Exhibit No.: 401
Issue: Revised Tariffs to Increase Annual Revenues for Natural Gas Service
Witness: Louie R. Ervin Sr.
Exhibit Type: Rebuttal
Sponsoring Party: Missouri School Boards' Association
Case No.: GR-2014-0086
Date: July 11, 2014

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2014-0086

REBUTTAL TESTIMONY

OF

LOUIE R. ERVIN SR.

ON BEHALF OF

MISSOURI SCHOOL BOARDS' ASSOCIATION

Jefferson City, Missouri
July 11, 2014

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OF
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CASE NO. GR-2014-0086

REBUTTAL TESTIMONY

OF

LOUIE R. ERVIN SR.

MISSOURI SCHOOL BOARDS' ASSOCIATION

CASE NO. GR-2014-0086

Q. Please state your name and business address.

A. Louie R. Ervin, Sr., Suite 300, 150 First Avenue NE, Cedar Rapids, Iowa 52401

Q. Are you the same Louie R. Ervin who submitted direct testimony in this case on behalf of the Missouri School Boards' Association (MSBA)?

A. Yes.

Q. What is the purpose of this testimony?

A. The purpose of this testimony is to point out consensus and differences in MSBA's position and/or the position(s) of SNG and staff regarding the transportation rate schedule applicable to schools and to offer rebuttal arguments where warranted. Specifically, I will address these issues:

(a) Telemetry Requirement;

(b) Cashout Daily Cashout, Tier and Price;

(c) Customer and Commodity Charges;

(d) Interruptible vs. Firm Distribution Delivery Service;

(e) SNG's Pipeline Allocation Method;

(f) Capacity Release; and

(g) Pool Operator Charge and Agreement.

Q. What is the issue and positions regarding telemetry?

A. MSBA does not object to staff's proposal to put language from Section 393.310 RSMo in the School Transportation Program rate schedule which requires telemetry for schools having annual usage greater than 100,000 therms.

Q. What is a Cashout?

A. Supply imbalances are created when a transportation customer's delivered supply to the Company's distribution system is greater than or less than the customer's actual usage. Imbalances can be daily or monthly. Heretofore, Company carried the imbalance on its books until the next month when MSBA and Company worked to offset the imbalance overage or shortage during the following month(s). Company has proposed in this case not to carry over imbalances but instead to cash them out (Cashout) after the end of the month. That is, if a transportation customer under-delivers, then the Company supplies that difference. If the transport customer over-delivers, then the Company retains that difference as part of its own supply.

Q. What are the issues and positions regarding Cashouts?

A. There are three underlying Cashout issues. First, contrary to Section 393.310 RSMo, SNG is imputing artificial daily, rather than monthly, imbalances for schools and then summing the daily imbalances to create an artificial monthly imbalance. As previously noted, Section 319.310 RSMo prohibits daily metering for schools with annual usage greater than 100,000 therms. Thus, monthly metered schools are to be cashed out on a monthly basis using the monthly imbalance as the difference between actual monthly usage and scheduled monthly deliveries. However, SNG has provided a priority sequence to the pipeline for allocating daily nominated deliveries to all transport customers without recognition of differences between daily and monthly metered transportation customers. SNG then treats the difference between schools daily scheduled deliveries and an artificially imputed daily allocation as daily imbalances which are then summed for the month and called a monthly imbalance instead of correctly taking the difference between monthly scheduled deliveries and actual monthly usage as the correct monthly imbalance to be cashed out. I recommend that the Commission's Order in this case direct the Company to adhere to Section 393.310 RSMo and compute monthly Cashouts for schools with usage less than 100,000 therms annually as the difference between monthly scheduled deliveries and actual monthly usage as the correct monthly imbalance to be cashed out.

Q. What is the second issue and position regarding Cashouts?

A. The second Cashout issue is the appropriate Tier in which monthly metered schools should be cashed out. Company and MSBA agree that because currently all transporting schools on the Company system are not required to have daily telemetry, but instead are monthly metered, schools are to be cashed out in Tier-1. See Appendix A, which is SNG's response to MSBA's Data Request No. 37, item (c). The Company proposes Cashout Tiers which have progressively punitive Cashout prices at higher/lower percentages of imbalance. Stated another way, the Company proposes to pay progressively lower Cashout prices for over-deliveries to Company as the percentage of imbalance, or Tier, increases. Conversely, Company proposes to charge progressively higher Cashout prices for under-deliveries to Company as the percentage of imbalance, or Tier, increases.

