Exhibit No.: _____
Issue: Debt Capital Component of Overall Capital Structure
Witness: Rick H. Lawler, CPA
Exhibit Type: Rebuttal
Sponsoring Party: Summit Natural Gas of Missouri, Inc.
Case No.: GR-2014-0086
Date: July 11, 2014

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2014-0086

REBUTTAL TESTIMONY

OF

RICK H. LAWLER, CPA

ON BEHALF OF

SUMMIT NATURAL GAS OF MISSOURI, INC.

Jefferson City, Missouri
July 2014

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OF
RICK H. LAWLER, CPA

SUMMIT NATURAL GAS OF MISSOURI, INC.

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REBUTTAL TESTIMONY

RICK H. LAWLER, CPA

SUMMIT NATURAL GAS OF MISSOURI, INC.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Rick H. Lawler, CPA, 7810 Shaffer Parkway, Suite 120, Littleton, CO 80127.

Q. ON WHO'S BEHALF IS YOUR TESTIMONY PRESENTED?

A. I am testifying on behalf of Summit Natural Gas of Missouri, Inc. ("SNG" or the "Company").

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am the Chief Financial Officer for Summit Utilities, Inc., the parent company of SNG.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND RELEVANT BUSINESS EXPERIENCE.

A. I joined Summit Utilities as Chief Financial Officer in April 2008. Formerly, I was the Chief Financial Officer of WRC Corporation, an integrated land management and engineering consulting company serving the natural gas pipeline, electric power and transportation industries. Prior to joining WRC, I provided consulting services to a broad range of companies in the energy industry, performing interim financial management roles including infrastructure development, strategy implementation, and control environment establishment.

In my early career I led financial and operations organizations ranging from start-ups to multi-billion dollar divisions. I earned an MBA from Oklahoma City University in 1994 and a BA, Accounting and Political Science, from Texas State University in 1978. I am also a certified public accountant.

Q. HAVE YOUR PREVIOUSLY SUBMITTED TESTIMONY AND SCHEDULES IN THIS CASE?

A. No, this is my initial submission of testimony in this case.

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

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my Rebuttal Testimony is to present evidence in support of the cost of capital structure as originally proposed in this case in the Direct Testimony of Company Expert Witness James Anderson and to rebut the testimony of Staff Witness David Murray as embodied in the Staff Report. My testimony will focus on the amount of debt capital included in the overall capital structure.

Q. PLEASE SUMMARIZE THE CONCLUSIONS CONTAINED IN YOUR REBUTTAL TESTIMONY.

A. The Company cannot support the issuance of debt in sufficient amount to reach the 60%/40% debt/equity imputed cost of capital structure that Staff has proposed in this case. This is based upon lender criteria for debt issuance to the Company limited to a 5 times multiple of achieved trailing 12-month EBITDA. Based upon historical and currently observable debt/equity capital structures as presented in Schedule-RHL-1, the Company's achievable debt/equity cost of capital structure has and will likely remain at its current 43%/57% ratio. This capital structure should therefore be applied for ratemaking purposes rather than Staff's unsupportable projected capital structure. It accurately reflects the actual cost of capital that is, and likely will be, dedicated to the service of SNG's Missouri customers.

Q. IN PREVIOUS FILINGS THE COMPANY HAS ADVOCATED A 60%/40% DEBT/EQUITY CAPITAL STRUCTURE. WHY ARE YOU ADVOCATING A 43%/57% CAPITAL STRUCTURE IN YOUR REBUTTAL TESTIMONY IN THIS CASE?

