recognized both *Bluefield* and *Hope* as the applicable standards. (Garrett Prefiled Test. 7:10-8:13).

and CAPM models (Dr. Fairchild also performed additional analysis), so it is unnecessary to evaluate here whether those models meet the standard under Alabama law, *Bluefield*, and *Hope*. It is safe to presume that they do. Further, the experts conceded that certain inputs for these models were generally consistent between them or that the differences only had minimal impact. Therefore, this analysis focuses on areas of expert witness disagreement in applying these two models.

To set the table for addressing the differences between the experts, the following lists the inputs for both models and identifies the meaningful differences between the witnesses. For DCF, the primary inputs are the dividend yield and the growth rate. The difference between the witnesses' dividend-yield inputs is minimal (all generally within the 3.0% to 3.1% range). The real disparity between the witnesses' DCF inputs concerns the growth rate (ranging from 3.8% to 8.0%). For CAPM, the main inputs are the risk-free rate, the beta coefficient, and the equity risk premium ("ERP"). The witnesses do not differ materially on the risk-free rate (ranging from 4.5% to 5.0%) or the beta coefficient (0.77 or 0.78). The meaningful difference among the witnesses concerns the ERP (ranging from 4.9% to 7.72%). The following paragraphs consider the differences among the witnesses for these models (growth rate for DCF and ERP for CAPM).

For the DCF, differences in the expert witnesses' growth rate inputs accounted for most of the differences in the findings. In particular, the witnesses differed on how to account for the long-term growth rate. While Dr. Fairchild asserted that using GDP growth would understate expected returns, Dr. Ford and Dr. Garrett both contended that the DCF model inputs must reflect the concept that a company cannot outgrow the economy. Dr. Ford and Dr. Garrett addressed this issue differently: one used a weighted growth rate that includes GDP for long-term growth, and the other assumed that regulated utilities are in a sustainable low-growth stage. The Commission finds the

approaches of Dr. Ford and Dr. Garrett more reasonable. Because of this, and what Dr. Garrett called the regulatory principle of gradualism, the Commission finds Dr. Ford's DCF inputs and findings to be the soundest of the three witnesses.

Regarding CAPM, differences in the expert witnesses' equity risk premium, or ERP, inputs caused the biggest difference in their conclusions. Dr. Fairchild claims that the other witnesses improperly relied on overlapping sources that were well below the historical and forward-looking risk premiums. Dr. Ford and Dr. Garrett disagreed with the use of historical data. Dr. Ford pointed out that Spire Alabama is restricted, by regulation, to equity growth of six percent, which is well below Dr. Fairchild's ERP range of 7.37% to 7.72%. The higher end of Dr. Ford's ERP range (5.91%, based on Damodaran's calculator, one standard deviation above the mean) is also well below Dr. Fairchild's ERP. Dr. Garrett described flaws with historical ERP, such as survivorship bias, and noted that a forward-looking ERP is lower than the historical ERP. Dr. Ford and Dr. Garrett both based their ERP input on experts and models, rather than historical growth. The Commission agrees with the approach of Dr. Ford and Dr. Garrett and finds the higher end of Dr. Ford's ERP range (one standard deviation above the mean, using Damodaran's calculator) to be the most reasonable ERP input. Therefore, the Commission concludes that Dr. Ford's results for the CAPM are also the most reasonable.

As described above, based on a review of the evidence, Dr. Ford's ROE recommendations are the most reasonable and more accurately reflect Spire Alabama's cost of equity. For a meaningful but measured reduction in the current allowed ROE, the Commission finds it reasonable to set an adjusting point at the top of Dr. Ford's recommended allowable range, at 9.4%.

B. ROE Range

The ROE range analysis is considered separately from the above-described ROE findings because the ranges proposed by the parties are linked to their proposed ROE adjusting point. Specifically, Spire Alabama's proposed ROE range (10.3% to 11.0%) includes its proposed adjusting point of 10.5%. Similarly, Energy Alabama's proposed range (8.3% to 8.7%) includes its proposed adjusting point of 8.3%. However, neither proposal includes the adjusting point of 9.4% that the Commission finds to be reasonable. Therefore, this analysis of the ROE range does not compare the parties' proposed ranges themselves, but instead considers the size of the spread (from the bottom of the range to the top) and the distance from the adjusting point to the bottom and top of the range.

Regarding the size of the spread, the Commission recognizes, as did the ROE experts, that these models require estimates and that no single model should be relied on to calculate the cost of equity. Given the estimates and lack of a perfect model, it is appropriate for the Commission to allow sufficient room for variation in the return on equity without triggering the operation of RSE to adjust rates. In other words, the range needs to be large enough to provide rate stability. On the other hand, the range does not need to be so large that Spire Alabama is allowed to earn a return well above or well below the ROE that the Commission finds reasonable. Spire Alabama's proposal (70-basis-point spread) could cause such a result. The other parties proposed a 40-basis-point range, the same as the current RSE, which remains reasonable. Spire Alabama did not offer sufficient evidence to support its proposed change in the range.

Regarding the distance from the adjusting point to the bottom and top of the range, the most apparent choice is to set the ROE range so the bottom and top are equidistant from the adjusting point. The current RSE Range is structured this way (low end of 9.5%, adjusting point

of 9.7%, and high end of 9.9%), as is the Attorney General's proposed range (low end of 9.0, adjusting point of 9.2%, and high end of 9.4%). Establishing an ROE range with ends equidistant from the adjusting point balances the interests of the utility and the ratepayers—the basis point distance from the adjusting point that triggers a decrease is the same as the distance that triggers an increase. Further, the top of the range does not need to be so far above the adjusting point that Spire Alabama is allowed to earn a return well above the ROE that the Commission finds reasonable. Spire Alabama's proposal (top of the range 50 basis points above the adjusting point) could produce that result—potentially allowing the Respondent a return on equity of 9.9% (with an adjusting point of 9.4%). Neither Spire Alabama nor Energy Alabama offered sufficient justification for their proposals that place the adjusting point closer to, or at, the bottom of the ROE range. The current ROE range, which is the same as the Attorney General's proposal, remains reasonable.