Q. Are progressive Cashouts common in the industry?

A. Use of progressively punitive Cashouts for "daily" metered accounts by Tier is relatively common in the industry as it provides a strong financial incentive to match daily deliveries to daily usage to the maximum extent practical. To date, no other party has objected to schools being cashed out in Tier-1 because they are "monthly" metered. I recommend the Commission include the language in my direct testimony that effectively states that monthly metered schools are to be cashed out in Tier-1.

Q. What is the third issue regarding Cashout?

A. The appropriate monthly Cashout price is the third Cashout issue. The Company has proposed a Cashout price which is the highest of three potential prices, which are: (a) the price Company paid for gas that month, (b) the Company's Weighted Average Cost of Gas (WACOG) from storage, or (c) Company's Purchase Gas Adjustment (PGA). In my direct testimony, I testified that the PGA was not an appropriate price because it is an out-of-period pre-estimate of a price that contains more than just gas costs and is always trued-up with a factor added or subtracted to future monthly PGAs. Although I did not object to the other two proposed price determinates in my direct testimony, further discussions with Company and staff have lead me to believe that a single "index-based" market price for the month in which the imbalance is incurred is a more accurate reflection of Company's actual costs and should be the single price determinate for monthly Cashouts. It is not possible to accurately or fairly implement a daily index or weekly average of daily indices for monthly metered accounts.

Q. What "monthly" index-based market price do you propose for Cashouts?

A. A good example for monthly Cashout is Missouri Gas Energy Company's (MGE) monthly index price. MGE serves transportation customers off the same pipeline and uses a monthly "index-based" market price for Cashouts. See Appendix B, which is the Commission-approved MGE rate Sheet No. 61.3 that contains the MGE Cashout price as: "Index price: The index price shall be determined by the arithmetic average of the first-of-the month index prices published in Inside F.E.R.C.'s Gas Market Report for the month immediately following the month in which the imbalance occurred, for Southern Star Central Pipeline, Inc. f/k/a Williams Gas Pipeline Central Inc. (Texas, Kansas, Oklahoma) (If Inside FERC's Gas Market Report does not publish an index price for Southern Star, then the alternate index price approved by FERC for use by Southern Star Central will be substituted.)" I recommend the MGE tariff language for monthly Index Price be adopted for SNG.

Q. What is the issue and positions regarding Customer Charges and Commodity Charges?

A. The issue is whether schools participating in the Missouri School Transportation Program should be billed customer and commodity charges approved for the Transportation Class rate schedule or the rate schedule applicable to the customer class to which the school would take retail sales service if it were not transporting.

Q. Are schools that participate in the Missouri School Program transportation or sales customers?

A. Schools that participate in the Missouri School Program are transportation customers. The Missouri School Program is an aggregation program whereby schools jointly purchase natural gas and have it delivered, or transported, by the local utility under transport rate schedules. The Company properly included schools that transport under the Transportation Service Class Cost of Service (CCOS) in its original filing in this case. Staff also properly included schools that transport under the transportation service customer class in its CCOS. However, staff has proposed that transporting schools not be charged the transportation delivery service rate for the transportation class in which schools belong, but, instead charge transporting schools the delivery service rate under which a transporting school would take service if they were retail sales bundled service customers, which they are not. MSBA objects to being a transportation customer but being charged non-transportation rates.

Q. Is there a precedent for the staff approach of charging the delivery service rate under which schools would take service if they were retail sales bundled service customer?

A. Yes, under very specific and different circumstances. For example, Laclede Gas Company and MGE charge transporting schools the delivery service rate under which schools would take service if they were retail sales bundled service customers. When a school first moves from bundled sales service to transportation service, to prevent any negative financial impact to Company or other customers as prescribed under Section 393.310 RSMo, some utilities have continued to be charged the non-supply or delivery charges schools would pay as a retail sales bundled service customers. The retail service charges continue to be applied to transporting schools until the implementation of the Company's next rate case, at which time the Commission-approved rate would apply.

