

Exhibit No.: _____

Issue: ROE

Witness: James M. Anderson

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

JAMES M. ANDERSON

ON BEHALF OF

SUMMIT NATURAL GAS OF MISSOURI, INC.

**Jefferson City, Missouri
July 2014**

Summit Exhibit No. 2
Date 8-13-14 Reporter XF
File No. GR-2014-0086

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OF
JAMES M. ANDERSON**

SUMMIT NATURAL GAS OF MISSOURI, INC.

CASE NO. GR-2014-0086

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REBUTTAL TESTIMONY

JAMES M. ANDERSON

SUMMIT NATURAL GAS OF MISSOURI, INC.

I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is James M. Anderson. My business address is 8400 E. Prentice
3 Ave, Suite 500, Greenwood Village, CO 80111.

4 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY AND SCHEDULES IN**
5 **THIS CASE?**

6 A. Yes. I submitted Direct Testimony and Schedules in this case on behalf of
7 Summit Natural Gas of Missouri, Inc. ("SNG" or "Company") as part of the
8 Company's original filing on January 2, 2014.

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

11 A. No.

12 **II. PURPOSE OF TESTIMONY**

13 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

14 A. The purpose of my rebuttal testimony is to respond to several issues raised by
15 Staff Cost-of-Capital Witness Mr. David Murray in the Staff Report – Revenue
16 Requirement Cost of Service, filed in Case No. GR-2014-0086 on May 30,

1 2014 (the "Staff Report"), section V. Rate of Return, on pages 6 through 37.

2 **Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.**

3 A. Specifically, I will respond to the following topics:

4 1) The calculation of a risk premium to be added to Company's Return
5 on Equity ("ROE").

6 2) The use of the "Total Return" model to calculate the cost of common
7 equity.

8 3) The ability of SNG to attract capital and maintain its financial integrity.

9 4) The selection of the "risk-free" interest rates on U.S. government debt.

10 5) The cost of common equity for publicly traded utilities over the past
11 several years.

12 6) The relationship of IIF, Summit Utilities, Inc. and SNG.

13 7) The Staff's assumed capital structure.

14 **III. ADJUSTMENT TO THE COMPANY'S ROE FOR RISK**

15 **Q. WHAT IS THE UNADJUSTED ROE THAT STAFF AND YOU**
16 **RECOMMENDED FOR SNG?**

17 A. Staff's unadjusted ROE was estimated at 7.8% to 8.8%; see page 36, lines 17
18 and 18 of the Staff Report. My unadjusted ROE was 10.6%; see table 1 on
19 page 43 of my direct testimony.

20 **Q. WHY DID THE STAFF'S UNADJUSTED ROE VARY FROM YOUR**
21 **UNAJUSTED ROE?**

22 A. The largest portion of the variance was caused by the use of the Total Return
23 model in addition to the discount cash flow (DCF) model and capital asset

1 pricing model (CAPM) in my calculations. Staff only used the DCF and CAPM
2 models. Without the Total Return model, my unadjusted ROE would have
3 been 9.65%. The other primary difference is due to the risk-free interest rate
4 for U. S. government debt, which can vary significantly by the date selected by
5 the person performing the calculation. Both the Total Return model and the
6 selection of the interest rate on the U.S. government debt are discussed
7 further below.

8 **Q. DID STAFF ADJUST ITS ROE BY A RISK PREMIUM?**

9 A. Yes, Staff adjusted its ROE by a 2% risk premium, see page 36, line16.

10 **Q. WHAT WAS STAFF'S ADJUSTED ROE?**

11 A. Staff's adjusted ROE with the risk premium for SNG was 9.8% to 10.8%.

12 **Q. DID STAFF GIVE A REASON TO MAKE A RISK PREMIUM ADJUSTMENT?**

13 A. Yes, the Staff said that "it is important to compare the subject company's risk
14 level to that of the proxy group" (see page 35, lines 4 and 5 of the Staff
15 Report).