For the reasons stated above, an ROE Range of 9.2% to 9.6% is reasonable.

C. Term of RSE

Mr. Hampton urged setting a five-year term for stability but did not sufficiently support the advantage of a five-year term over a shorter term. With the current economic and operational circumstances, a shorter term appears more appropriate. The Attorney General recommended a two-year term, and that appears reasonable.

D. Cost Control Measurement (CCM) Mechanism

The purpose of the CCM mechanism is to incentivize Spire Alabama to control operation and maintenance expenses. Mr. Hampton pointed to the decline in expense per customer between 2019 and 2024 to show CCM's effectiveness. However, he did acknowledge that Commission Staff and the Attorney General would review costs for prudency during the budget process. This cost

assessment is already built into the RSE process through the annual budget review. During this review, the Commission Staff and the Attorney General may assess and question budgeted expenses. Further, the Attorney General, who represents the ratepayers, asked for a suspension of the CCM. Given that Spire Alabama's costs are reviewed and that the Attorney General seeks suspension, it is reasonable to remove the CCM from RSE for this term.

E. Customer Charge

Under the cost-causation principle, rate designs should be structured so that a particular charge reflects the associated costs to the utility. Therefore, one reasonable approach to rate design is for usage rates to correlate to variable costs and for the customer charge to correlate to fixed costs. Spire Alabama's current rate design does not reflect this—the current customer charge covers only a small portion of fixed costs. While other considerations affect rate design, increasing the customer charge to cover more fixed costs appears reasonable. Further, an increase appears due, given that Spire Alabama has not increased the fixed customer charge in over 76 years.

Both the Attorney General and Energy Alabama oppose the increase, but neither offered much support for their opposition. In fact, the Attorney General's own expert witness stated, "I don't have a problem with -- with higher customer charges" and recognized that Spire Alabama operates a "fixed network that's delivering a variable product at various times of the year" and that "there are households that don't use any gas at all in August, but they have the option to." The Commission agrees with Dr. Ford.

The Commission also understands concerns that some customers, such as low-use customers, may feel the effect of this increase. A phase-in of the requested increase could soften the impact to these customers. Spire Alabama did not object to a phase-in of this charge. Further, the requested increase to the customer charge would be revenue neutral. Spire Alabama's witness

explained that "by shifting the recovery of the fixed costs to the customer charge, there are fewer costs being recovered in the volumetric rate, which should ultimately offset the increased customer charge." Therefore, this increased fixed charge would not increase the billed amount for the average customer.

For the above reasons, an increase in the customer charge is due and will be implemented in two phases to soften the impact on low-volume customers.

Conclusion

The above-stated findings regarding the identified RSE issues for Spire Alabama are reasonable and in the public interest. Additionally, as agreed to by the Parties, the points of test are due to be adjusted. Other than the changes related to the five identified issues and the points of test, the other terms of RSE are carried over from the 2022 Order and remain effective.

IT IS THEREFORE ORDERED that, regarding the RSE mechanism for Spire Alabama Inc., the authorized Return on Average Common Equity Range shall be 9.20% - 9.60%, with an Adjusting Point of 9.40%

IT IS FURTHER ORDERED that, regarding the RSE mechanism for Spire Alabama Inc., the term shall be two (2) years, beginning on October 1, 2026 and ending on September 30, 2028; however, Spire Alabama Inc. shall continue operating under these RSE terms beyond September 30, 2028 absent a Commission Order modifying its tariff.

IT IS FURTHER ORDERED that the RSE mechanism for Spire Alabama Inc. shall not include a cost control measurement (CCM) mechanism.

IT IS FURTHER ORDERED that Spire Alabama Inc. is authorized to increase its customer charge by $2.50 effective October 1, 2026, and increase the customer charge by an additional $2.50 effective October 1, 2027.

IT IS FURTHER ORDERED that the points of test for RSE for Spire Alabama Inc. shall be on March 31 and September 30, as agreed to by the Parties.

IT IS FURTHER ORDERED that a review of Spire Alabama Inc.'s operation under its RSE tariff shall be conducted by the Commission Staff, with opportunity for participation by the Attorney General's Office, during the period December 1, 2027 through May 31, 2028.

IT IS FURTHER ORDERED that Spire Alabama Inc. shall file the revised RSE tariff implementing this Order and reflecting the cancellation of the Accelerated Infrastructure Modernization Program Tariff as approved by Order dated August 4, 2026, in this Docket, within twenty (20) working days of the effective date of this Order and shall contemporaneously make a copy of the revised tariff available to the public via its website.

IT IS FURTHER ORDERED that all other terms of RSE for Spire Alabama Inc. remain unchanged and the Commission Order issued in October of 2022 remains in full force and effect other than as modified herein.

IT IS FURTHER ORDERED that this Order shall be effective as of the date hereof.

DONE at Montgomery, Alabama, this 17th day of September, 2026.

ALABAMA PUBLIC SERVICE COMMISSION

Cynthia Lee Almond

Cynthia Lee Almond, President

Jeremy H. Oden

Jeremy H. Oden, Commissioner

Chris V. Beeker III

Chris V. Beeker III, Commissioner

ATTEST: A True Copy

Devon D. Beaty, Secretary

Devon D. Beaty