A. While it is the Company's, its Summit Utilities, Inc. parent's, and its parent's equity investor's stated goal to achieve a 60%/40% debt/equity capital structure, achieving such capitalization will not be possible in the foreseeable future relative to the Company's operations. A 60%/40% capital structure was anticipated in prior filings associated with the Company's intent to pursue long-term debt assuming steady-state, mature utility operations without significant ongoing additional capital expansion. At that time, the Company's *pro forma* financials were generated under the assumption of 60% debt as a means to suggest to lenders that even at that level of debt, the Company would be able to meet any imposed covenant compliances. As will be noted in my subsequent rebuttal testimony however, lenders who would agree to extend loans to the company imposed more restrictive EBITDA (earnings before interest, taxes other than income, depreciation and amortization expense)-based covenants than what the company had advocated, effectively prohibiting the achievement of 60% debt. In fact, no debt was ever extended to the Company under that early proposal related to the then-existing assets and, subsequently, the Company undertook new expansion initiatives which further dissuade lenders from considering long-term 60% debt loans during a period when the Company was building out its distribution systems. As a result, the Company remains at 43% debt in its capital structure, which is the current and realistic point of reference for the Company's proposed 43%/57% debt/equity capital structure in this case.

Q. SUMMIT NATURAL GAS OF MISSOURI, INC.'S ("SNG") SISTER COMPANY, COLORADO NATURAL GAS, INC. ("CNG"), HAS ACHIEVED 60% DEBT IN ITS CAPITAL STRUCTURE. WHY WOULD THE COMPANY NOT BE ABLE TO ACHIEVE A SIMILAR LEVEL OF PERMANENT DEBT FINANCING AS STAFF HAS IMPUTED FOR APPLICATION TO THE COMPANY 'S CAPITAL STRUCTURE IN THIS CASE?

A. SNG and CNG are significantly dissimilar entities in terms of maturity and degree of operational risk. CNG has become a steady-state operating utility with proven and sustainable revenue streams in combination with minimal infill growth in existing service territories. CNG has 40% less debt in combination with a slightly higher customer base and limited ongoing infill growth, therefore its risk profile as a mature operating utility is much lower than SNG. As a result, CNG is able to attract long-term debt at 60% of total capital, which debt level represents a multiple of less than 5 times trailing 12-month EBITDA.

SNG, on the other hand, is on the high end of the risk scale due to its significant ongoing infrastructure investment and unproven revenue streams yet to be earned on that investment. SNG is a comparatively immature operating utility as approximately 88% of its total plant assets and related capital investment at 12/31/2013 had only been placed in service over the preceding two years. SNG has not yet reached a steady-state operating status within the divisions involved in this rate case and the EBITDA streams from these divisions are lagging the infrastructure investment as customers are systematically being signed to service contracts and placed in service.

Therefore, until sustainable revenue and EBITDA streams stemming from the divisions in this rate case as measured at a 5 times multiple of trailing 12-month EBITDA can be proven, lenders do not deem SNG to be creditworthy to the extent necessary to warrant issuance of debt at 60% of total capital.

In summary, SNG and CNG are not similarly situated and not comparable in relation to each entity's creditworthiness and ability to attract debt. SNG's divisions in this rate case have not reached a maturity level comparable to CNG in terms of EBITDA generation relative to capital investment, and thus are not in the same position as CNG in terms of warranting similar percentages of debt capital.

Q. PLEASE PROVIDE EVIDENCE OF THE COMPANY'S INABILITY TO SUPPORT A HIGHER LEVEL OF DEBT.

A. In seeking debt funding from potential lenders, the principal obstacle is lender understanding of the Company's business model and related operating infrastructure. Lenders attempt to measure the Company's creditworthiness in terms of the typical low-risk mature utility. However, it quickly becomes evident that due to the Company's infrastructure composition as both a pipeline construction company and an operating utility undergoing major growth expansion, the Company is not at all typical when compared to other utilities. For this reason, lenders are faced with the high-risk prospect of financing a construction build-out, the collateral for which is the eventual utility revenue streams that hopefully will develop once construction is completed and those assets are placed in service.