16 **Q. HOW DID THE STAFF MAKE ITS COMPARISON OF SNG TO THE PROXY
17 GROUP?**

18 A. Staff estimated that SNG would have a 'BB' credit rating based on: 1) the
19 Staff's understanding of the S&P and Moody's processes and procedures
20 (without any specific reference to these processes and procedures), and 2) the
21 interest rate currently being paid by Colorado Natural Gas, Inc. (also a wholly-
22 owned subsidiary of SNG's parent corporation, Summit Utilities, Inc.). Staff
23 then compared the interest rates for BBB rated utility bonds and BB utility

1 bonds. No reference or source was given for the rates used for the
2 comparison or the dates that these rates occurred. Staff goes on to say that
3 'A' rated utility bonds have a spread of approximately 200 basis points lower
4 than BB rated utility bonds, without providing a specific rate for 'A' rated bonds
5 or a reference. Staff suggests that the 200 basis points difference between
6 Colorado Natural Gas's interest rate and the 'A' rate utility bonds would be an
7 appropriate risk premium adjustment for SNG. This is described in the Staff
8 Report on page 35, lines 21 to 31 and page 36, lines 1 to 19.

9 **Q. DID STAFF ANALYZE AND COMPARE THE CIRCUMSTANCES THAT**
10 **MIGHT JUSTIFY DRAWING A PARALLEL BETWEEN THE COST OF DEBT**
11 **OF SNG AND CNG?**

12 A. No. The Staff Report contains no analysis that would justify relying on the
13 interest rate being paid by CNG as an appropriate cost of debt for SNG.

14 **Q. IS THE CURRENT INTEREST RATE THAT COLORADO NATURAL GAS**
15 **PAYS A FAIR INDICATOR OF SNG'S CREDIT RATING?**

16 A. No, because: 1) the interest rate was set over two years ago, 2) Colorado
17 Natural Gas (CNG) has proportionately higher earnings before interest, taxes,
18 depreciation and amortization than SNG, 3) CNG has 40% less debt than
19 SNG, 4) CNG has 16% more customers than SNG, and 5) CNG's interest rate
20 is a variable rate that has been fixed by a swap contract. Because CNG's net
21 interest rate is a function of a swap contract, CNG bears the risk that the
22 contra-party to the swap contract may default if interest rates raise. By taking
23 this additional risk, CNG's contractual fixed interest rate is lower than it may

1 have otherwise been had the lender taken the risk of higher interest rates by
2 offering CNG a fixed rate rather than the variable rate. Staff made no analysis
3 of the risks encountered by CNG compared to the risks faced by SNG, nor did
4 Staff provide any evidence comparing, CNG's credit rating to SNG's credit
5 rating.

6 **Q. YOU MENTIONED PREVIOUSLY THAT IN THE STAFF REPORT, STAFF**
7 **REFERRED TO ITS UNDERSTANDING OF THE CREDIT RATING**
8 **AGENCY'S PROCESSES AND PROCEDURES FOR ASSIGNING CREDIT**
9 **RATINGS, WHAT ANALYSIS OR CALCULATION OF CREDIT RATINGS**
10 **DID THE STAFF PERFORM USING THE RATING AGENCY'S PROCESSES**
11 **AND PROCEDURES?**

12 **A.** Staff did not provide an analysis or calculation of SNG's credit rating using the
13 credit rating agency's processes and procedures in the Staff Report. In
14 *Moody's Investors Service's Rating Methodology for Regulated Electric and*
15 *Gas Utilities of August, 2009*, Moody's provides four broad rating factors.
16 These rating factors and the weighting for the factors are: 1) regulatory
17 framework – 25%, 2) the ability to recover costs and earn returns – 25%, 3)
18 diversification – 10% and 4) financial strength, liquidity and key financial
19 metrics – 40%. By way of contrast, a number of these factors are applied to
20 SNG in my direct testimony; see page 24, lines 18 to 20, page 25, lines 1 to 21
21 and page 32, lines 6 to 11.

22 **Q. WHAT IS YOUR EXPERIENCE IN OBTAINING CREDIT RATINGS FOR**
23 **ISSUERS OF DEBT AND BONDS?**

1 A. I have been an investment banker since 1971. Over the past 43 years, I have
2 assisted municipalities, municipal utilities, investor owned utilities and other
3 corporations in obtaining credit ratings. This assistance includes preparing
4 presentations for the credit rating agencies, meeting with the credit rating
5 agencies and debt issuers, and representing debt issuers in continuing credit
6 rating reviews by the credit rating agencies. Over the past 25 years, my
7 brokerage firm (where I am a principal and an owner) has obtained credit
8 ratings for over 200 separate debt or bond issuers.