Q. Under what customer class rate schedule do other Missouri utilities place schools?

A. Ameren's transportation rate schedule applies to schools in the Missouri School Program as well as to other transport customers. Missouri Gas Energy and Laclede Gas Company have rate schedules specifically applicable to schools in the Missouri School Program. The issue here is that SNG and staff have developed class cost of service studies (CCOS) with schools in the transportation class but the staff has recommended charging schools sales service delivery rates that were developed for classes other than the transportation class which the schools have been placed by both staff and Company in developing CCOS. To charge schools a rate that was developed for other than the customer class for which a customer belongs would be breaking the fundamental rate-making principal that rates should reflect costs. The schools have been taking, and have been billed by SNG under a transportation rate for several years and should continue in the Transportation Service class in which the Company and staff CCOS have placed them.

Q. What Customer Charges do you recommend for the transporting schools?

A. I recommend more than one transportation Customer Charge for the Transportation Class to more accurately assign intra-class costs, which is how the Commission approved AmerenUE transportation rate schedule is structured. One customer charge in the transportation rate should be for larger, daily metered customers that require large, more expensive meters with electronics, telemetry and pressure regulators as well as larger, more expensive service lines. Other customer charges should be for smaller monthly metered customers. The larger daily metered customer charge should reflect what the Commission approves based on staff and Company cost analyses. Because smaller, monthly metered customers continue to have the same meter as they would have if taking service as retail sales customers, the monthly metered customer charges should match what the Commission approves for the retail sales service rates under which the smaller customers would take service if they were not transport customers, whether or not they are schools. I recommend the transportation class commodity charge approved by the Commission be applicable to transporting schools and non-schools.

Q. What is the issue regarding Interruptible vs. Firm Distribution Delivery Service?

A. Actually, to my knowledge, service to schools has never been interrupted. I believe the issue is a matter of mislabeling school transportation agreements as "interruptible". My direct testimony explained that to prevent discrimination in favor of Company supply, schools must be treated the same whether or not they purchase supply from the Company or participate in the Missouri School Transportation Program. I know of no objection from any other party to add language to the Company rate schedule to clarify this point.

Q. What is the issue regarding SNG's Pipeline Allocation Method?

A. The issue is how SNG has Southern Star pipeline (SS) prioritize customer deliveries for allocation or reduction purposes. See Appendix C, which is a summary of the 97 days from 2010 through 2013 that MSBA's nominated supply deliveries were allocated or reduced by SS following SNG's allocation priority.

Q. Will you explain how SNG's Pipeline Allocation Method works?

A. Yes, transportation customers provide advanced daily nominations for the quantity of supply to be delivered from SS to Company's system. My understanding is that SS obtains after-the-fact daily meter readings at the delivery point meter(s) at the Town Border Station(s) interconnection(s) with the Company system and then allocates or reduces the nominated quantities of "total deliveries" to match the metered quantity for the system as a whole and not on an actual individual customer basis.

Q. When SS pipeline allocates, or reduces, nominated daily deliveries, does SNG provide a prioritization method by which SS is to make the reduction?

A. My understanding is that SNG has provided SS with a two-step prioritization: (a) first reduce or allocate Company supply deliveries, then (b) allocate or reduce "all" transportation customers' deliveries to obtain a match of actual to nominated "total" system deliveries. By lumping all transportation customers together for allocation purposes it is problematic because an individual transport customer can get its nominations cut/allocated even if it actually uses exactly what it nominated and has no imbalance, just because the "total" system deliveries did not match the total actual system metered quantity.

Q. Is there a problem the SNG allocation prioritization method?

A. Yes, the SNG prioritization is a major problem for schools which have monthly metering and Cashout on a monthly basis. From 2010 through 2013, the schools had its nominated deliveries reduced/cut on ninety-seven (97) days. See Appendix C. Schools' total usage is relatively small and very rather predictable, particularly during non-winter months when a large number of allocated cuts were implemented. Other large daily metered transportation accounts, such as an asphalt plant, can have rather large daily variances, which can cause the "total" system deliveries to be significantly mismatched. I recommend that SNG provide a three step prioritization: (a) first reduce or allocate Company supply deliveries, next (b) allocate or reduce transportation "daily metered" transport customer deliveries and, then (c) allocate or reduce "monthly metered" transport customer deliveries to obtain a match of actual to nominated "total" deliveries.

Q. What is the issue regarding Capacity Release?

A. The issue may be semantic, but staff's position is that "If capacity is excess then it may be released..." MSBA's position is that Company has capacity when a school is a retail sales customer and should be required to release it to the schools if requested, which is consistent with Section 393.310 RSMo. Company has said that it could be harmed if the schools can pick and choose when or if they want to take the release for only one year when the Company contracts for capacity on a multi-year basis. MSBA has modified its position to a compromise whereby the Company first offers to the schools the first right of refusal to purchase the capacity at the price and for the term which the Company has contracted for said pipeline capacity.