In assessing the level of credit risk to be applied to the Company's dual operating model, lenders must consider both construction risk (i.e., labor and material cost variability; contractor track record and experience; permit issuance cost and timing; environmental protections and standards; regulatory safety standards; substructure geology digging conditions) as well as utility revenue generation risk (i.e., customer fuel switching motivation; customer penetration rates; usage rates; customer mix; impact of economy on customer conservation and ability to pay; property taxes; competitive propane and electric utility rates; administrative and operations expense; corporate overhead allocations; weather). Given the variability in each of these separate risk factors, lenders find it difficult to assign performance measures for debt covenant purposes. Furthermore, due to the Company's lack of an independent credit rating, lenders are forced to assign their own creditworthiness without evidence of proven operating performance relative to the new infrastructure development. Thus, lenders have only been willing to consider loans during the utility developmental period to be issued at variable interest rates rather than long-term debt at fixed rates as would normally be the case with more mature utilities. Given the risks associated with SNG as it has continued to develop over the past several years, lenders have chosen to impose an EBITDA multiple on a trailing 12-month basis as the single determinable measure for the quantum of debt they are willing to issue. In SNG's case, that calculation renders a supportable debt level well below what otherwise would be the case for the typical mature utility.

Q. HOW DOES THE LENDER IMPOSITION OF AN EBITDA MULTIPLE AS A LIMITING FACTOR TO DEBT ISSUANCE APPLY TO THE COMPANY'S CURRENT DEBT LEVEL?

On the current $100 million of outstanding debt, the Company's lenders imposed an initial debt limitation at 11 times EBITDA, which multiple then ratchets down in 50 bps increments per calendar quarter to an eventual 7 times maximum debt allowance at maturity of the loan (12/31/2015). Collateral security for this debt is provided in the form of the Company's pledge of its CPCNs as granted by the MPSC, its real and personal property, utility plant, and other current assets. As such, though new construction may be isolated to particular expansion areas, the collateral for the construction debt is provided by the entire Company assets and operations rather than specific association of certain assets to particular debt. (It should also be noted that the Company's shareholders bear all responsibility for the achievement of EBITDA sufficient to meet the EBITDA multiples. If in any quarter the EBITDA multiple calculation renders a product of less than the outstanding debt, the Company's equity investors are obligated to "buy down" the debt as necessary to bring the covenant into compliance in accordance with the terms of an Equity Contribution Agreement with the lenders.)

As reflected in Schedule-RHL-1, the Company's debt component as a percentage of total capital has averaged 41% over the past six years which includes the period during which new utility plant was constructed in the divisions in this rate case. Currently, pursuant to a $100 million debt financing in late 2012, the Company's debt is at 43% of total capital. The maturity date of the $100 million bridge loan is 12/31/2015, at which point in time the Company intends to apply for long-term debt financing at a fixed interest rate. Preliminary discussion with current lenders in anticipation of the debt refinancing, as well as in reference to the same lender's imposed restrictions on a recent long-term debt issuance to Summit Utilities, Inc.'s Colorado Natural Gas subsidiary, have made it clear that any long-term debt will be limited to a 5 times multiple of EBITDA. Consequently, and, it is highly probable that the Company's debt level will remain at or even below the current 43% of total capital level given the current level of total capital within the Company in relation to current and projected EBITDA across all operating districts within Missouri.

Q. WHY ARE YOU ADVOCATING THAT THE DEBT QUANTUM RESTRICTIONS YOU HAVE DESCRIBED SHOULD BE APPLIED TO ALL OF THE COMPANY'S DISTRICTS RATHER THAN LIMITING YOUR ASSESSMENT TO THE PARTICULAR DISTRICTS INCLUDED IN THIS CASE?

