

## MEMORANDUM

**TO:** Missouri Public Service Commission Official Case File  
Case No. GA-2020-0251, Summit Natural Gas of Missouri, Inc.

**FROM:** Joel McNutt, Regulatory Economist, Tariff/Rate Design Department  
Keith Majors, Utility Regulatory Auditor, Auditing Department  
Kathleen A. McNelis, PE, Utility Regulatory Engineering Manager, Safety Engineering Dept.  
Greg A. Williams, Utility Engineering Specialist III, Safety Engineering Department  
Aaron R. Archer, Utility Engineering Specialist II, Safety Engineering Department  
Keenan B. Patterson, PE, Utility Regulatory Engineer, Procurement Analysis Department

/s/ Robin Kliethermes / 04-24-2020  
Rate & Tariff Examination Manager/Date

/s/ Robert S. Berlin / 04-24-2020  
Staff Counsel's Office / Date

**SUBJECT:** Staff Recommendation for Approval of CCN Application with Conditions

**DATE:** April 24, 2020

### Overview

On February 21, 2020, Summit Natural Gas of Missouri, Inc. ("SNGMO" or the "Company"), filed its Application for Certificates of Convenience and Necessity and Motion for Waiver ("Application") with the Missouri Public Service Commission ("Commission") requesting permission and approval and certificates of public convenience and necessity ("CCNs") to construct, install, own, operate, maintain, and otherwise control and manage a natural gas distribution system to provide gas service in Laclede County and Webster County, Missouri. This proposal is an expansion of SNGMO's existing certificated area. SNGMO filed its Supplement to Application for Certificates of Convenience and Necessity ("Supplement Application") on April 7, 2020.

On February 24, 2020, the Commission issued its Order Directing Notice, Setting Deadline for Intervention Request and Directing Filing of Staff Recommendation. The deadline for intervention was set for March 15, 2020. No parties intervened. The Commission directed Staff to file a Recommendation regarding SNGMO's Application by April 24, 2020.

### Requested CCNs

SNGMO states in its Application that it seeks two service area CCNs. SNGMO seeks a service area CCN for an area in Laclede County described as Township 34 North, Range 16 West, Sections 21, 27, and 28 located in Laclede County. The other is in Webster County for an area described as Township 29 North, Range 17 West, Sections 6, 7, 16 and 17. As discussed below, SNGMO states that the requested CCNs are necessary to complete a three phase system upgrade in the Rogersville rate district.<sup>1</sup> Further, SNGMO asserts that there are potential customers

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<sup>1</sup> SNGMO has five rate districts: Gallatin, Warsaw, Lake of the Ozark, Rogersville and Branson.

located along the proposed expansion route and for this reason, it requests area certificates rather than line certificates.<sup>2</sup>

### Project Overview

The SNGMO system supplies natural gas to the Missouri communities of Rogersville, Fordland, Diggins, Seymour, Mansfield, Norwood, Mountain Grove, Cabool, Willow Springs, West Plains, Marshfield, Lebanon and Ava.<sup>3</sup> SNGMO transports natural gas<sup>4</sup> to these communities through its high pressure<sup>5</sup> steel transmission pipeline<sup>6</sup> that originates at an interconnection with the Southern Star Central Gas Pipeline (“SSCGP,” referred to as the “William’s Tap” in the Application), located near Springfield Missouri. The longest segment of SNGMO’s transmission pipeline generally follows the route of U.S. Highway 60 from the point of interconnect with SSCGP to the termination point near West Plains, Missouri. A lateral on SNGMO’s transmission pipeline near Diggins, Missouri transports natural gas north to distribution systems in Marshfield and Lebanon. A lateral on SNGMO’s transmission pipeline near Mansfield, Missouri transports natural gas south to Ava, Missouri. At each community served, the pressure of the natural gas is reduced from the high pressure used to transport in the transmission line, to distribution system pressure<sup>7</sup> prior to introduction into the distribution systems for each community.

The longest segment of the SNGMO transmission pipeline (from SSCGP to Cabool) is constructed of \*\* \_\_\_\_\_ 8 \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ \*\*9

A \*\* \_\_\_\_\_ \*\*10 compressor located near Diggins, Missouri increases downstream gas pressure in SNGMO’s transmission pipeline. Additionally, for the past two winters, SNGMO used temporary \_\_\_\_\_

<sup>2</sup> 20 CSR 4240-3.205(1)(A) addresses filing requirements for a service area certificate and 20 CSR 4240-3.205(1)(B) addresses filing requirements for a gas transmission line certificate.