9 **Q. BASED ON YOUR EXPERIENCE AND SNG'S FINANCIAL POSITION AT**
10 **THE END OF THE SEPTEMBER 30, 2013, TEST YEAR, COULD SNG**
11 **OBTAIN A 'BB' CREDIT RATING ON ITS DEBT?**

12 A. No. SNG lacks the financial metrics, the service area diversification and
13 sufficient ability to recover its costs to obtain a 'BB' credit rating. SNG's and
14 its predecessors' returns on equity over the past six years has been either
15 very low or negative; see Schedule JMA-1 to my direct testimony. This has
16 resulted in a poor cash flow to interest coverage ratio and a low cash flow to
17 debt ratio, two important sub-sets of one of Moody's broad rating factors. The
18 lack of SNG's service area diversification is discussed in my direct testimony
19 beginning on page 24. SNG has never been able to recover the 2010
20 substantial increase in its property taxes. This event negatively impacts
21 Moody's rating factors on the ability to recover costs that has a 25% weighting
22 on the overall credit rating. For these reasons, I believe that SNG's rating
23 would be in the single 'B' range.

1 Q. WHAT IS THE CURRENT SPREAD BETWEEN THE INTEREST RATE FOR
2 AN 'A' RATED UTILITY BOND AND A 'B' RATED BOND?

3 A. According to Bloomberg Finance, L.P., as of July 1, 2014, the Bloomberg
4 Valuation average yield on an 'A' rated 30-year fixed rate utility bond is 4.25%.
5 Bloomberg does not provide average yields for 'B' utility bonds; however, its
6 average yield for 30-year 'B' corporate bonds is 7.54%. This is a spread of
7 3.29%.

8 Q. IF YOU USED THE STAFF'S APPROACH TO CALCULATING THE RISK
9 PREMIUM, WHAT WOULD BE THE RISK PREMIUM?

10 A. Based on the current spread of 'A' rated debt to 'B' rated debt, the risk
11 premium would be 3.30%.

12 Q. DID YOU ADJUST YOUR ROE BY RISK PREMIUM?

13 A. Yes, by a total risk premium of 5.1%.

14 Q. HOW DID YOU DETERMINE YOUR RISK PREMIUM?

15 A. In my direct testimony, I provided twelve specific additional risks that SNG
16 encounters that other Missouri gas utilities and the utilities in my proxy group
17 do not face. Each of those additional risks was assigned a risk premium. The
18 total risk premium is 5.1%.

19 Q. DID STAFF TAKE INTO CONSIDERATION ANY OF THE SPECIFIC RISK
20 FACTORS THAT YOU CONSIDERED?

21 A. It did not; however, Staff did acknowledge that construction of new gas
22 systems (an additional risk confronted by SNG in all of its divisions) at the
23 Lake of the Ozark is an additional risk, (see page 18, line 7 to 8 of the Staff

1 Report), Staff did not, however, factor this risk into its risk premium.

2 **Q. DO YOU BELIEVE THAT IT IS APPROPRIATE TO ASSIGN A RISK**
3 **PREMIUM TO SNG'S ROE?**

4 A. Yes, as SNG's equity holders clearly bear additional risks that the common
5 equity holders of other utilities do not. Based on the Staff Report, the Staff
6 also believes a risk premium is justified.

7 **IV. TOTAL RETURN MODEL**

8 **Q. WHAT IS THE TOTAL RETURN MODEL?**

9 A. The Total Return model is the rate of return representing the actual price
10 appreciation of a stock with cash dividends reinvested on the dividend
11 payment date over a given period.

12 **Q. WHY IS THE TOTAL RETURN MODEL USEFUL IN CALCULATING THE**
13 **ROE?**

14 A. The Total Return for dividend paying stocks is used by both institutions and
15 individual investors to compare the return on their equity investments. Had an
16 equity investor invested in the proxy group of stocks used in my direct
17 testimony for the period from December, 2007 (the effective date of one of
18 SNG's predecessor's last rate case) and October, 2013 (the end of SNG's test
19 period in this case), the investor would have received a 12.5% return on its
20 equity investment; see page 47 of my direct testimony and Schedule JMA-7.
21 A 12.5% rate of return on an investment in SNG is the rate where the investor
22 is indifferent to investing in SNG or the proxy group of gas utilities, provided
23 the risk is the same.

1 **V. ABILITY TO ATTRACT CAPITAL & MAINTAIN FINANCIAL INTEGRITY**

2 **Q. DOES THE COMMISSION ALLOWING A UTILITY A CERTAIN ROE**
3 **ENABLE A UTILITY TO ATTRACT CAPITAL AND MAINTAIN ITS**
4 **FINANCIAL INTEGRITY?**

5 A. It is up to the utility to earn its allowed rate of return in order to attract capital
6 and maintain financial integrity. The individual risks that the utility is subject to
7 have a direct effect on its ability to earn an allowed rate of return. Even if a
8 utility is able to earn its allowed rate of return, it may not be able to attract
9 capital because its rate of return on equity is not sufficient, given its specific
10 risks.