A. As mentioned earlier, the collateral for any debt issued to the Company includes all assets held within Missouri as well as all CPCNs issued for service within all Missouri jurisdictions. The Company's lenders are not willing to carve out certain territories or districts within the Company's operations for isolated debt consideration. Because lenders will not issue loans on a per district basis, it makes no practical sense to consider assigning debt cost to the particular districts included in this case rather than on a total-Company approach. To treat separate districts differently would subject them to potential unequal and arbitrary allocations of administrative and operating expenses due to the difficulty in applying appropriate and defendable drivers for the cost allocations. That would be extremely problematic were an individual district to be unable to meet the debt covenants applied to it, while other districts were not in default of their related covenants under separate loan agreements.

Q. WHAT OTHER FACTORS HAVE YOU CONSIDERED RELATIVE TO YOUR ADVOCATED POSITION REGARDING THE ACHIEVABLE LEVEL OF DEBT IN THE COMPANY'S CAPITAL STRUCTURE?

A. The Company constructed a pipeline infrastructure of sufficient capacity to not only provide service to the existing customer base in our service territories, but also to accommodate the capacity demands of expected future population and commercial business growth in the surrounding area. Unfortunately, that growth has not occurred as expected, resulting in excess capital investment above the proportionate level of EBITDA generated in justification of that investment. Consequently, , any debt financing will necessarily fall well short of 60% of capital as imputed in Staff's proposal in this case at a 5 times multiple of trailing 12-month EBITDA as 12/31/2015 when the Company's current debt matures. More probable is that the resultant refinanced debt will represent a similar 43% of total capital as is the case today. The Company will not be able to support and obtain higher levels of debt capital until the demand growth occurs in the Company's service territories to more fully utilize infrastructure capacity levels.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of Missouri Inc.'s Filing of Revised Tariffs To Increase its Annual Revenues For Natural Gas Service	))))	Case No. GR-2014-0086

AFFIDAVIT OF RICK H. LAWLER

STATE OF COLORADO)
) ss
COUNTY OF JEFFERSON)

Rick H. Lawler, being first duly sworn on his oath, states:

1. My name is Rick H. Lawler and I work in Littleton, Colorado and I am employed by Summit Utilities, Inc. as the Chief Financial Officer.

2. Attached hereto and made a part of hereof for all purposes is my Rebuttal Testimony on behalf of Summit Natural Gas of Missouri, Inc. consisting of 10 pages, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

Rick H. Lawler

Subscribed and sworn to before me this 9th day of July, 2014.

Erin Campbell
Notary Public

My commission expires: 6/7/2016

ERIN CAMPBELL
NOTARY PUBLIC
STATE OF COLORADO

Summit Natural Gas of Missouri, Inc.
Historical Debt/Equity Ratio

Debt:	Year	Debt Issued	Debt Retired	Total Debt	Percent Debt	6 Year Average
	2008	$ 4,670,000	$ -	$ 4,670,000	59%	
	2009	$ 10,120,000	$ 4,670,000	$ 10,120,000	50%	
	2010	$ -	$ -	$ 10,120,000	36%	
	2011	$ -	$ -	$ 10,120,000	33%	41%
(1)	2012	$ 43,000,000	$ 10,120,000	$ 43,000,000	25%	
	2013	$ 57,000,000	$ -	$ 100,000,000	43%	

Equity:	Year	Common Stock	Contributed Capital	Net Income	Dividends	Total Equity	Percent Equity	6 Year Average
	2008	$ 1,028,308	$ 2,067,860	$ 146,868	$ -	$ 3,243,036	41%	
	2009	$ -	$ 6,524,407	$ 402,452	$ -	$ 10,169,895	50%	
	2010	$ -	$ 7,702,574	$ 134,011	$ -	$ 18,006,480	64%	59%
	2011	$ -	$ 2,649,005	$ (184,788)	$ -	$ 20,470,697	67%	
(1)	2012	$ -	$ 104,042,840	$ 2,350,948	$ -	$ 126,864,485	75%	
	2013	$ -	$ 2,000,000	$ 3,695,999	$ -	$ 132,560,484	57%	

(1) Southern Missouri Gas Company merged in January 2012