<sup>3</sup> See Missouri Natural Gas Pipeline Map at: <https://psc.mo.gov/CMSInternetData/Gas/Missouri%20Natural%20Gas%20Pipeline%20Map%207-12-2018.pdf>.

<sup>4</sup> As defined by 20 CSR 4240-40.030(1)(B)41., Transportation of gas means the gathering, transmission, or distribution of gas by pipeline or the storage of gas in Missouri.

<sup>5</sup> \*\* \_\_\_\_\_ \*\*

<sup>6</sup> As defined by 20 CSR 4240-40.030(1)(B)31., a pipeline means all parts of those physical facilities through which gas moves in transportation, including pipe, valves, and other appurtenances attached to pipe, compressor units, metering stations, regulator stations, delivery stations, holders, and fabricated assemblies.

<sup>7</sup> \*\* \_\_\_\_\_ \*\*

<sup>8</sup> Nominal Pipe Size (NPS) is a North American set of standard sizes for pipes used for high or low pressures and temperatures. Nominal" refers to pipe in non-specific terms and identifies the diameter of the hole with a non-dimensional number (for example, 4-inch nominal steel pipe consists of many varieties of steel pipe with the only criterion being a 4.500-inch outside diameter).

<sup>9</sup> Information referenced from various Staff inspection notes.

<sup>10</sup> From Staff’s May 10, 2018 safety inspection notes.

mobile liquefied natural gas (LNG) in Lebanon, Missouri. The purpose of the temporary mobile LNG is to provide additional gas during times of peak gas demand. During the 2019-2020 winter, the temporary mobile LNG facility consisted of \*\* \_\_\_\_\_

\_\_\_\_\_ \*\*<sup>11</sup> The maximum allowable operating pressure (“MAOP”) of the Lebanon distribution system is \*\* \_\_\_\_\_ .\*\*

SNGMO plans to construct improvements in 3 phases:

- Phase I: Install two compressors near the interconnect point with SSCGP to increase pressure to the downstream transmission pipeline serving the Rogersville system. As indicated by SNGMO’s confidential response to Staff Data Request No. 0005, \*\* \_\_\_\_\_ \*\*.
- Phase II: Install a transmission pipeline loop around the City of Lebanon to increase reliability and flow to both the North and South of Lebanon. SNGMO stated in its Supplement Application that it relies heavily on SSCGP and its ability to provide a certain pressure at the tap site.
- Phase III: Replace the segment of 4” transmission pipe between Diggins and Marshfield that is currently a “bottleneck” in the system with 8” pipe to allow greater flow and pressure to reach the Lebanon area. SNGMO stated in its Supplement Application that this will mitigate the need for the existing compressor and will provide enough capacity and pressure on the transmission line to effectively serve the current and future needs of SNGMO’s firm customers.

Staff recommends the following in-service criteria be used in the Company’s next general rate case:

**Transmission Pipeline –**

1. Testing has been completed in accordance with the requirements of 20 CSR 4240-40.030(10), and the test results support a MAOP of 1,000 psig, or higher, in all class locations in which the pipeline is installed.
2. Pipeline is permanently connected to an upstream natural gas supply source.
3. Pipeline is permanently connected to downstream distribution system.
4. Natural gas is flowing through the pipeline.

<sup>11</sup> Information referenced from Staff’s November 19, 2019, LNG-Temporary and Mobile inspection notes.

### **Compressor Station –**

1. All major construction work is complete.
2. All contract performance guarantee testing have been successfully performed in accordance with the contracts for the compressors.
3. All gas detection equipment and alarm systems are installed and functional in compressor buildings.
4. Fire-suppression, pressure limiting devices, and emergency shutdown systems are installed and functional.
5. All preoperational tests on facilities have been successfully completed.
6. Point-to-point verification between SCADA displays and related field equipment has been successfully completed.
7. Verification of safety related alarm set-points has been completed.
8. Compressors have been connected to pipeline with flowing natural gas.

### **Project Purpose**

In January 2018, colder than normal temperatures were experienced at Lebanon, which is served by SNGMO as part of its Rogersville division. SNGMO curtailed customers over the periods of January 3 through 4 and January 16 through 18. The Commission opened an investigation, Case No. GA-2018-0195, on January 18, 2018.