11 **Q. HOW DOES THE RATE OF RETURN ON EQUITY RECOMMENDED BY**
12 **STAFF IMPACT SNG?**

13 A. In my opinion, Staff's recommended return on equity is not sufficient for SNG
14 to attract additional equity capital, given its additional risks. Summit Utilities'
15 equity holders are unlikely to invest additional equity in Missouri, which would
16 effectively end the expansion of SNG's utility plant in Missouri. If that were the
17 case, additional state residents will not receive the \$1,000 annual fuel savings
18 that Mr. Davis, who testified in the local public hearing in Lebanon¹, said he
19 enjoyed after SNG built the Lebanon system. If SNG cannot attract additional
20 capital, the economic development that is dependent on the availability of a
21 natural gas utility could also be lost to Missouri communities, such as Bolivar
22 and Buffalo, which will not get natural gas service because SNG lacks

¹ Transcript of Proceedings, Local Public Hearing, June 17, 2014, Lebanon, MO, page 8, lines 18 to 21.

1 sufficient capital to expand. This result would not serve the public interest.

2 **VI. CALCULATION OF THE RISK-FREE RATE OF RETURN**

3 **Q. WHAT IS THE RISK-FREE RATE OF RETURN AND HOW IS IT USED TO**
4 **DETERMINE A UTILITY'S RETURN ON EQUITY?**

5 A. The risk free rate of return is the rate of return or yield available on U.S.
6 government 30-year bonds. It is used to calculate the cost of common equity
7 in the CAPM model.

8 **Q. WHAT RISK-FREE RATE OF RETURN DID STAFF USE IN THE STAFF**
9 **REPORT?**

10 A. Staff used 3.60% as of April 30, 2014 (see page 32, lines 8 to 10 of the Staff
11 Report) for calculation of the CAPM model.

12 **Q. WAS THIS THE APPROPRIATE RISK-RATE?**

13 A. No. Staff elected to use a test period of the twelve months ending December
14 31, 2014; see page 6, lines 23 and 24 of the Staff Report, rather than the test
15 period ending September 30, 2013 that the Company had filed. On December
16 31, 2013, the yield for the 30-year U.S. Treasury Bond was 3.95%². Staff
17 elected to use the rate of 3.60% from April 30, 2014, which is not consistent
18 with the matching principle and is 35 basis points lower. This makes a material
19 difference. By using a rate 35 basis points lower, the Staff's recommended
20 return on equity may also be 35 basis points lower. Had Staff used the
21 appropriate risk-free rate of 3.95%, its recommended rate of return using the
22 CAPM model would have been 10.15% to 11.15% rather than the 9.8% to

² The Wall Street Journal web site markets section.

1 10.8% reflected in the Staff Report.

2 **VII. COST OF COMMON EQUITY FOR PUBLICLY TRADED UTILITIES**

3 **Q. WHAT CALCULATION OF THE COST OF COMMON EQUITY DID STAFF**
4 **MAKE IN THE STAFF REPORT?**

5 A. Beginning on page 12, line 21 and continuing to page 14, line 13 of the Staff
6 Report, the Staff places a high degree of importance on the fact that the market
7 price of publicly traded utility common stocks has risen in 2013 and in the first
8 quarter of 2014 and that this price increase indicates that the cost of common
9 equity has fallen.

10 **Q. IN YOUR OPINION IS STAFF CORRECT ABOUT THE COST OF COMMON**
11 **EQUITY?**

12 A. No. Just the opposite is evident if a longer period is reviewed. At the end of the
13 first quarter of 2014, the Dow Jones Utility Average (a measure of the equity
14 price for a basket of utility stocks) closed at 532.13, down 25.56 points or 4.8%
15 from its all-time high of 557.69 in January, 2008. From January, 2008 through
16 September 30, 2013, the average earnings per share and dividend payout for
17 the referenced group of natural gas companies used in my direct testimony
18 have increased. This increase in earnings per share and dividends and the
19 corresponding reduction in the Dow Jones Utility Average would suggest that
20 the cost of common equity has actually materially increased over the past six
21 years, as equity investors are earning higher returns per share and more
22 dividend income at the same, or slightly lower, average market price per share.