Q. What is the issue regarding Pool Operator Charge and Agreement?

A. The difference between Company's proposed Pool Operator monthly fee of $250 per month and MSBA's proposed $0.004/therm, as set forth in Section 393.310 RSMo is only about $200 annually. MSBA believes either the $250 per month or $0.004/therm satisfies the spirit of Section 393.310 RSMo and MSBA is willing to accept either, provided the Company does not then implement a duplicative Administration and Balancing fee of $0.004/therm as contemplated by Section 393.310 RSMo.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

Q. Does your rebuttal testimony address any of the Public Counsel or other party's issues?

A. No. To my knowledge none of the Public Counsel or other parties has taken any issue with our concerns.

BEFORE THE MISSOURI 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 LOUIE R. ERVIN SR.

STATE OF IOWA)
)ss
COUNTY OF LINN)

Louie R. Ervin Sr., being first duly sworn on his oath, states:

1. My name is Louie R. Ervin Sr. I work in Cedar Rapids, Iowa and am employed by Latham & Associates as the Executive Vice President.

2. Attached hereto and made a part of hereof for all purposes is my Rebuttal Testimony on behalf of Missouri School Board's Association consisting of 12 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 questions therein propounded are true and correct.

SUSAN J MONTAG
COMMISSION NO. 731759
Iowa
MY COMMISSION EXPIRES 12-1-2016
NOTARIAL SEAL

Louie R. Ervin Sr.
Louie R. Ervin Sr.

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

Susan J Montag
Notary Public

My commission expires 12/1/2016

Appendix A
Issue: Revised Tariffs To Increase Annual Revenues for Natural Gas Service
Witness: Louie R. Ervin Sr.
Sponsoring Party: Missouri School Boards' Association
Case No.: GR-2014-0086
Date: July 11, 2014

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2014-0086

APPENDIX A

MSBA DATA REQUEST #37

SUMMIT NATURAL GAS RESPONSE

ON BEHALF OF

MISSOURI SCHOOL BOARDS' ASSOCIATION

Jefferson City, Missouri
July 11, 2014

Missouri School Board Association

Data Request

Data Request No.	37
Company Name	Summit Natural Gas of Missouri, Inc.
Case/Tracking No.	GR-2014-0086
Date Requested	4/28/2014
Requested From	Dean Cooper/Summit Natural Gas of Missouri, Inc. (the "Company")
Requested By	Richard S. Brownlee III, Louie Ervin/Missouri School Board's Association ("MSBA")
Description	Reference Moorman direct testimony page 15 beginning at line 25. a. Is company proposing that transporting schools be required to have daily telemetry? b. If telemetry is proposed as a requirement for transporting schools, provide the statutory basis for such. c. If daily telemetry is not proposed as a requirement for transporting schools but instead have monthly metering, are the proposed imbalance cashout provisions per Original Sheet No. 36 limited for school districts to Tier 1 for both positive and negative imbalances? d. When negative imbalances are incurred, does the Company provide the imbalance volumes from storage and/or purchases during the month incurred? e. When positive imbalances are incurred, does the Company inject the imbalance volumes into storage and/or provide it to sales customers during the month incurred? f. When positive/negative imbalance volumes are incurred, are the volumes injected into/withdraw from storage or provided to or made up from sales service supply? If yes, then explain why there is a need for the "Currently in effect Purchase Gas Adjustment (PGA) to be applicable to schools for the Cashout Price Determinant? g. Does the PGA have any components that are not actual costs for the month in which an imbalance is incurred? If yes, what are those cost components and why would out-of- month costs be applicable to the monthly imbalances in the month in which they are created? h. Would the Company agree to eliminate the PGA as a possible third Cashout Price Determinant? If not, explain when and under what conditions it would be applicable.
Due Date	5/14/2014
Security	Public

RESPONSE:

(a) No

(b) not applicable

(c) Due to the non-telemetered nature of MSBA's participating schools, the Tier 1 Cashout limits for MSBA is the intended practice and is made available via Sheet No. 37 which states "Company reserves the right to, and at its sole discretion, enter into separate Imbalance Agreements with Shipper(s) that take into consideration special circumstances". As such, a separate Imbalance Agreement should be established between the Company and MSBA reflecting this Tier 1 limitation.