The Staff Preliminary Report filed on March 21, 2018, in that case noted that SNGMO held capacity on the SSCGP to transport enough gas to its city gate to meet its peak day demand. SNGMO's inability to provide adequate flow and pressure without curtailments at that time may have been attributable to constraints within its transmission and distribution facilities.

After the January 2018 curtailments, SNGMO installed a new compressor at its Diggins Compressor Station<sup>12</sup> and installed facilities in the northern part of Lebanon for connecting portable equipment and tanks to supply LNG to the system. SNGMO presented information about the LNG facilities to the Commission during its November 28, 2018 Agenda meeting. These facilities were constructed within SNGMO's current certificated areas.

Though Staff did not evaluate the prudence of SNGMO's proposed facilities, the pipeline, along with other facilities SNGMO is constructing in its currently certificated areas, may reasonably be expected to improve SNGMO's ability to deliver gas from its connection to SSCGP to Lebanon and parts of that system that were affected by the curtailments. In that sense, the facilities are responsive to the transmission and distribution constraints that came to light during the events of January 2018.

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<sup>12</sup> "Summit Natural Gas Completes Lebanon Compressor Project To Increase Capacity To The Lebanon Area" on Summit's news Web page. Retrieved from <https://summitnaturalgas.com/newspress> on April 6, 2020.

**Economic Feasibility**

This project fulfills two purposes: to address the pressure and capacity issues on the Rogersville system and to allow for continued customer growth. The pressure and capacity issues were the subject of investigation docket File No. GO-2018-0195. Staff issued several Data Requests, which included support for the customer growth numbers.

Based on the project estimates and assumptions used by SNGMO, the requested CCN does not appear to be an economically feasible extension of SNGMO’s service area unless the growth opportunities identified by SNGMO become reality. However, the justification of the project lies in addressing the existing pressure and capacity issues, unlike other territory area expansion applications that rely on additional customer growth to pay for the costs of the expansion.

Consistent with past Commission practice, all ratemaking determinations regarding the revenue requirement impact of this service area expansion request should be reserved until SNGMO’s next general rate making proceeding. Staff will examine the revenue requirement impacts of SNGMO’s investment in the next rate case and propose adjustments to remove any imprudent costs. This examination should also include evaluation of the alternatives available to SNGMO to address the pressure and capacity issues on the Rogersville system.

**Construction Budget**

Summit estimates that the total cost of the three phases of this project will be \*\* \_\_\_\_\_ \*\*, including additional amounts for contingency. The table below is the summary of the three phases of the project:

<b>Phase</b>	<b>Description</b>	<b>Budget</b>
Phase 1	Compressor Station at Williams Tap	** _____ **
Phase 2	Lebanon Bypass	** _____ **
Phase 3	Diggins & Marshfield Expansion	** _____ **
Contingency	Total Project Contingency	** _____ **
Total		** _____ **

This project will \*\* \_\_\_\_\_ \*\* for SNGMO’s Rogersville rate district. Based on the accounting schedules filed in Case No. GR-2014-0086, this project will increase net plant in service by \*\* \_\_\_\_\_ \*\* and total rate base by \*\* \_\_\_\_\_ \*\*:

<b>Impact to Summit’s Rogersville Rate District</b>	
Net Plant in Service in Case No. GR-2014-0086	\$80.5 million
% Increase in Net Plant in Service due to proposed project	** _____ **
Total Rate Base in Case No. GR-2014-0086	\$75.9 million
% Increase to Rate Base due to proposed project	** _____ **

### Financial Analysis

The project will be financed by approximately a combination of \*\* \_\_\_\_\_ \*\* from equity and \*\* \_\_\_\_\_ \*\* from utilizing the Summit LDC Holdings, LLC's existing line-of-credit revolver. The total cost of the project is approximately \*\* \_\_\_\_\_ \*\*, well below the sources of funds: \*\*

\_\_\_\_\_ \*\* In other words, the project does not need any other external finance.

### Summary

According to Commission Rule 20 CSR 4240-3.205(1)(B) a feasibility study is not required in a CCN application for a gas transmission line; however, according to 20 CSR 4240-3.205(1)(a)5 a feasibility study is required in a CCN application for a service area certificate. Based on the information provided above, SNGMO's proposed project meets the requirements of a gas transmission line rather than the requirements of a service area certificate. However, Staff recognizes that SNGMO may have an opportunity to connect new customers to the line located in the requested sections and that SNGMO has sufficient line extension policies in place to protect ratepayers from the cost of new connections. For this reason, Staff recommends that the Commission approve SNGMO's request for area certificates concurrently with the line certificates for SNGMO's requested Sections.