23

1 **VIII. RELATIONSHIP OF IIF, TO SUMMIT UTILITIES AND SNG**

2 **Q. IN THE STAFF REPORT, STAFF STATES THAT SUMMIT UTILITIES AND**
3 **SNG ARE SUBSIDIARIES OF IIF, IS THAT CORRECT?**

4 **A.** No. Neither SNG nor Summit Utilities is a subsidiary of IIF. SNG and Summit
5 Utilities file a consolidated income tax return, prepare consolidated financial
6 statements and have consolidated audit reports as a subsidiary and parent
7 company. Neither SNG nor Summit files a consolidated income tax return with
8 IIF or prepares consolidated financial statements or audit reports with IIF. SNG
9 and Summit Utilities have the same board of directors, but the SNG and
10 Summit boards of directors are separate and composed of different members
11 than IIF's board of directors. IIF holds equity investments in many different
12 companies, and Summit Utilities is one of its smaller portfolio companies. IIF's
13 interest in Summit Utilities is exactly the same as Vanguard Group Funds'
14 \$806.9 million investment in Ameren Corp. or American Century Funds' \$146
15 million investment in Laclede Group (market values as of June 27, 2014³).

16 **Q. ON PAGE 15, LINES 16 TO 18 OF THE STAFF REPORT, WITH REGARD**
17 **TO IIF, STAFF STATES: ".....SUBSIDIARIES RARELY ARE FINANCED AS**
18 **SEPARATE AND DISTINCT ENTITIES." AND ".....IF A SUBSIDIARY DOES**
19 **PERFORM ITS OWN FINANCING FUNCTIONS, ITS CREDIT RATING IS**
20 **DEPENDENT ON OR EVEN DRIVEN BY THAT OF THE PARENT**
21 **COMPANY." DOES THIS HAVE ANY MEANINGFUL APPLICATION TO**
22 **SNG?**

3 Bloomberg Finance L.P.

1 A. No. Staff fails to explain how it has determined that Summit Utilities or SNG are
2 subsidiaries of IIF or how additional financial information on IIF would help it to
3 further evaluate SNG's and Summit Utilities' capital structure, return on equity,
4 or the cost of debt. To the contrary, it is a common practice for the utility
5 subsidiaries to incur long-term debt rather than the utility's parent company
6 because the revenue producing assets securing the debt are held by the
7 regulated utility subsidiary. The incurrence of debt by utility subsidiaries is
8 common enough that Moody's Investors Service explains the different ways
9 that utility holding companies and their subsidiaries obtain debt and its
10 approach to assigning a credit rates to the utility subsidiaries of utility holding
11 companies in *Moody's Rating Methodology Handbook, February, 2001*, pages
12 479 to 490. As shown in this handbook, the credit ratings of the utility
13 subsidiaries are often higher than the holding companies' ratings. Finally, Staff
14 offers no evidence that SNG's lenders relied on IIF's or SU's credit in making
15 loans to SNG.

16 IX. CAPTIAL STRUCTURE

17 Q. **WHAT IS SNG'S AND SUMMIT UTILITIES' CAPITAL STRUCTURE?**

18 A. On September 30, 2014, the end of the test period filed by the Company,
19 SNG's capital structure was 43% long-term debt and 57% common equity.
20 SNG has no outstanding preferred stock. For the same period, Summit
21 Utilities' capital structure was 39% long-term debt and 61% common equity.
22 Summit Utilities also has no outstanding preferred stock. On December 31,
23 2013, the end of the test period selected by Staff, SNG's capital structure was

1 42.5% long-term debt and 57.5% common equity and Summit Utilities capital
2 structure was 37.5% long-term debt and 62.5% common equity.

3 **Q. HOW DOES SNG'S CAPITAL STRUCTURE COMPARE TO OTHER**
4 **MISSOURI UTILITIES?**

5 A. SNG has slightly more equity than the other Missouri utilities compared in
6 Schedule JMA-6 in my direct testimony. As a comparison, at September 30,
7 2013, the ending date of the Company's filed test period, Ameren's debt to
8 equity ratio was 47.5% to 52.5%.

9 **Q. WHAT CAPITAL STRUCTURE DOES STAFF PROPOSE TO USE IN THIS**
10 **RATE CASE?**

11 A. Staff recommended that a capital structure of 60% long-term debt and 40%
12 common equity be used in this rate case; see page 1, lines 17 to 18 of the
13 Staff Report.