(d) – (f) MSBA's, along with its other Shippers' imbalances, whether positive or negative, are absorbed within the Company's overall imbalance with the upstream pipeline. As such, the Company's ongoing efforts to manage its own imbalance may determine the use of storage injections/withdrawals and/or gas supply procurement decisions. Also, the currently effective PGA may be considered a Cashout Price Determinant to the extent Company's Sales Customers are minimally kept whole from any Shipper's (including MSBA's) imbalance management activity.

(g) No

(h) Company desires to maintain the PGA as a possible Cashout Price determinant as described in the last sentence of the (d) – (f) response above.

Response Provided by: Renato Nitura

Appendix B
Issue: Revised Tariffs To Increase Annual Revenues for Natural Gas Service
Witness: Louie R. Ervin Sr.
Sponsoring Party: Missouri School Boards' Association
Case No.: GR-2014-0086
Date: July 11, 2014

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2014-0086

APPENDIX B

MGE RATE SHEET NO. 61.3

ON BEHALF OF

MISSOURI SCHOOL BOARDS' ASSOCIATION

Jefferson City, Missouri
July 11, 2014

Missouri Public Service Commission
REC'D OCT 23 2003

TRANSPORTATION PROVISIONS
TRPR

(b) Index Price: The index price shall be determined as the arithmetic average of the first-of-the-month index prices published in Inside F.E.R.C.'s Gas Market Report for the month immediately following the month in which the imbalance occurred, for

Southern Star Central Gas Pipeline, Inc. f/k/a Williams Gas Pipeline Central Inc. (Texas, Kansas, Oklahoma) (If Inside FERC's Gas Market Report does not publish an index price for Southern Star, then the alternate index price approved by FERC for use by Southern Star Central will be substituted.)
And
Panhandle Eastern Pipe Line Company (Texas and Oklahoma)

(10) Limitations: If the Company's system capacity is inadequate to meet all of its other demands for sales and transportation service, the services supplied under this schedule may be curtailed in accordance with the Priority of Service rules in the Company's General Terms and Conditions. If a supply deficiency occurs in the volume of gas available to the Company for resale, and the customer's supply delivered to the Company for transportation continues to be available, then the customer may continue to receive full transportation service even though sales gas of the same or higher priority is being curtailed. The determination of system capacity limitations shall be in the sole discretion of the Company reasonably exercised. If capacity limitations restrict the volume of gas which the customer desires to be transported, the customer may request the Company to make reasonable enlargements in its existing facilities, which requests the Company shall not unreasonably refuse, provided that the actual cost (including indirect costs) of such system enlargements are borne by the customer. Title to such expanded facilities shall be and remain in the Company free and clear of any lien or equity by the customer. Nothing herein contained shall be construed as obligating the Company to construct any extensions of its facilities.

(11) Limitation of Transportation Service and Other Charges: Transportation shall be available only where the gas supply contracts, tariffs and schedules under which the Company obtains its gas supplies permit. Any conditions or limitations on transportation by the Company imposed by such contracts, tariffs and schedules shall be applicable to service hereunder. In the event that this transportation service causes the incurrence of demand charges, standby charges, reservation charges, penalties or like charges from the Company's gas suppliers or transporters, which charges are in addition to charges for gas actually received by the Company, such charges shall be billed to the customer in addition to amounts for service rendered hereunder.

Missouri Public Service Commission
GT-04-49
FILED NOV 01 2003

Appendix C
Issue: Revised Tariffs To Increase Annual Revenues for Natural Gas Service
Witness: Louie R. Ervin Sr.
Sponsoring Party: Missouri School Boards' Association
Case No.: GR-2014-0086
Date: July 11, 2014

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2014-0086

APPENDIX C

SUMMARY OF SOMO ACTUALS 2010 – 2013

ON BEHALF OF

MISSOURI SCHOOL BOARDS' ASSOCIATION

Jefferson City, Missouri
July 11, 2014

Summary of SOMO Actuals 2010-2013

# Days	Up/DnPkg ID	Flow Date	Sched Qty(Net)	AllocQty (Net)	Qty Diff(Net)
22	SO MO SCHOOLS	2010	139	118	-21
27	SOMO SCHOOLS	2011	619	484	-135
4	SOMO SCHOOLS	2012	1,303	1,219	-84
44	SOMO SCHOOLS	2013	2,356	1,804	-552
97		4-Years	4,417	3,625	-792