### Tartan Criteria

When considering a request for a new CCN, the Commission applies criteria originally developed in a CCN case filed by the Tartan Energy Company and referred to as the "Tartan Criteria." The Tartan Criteria consider (1) the need for service, (2) the utility's qualifications, (3) the utility's financial ability, (4) the feasibility of the proposal, and (5) promotion of the public interest. Staff's analysis of SNGMO's proposed expansion is as follows:

- **Is the service needed?** There is a need for these services. As discussed above, the Company experienced capacity constraints in the Rogersville area in January 2018.
- **Is the applicant qualified to provide the service?** SNGMO is a wholly-owned subsidiary of Summit LDC Holdings, LLC, which is a wholly-owned subsidiary of Summit Utilities, Inc. SNGMO is incorporated in the State of Colorado and conducts business as a "gas corporation" and a "public utility" as defined at Section 386.020, RSMo. Company's Counsel forwarded a copy of SNGMO's Certificate of Good Standing evidencing SNGMO's standing to do business in Missouri, and it was filed in Case No. GA-2012-0285. SNGMO is qualified to provide the services. This is demonstrated by SNGMO's owners owning and managing its facilities and undertaking improvements to provide reliable service and meet the Commission's regulations

- **Does the applicant have the financial ability to provide the service?** As stated above, SNGMO does not require additional external finance. SNGMO has access to financial resources through its parent companies, which have demonstrated financial ability.
- **Is the applicant's proposal economically feasible?** Because the CCN does not appear to be an economically feasible extension of Company's service area without anticipated customer growth, all rate making determinations regarding revenue requirement impact of this service area extension should be reserved until the Company's next general rate making proceeding. SNGMO is already approved to provide natural gas service in Missouri and is part of a larger company with out of state operations so it has an opportunity to take advantage of economies of scale.
- **Does the service promote the public interest?** As the Commission determined in Case No. GA-94-127, positive findings with respect to the other four criteria will in most instances support a finding that a CCN application promotes the public interest. For the reasons outlined through this memorandum, Staff asserts that SNGMO's proposal is not detrimental to the public interest.

#### **Staff Recommendation**

Based on the information provided above Staff recommends the Commission approve the Company's requested CCNs with the following conditions:

- Reserve all rate making determinations regarding the revenue requirement impact of this service area extension request until the Company's next general rate making proceeding, subject to the in-service criteria listed above.
- Reserve all determination regarding prudence of the proposed project until the Company's next general rate making proceeding.
- Require SNGMO to file to update its tariffs to incorporate the requested sections for Laclede County and Webster County provided above.

Staff has verified that the Company has filed its annual report and is not delinquent on any assessment.

**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of the Application of Summit )  
Natural Gas of Missouri Inc., for Certificates ) Case No. GA-2020-0251  
of Convenience and Necessity to Construct, )  
Install, Own, Operate, Maintain, and Otherwise )  
Control and Manage Natural Gas Lines to )  
Provide Gas Service in Certain Areas of )  
Laclede and Webster Counties in Conjunction )  
with its Existing Certificated Areas )

**AFFIDAVIT OF JOEL McNUTT, KEITH MAJORS, KATHLEEN A. McNELIS, PE,  
GREG A. WILLIAMS, AARON R. ARCHER, KEENAN B. PATTERSON, PE**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

**COME NOW** Joel McNutt, Keith Majors, Kathleen A. McNelis, PE, Greg A. Williams, Aaron R. Archer, Keenan B. Patterson, PE and on their oath declares that they are of sound mind and lawful age; that they contributed to the foregoing Memorandum; and that the same is true and correct according to their best knowledge and belief, under penalty of perjury.

Further the Affiants sayeth not.

/s/ Joel McNutt  
Joel McNutt

/s/ Keith Majors  
Keith Majors

/s/ Kathleen A. McNelis  
Kathleen A. McNelis, PE

/s/ Greg A. Williams  
Greg A. Williams

/s/ Aaron R. Archer  
Aaron R. Archer

/s/ Keenan B. Patterson  
Keenan B. Patterson, PE