14 **Q. WHAT ARE STAFF'S REASONS FOR RECOMMENDING A DIFFERENT**
15 **CAPITAL STRUCTURE THAN THE ACTUAL CAPITAL STRUCTURE?**

16 A. On page 19, lines, 18 to 20 of the Staff Report, Staff said that, in a SNG
17 application made in 2012, SNG indicated: ".....that its request was for
18 purposes of recapitalizing the Company in order to target a capital structure of
19 approximately 40 percent equity and 60 percent debt". On lines 22 and 23 of
20 page 19, Staff goes on to say: "This is also likely the capital structure the
21 Company investor, IIF, used for purposes of evaluation its investment
22 decisions".

1 **Q. WHAT ARE YOUR CONCERNS ABOUT STAFF'S REASONS FOR ITS**
2 **RECOMMENDED CAPITAL STRUCTURE?**

3 A. Staff's hypothetical capital structure is based solely on what the Company had
4 targeted as an approximate capital structure and on what Staff believes IIF
5 may have made its investment decision. By doing so, Staff ignores the
6 amount of debt that lenders in the U.S. capital markets will actually lend.
7 Since the great recession, banks and other lenders have significantly reduced
8 the risks that they are willing to take. This has clearly had an impact on the
9 amount of debt that SNG can obtain. Further, Staff ignores the additional
10 risks, outlined in my direct testimony, which SNG suffers as compared to other
11 Missouri utilities. These additional risks also impact the amount that lenders
12 are willing to lend. Staff is attempting to impose a capital structure that no
13 other Missouri utility employs.

14 **Q. WHAT IS THE IMPACT OF STAFF'S RECOMMENDED CAPITAL**
15 **STRUCTURE ON SNG'S EQUITY HOLDERS?**

16 A. By using a capital structure that materially understates the actual amount of
17 equity, the rate of return on the equity is significantly reduced. Further, the
18 amount recovered from ratepayers for the income taxes due on income
19 earned on the equity is also substantially reduced. When both of these factors
20 are considered, the estimated total reduction in the return on equity is
21 approximately 41%; that is, rather than the Staff's recommended return on
22 equity of 10.3%, the Company's effective return on equity is only 6.37%.

23 **Q. WHAT IS THE DEBT TO EQUITY RATIO FOR THE FOUR SNG'S**

1 **DIVISIONS INCLUDED IN THIS RATE CASE?**

2 A. It is not possible to calculate the exact debt to equity ratio of the four divisions
3 without allocating equity capital, debt capital, current assets, and other
4 liabilities to each division; however, a good approximation can be made by
5 using the combined rate base of \$147,403,657 for the four divisions from the
6 Staff's Accounting Schedule 02. On page 17, lines 12 to 18 of the Staff
7 Report, Staff acknowledges that of the \$100 million of SNG's outstanding debt,
8 \$53 million is being used to finance the system in the Lake of the Ozarks
9 division, which is not part of this rate case. Therefore, the remaining \$47
10 million of debt applies to the four SNG's divisions in this rate case. The Staff's
11 combined rate base was \$112,228,944 at the end of the 2013 (adjusted for
12 certain items agreed to by SNG and the Staff). This would result in an
13 estimated debt to equity ratio for the four SNG's divisions in this rate case, of
14 41.9% debt to 58.1% equity. This ratio is very close to SNG's actual 42.5% to
15 58.5% debt to equity ratio at December 31, 2013.

16 **Q. WHAT DEBT TO EQUITY RATIO WOULD YOU RECOMMEND BE USED IN**
17 **THIS RATE CASE?**

18 A. I would recommend SNG's actual debt to equity ratio at the end of 2013 be
19 used in this rate case. Staff has not provided adequate reasons to not use the
20 actual debt to equity ratio.

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) Case No. GR-2014-0086
To Increase its Annual Revenues For)
Natural Gas Service)

AFFIDAVIT OF JAMES M. ANDERSON

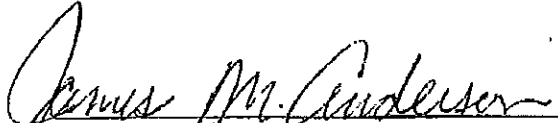
STATE OF COLORADO)
) ss
COUNTY OF JEFFERSON)

James M. Anderson, being first duly sworn on his oath, states:


1. My name is James M. Anderson. I work in Littleton, Colorado and I am employed by Municipal Capital Markets Group, Inc. as the Senior Vice President.

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 16 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.


James M. Anderson

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


Notary Public

My commission expires: 6/7/2016

