

Exhibit No.:
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Witness: *David M. Sommerer*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case No.: *GR-2022-0122*
Date Testimony Prepared: *May 13, 2022*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

PROCUREMENT ANALYSIS

DIRECT TESTIMONY

OF

DAVID M. SOMMERER

SUMMIT NATURAL GAS OF MISSOURI, INC.

CASE NO. GR-2022-0122

Jefferson City, Missouri
May 2022

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DAVID M. SOMMERER

SUMMIT NATURAL GAS OF MISSOURI, INC.

CASE NO. GR-2022-0122

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1 **DIRECT TESTIMONY**

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3 **DAVID M. SOMMERER**

4 **SUMMIT NATURAL GAS OF MISSOURI, INC.**

5 **CASE NO. GR-2022-0122**

6 Q. Please state your name and business address.

7 A. David M. Sommerer, 200 Madison Street, Jefferson City, MO. 65101.

8 Q. By whom are you employed and in what capacity?

9 A. I am employed by the Missouri Public Service Commission (“Commission”) as the
10 Manager of the Procurement Analysis Department.

11 Q. Have you provided your educational background and work experience in this file?

12 A. Yes. My education background and work experience is included as Schedule DMS-
13 d1.

14 **EXECUTIVE SUMMARY**

15 Q. What is the purpose of your direct testimony?

16 A. My direct testimony will address Summit Natural Gas of Missouri, Inc.’s
17 (“SNGMO or “Company”) request related to Storm Uri- related carrying costs. This will include
18 providing how the Purchased Gas Adjustment (“PGA”) and Actual Cost Adjustment (“ACA”) are
19 impacted by carrying costs.

20 **PGA/ACA BACKGROUND AND PGA CARRYING COSTS**

21 Q. Please provide an overview of how Storm Uri-related gas costs affected the
22 PGA/ACA.

1 A. On November 4, 2021, SNGMO filed a request to reflect changes in its PGA and
2 ACA factors.¹ SNGMO's request included an additional request to extend the ACA recovery
3 period beyond the traditional 12 months, to an extended recovery period not to exceed five years.²
4 The Company proposed a recovery period of five years due to the impact of Storm Uri. This request
5 to extend the recovery period of ACA under-recoveries was made pursuant to relatively recent
6 SNGMO PGA tariff changes in Case No. GT-2022-0093. The Company further requested a higher
7 carrying cost rate than is available from its traditional PGA tariff.³ SNGMO's PGA tariff generally
8 provided for a rate of Prime minus 2%. The request for a higher carrying cost rate was made
9 pursuant to the same recent PGA tariff changes authorized in SNGMO Case No. GT-2022-0093.

10 Staff's recommendation as filed on November 12, 2021, ultimately recommended rejection
11 of the SNGMO PGA/ACA filing based upon a disagreement regarding the Company's
12 incorporation of a higher carrying cost rate. The Commission rejected the Company's tariff but
13 authorized SNGMO to refile PGA tariff sheets without the disputed carrying costs and required
14 Staff and SNGMO to file a proposed procedural schedule to resolve the carrying cost issue. That
15 proposed procedural schedule was subsequently filed by the parties and approved by the
16 Commission.

17 On November 22, 2021, the Company filed new tariff sheets that the Commission
18 ultimately approved on an interim basis, subject to refund. It is Staff's understanding that the
19 Company has reflected the gas cost impacts of Storm Uri in its November 22, 2021,
20 ACA filing. This basic ACA calculation compares actual gas costs with billed PGA revenues to
21 derive an "under-recovery" or "over-recovery." Due to the magnitude of the incremental

¹ See EFIS Item No. 1, Case No. GR-2022-0122.

² See EFIS Item No. 2, Case No. GR-2022-0122.

³ Id.

1 natural gas costs related to Storm Uri, the Company experienced a significant “under-recovery” of
2 natural gas costs. The normal process would have collected those costs from PGA sales customers
3 over approximately one year. SNGMO request deferral of the costs, in effect spreading the
4 under-recovery over five years.

5 Q. Please specify where in the Company’s PGA tariff’s the carrying cost provision
6 is found.

7 A. This provision is found on tariff sheet number 52. The provision is as follows:

8 *For each month during the ACA period and for each month thereafter, interest at a simple*
9 *rate equal to the prime bank leading rate (as published in The Wall Street Journal on the first*
10 *business day of the following month), minus two (2) percentage points, shall be credited to*
11 *customers for any over-recovery of gas costs or credited to the Company for any under-recovery*
12 *of gas costs. Interest shall be computed based upon the average of the accumulated beginning and*
13 *ending monthly over- or under-recoveries of all PGA related costs that exceed \$50,000. The*
14 *Company shall maintain detailed work papers that provide the interest calculation on a monthly*
15 *basis. The Staff and Public Counsel shall have the right to review and propose adjustment to the*
16 *Company’s monthly entries to the interest calculation.*

17 **COMPANY POSITION ON CARRYING COSTS**

18 Q. Can you provide what the Company has initially suggested as a carrying cost rate
19 to address gas cost under-recoveries related to Storm Uri?

20 A. Yes, the primary components of the Company’s carrying cost proposal are
21 summarized in paragraphs 21 through 24 of their November 5, 2021 “Application to Extend the
22 ACA Recovery Period and For Carrying Costs and Motion for Expedited Treatment and, in the
23 Alternative, Motion for Leave” filed in this case.

1 Q. Please explain.

2 A. In that application the Company stated in part in paragraph 21:

3 *Given the magnitude of the gas supply costs incurred by the Company in*
4 *February 2021, the typical means of funding were grossly insufficient. As an initial matter,*
5 *SNGMO obtained equity to cover the extraordinary gas supply costs that were incurred on behalf*
6 *of customers. Ultimately, MidCo will likely pursue and obtain debt financing for a portion of these*
7 *gas supply costs and other capital needs of SNGMO and MidCo's other*
8 *operating companies.*

9 Q. Please continue.

10 A. In paragraph 22, the Company went on to say:

11 *The magnitude of the February 2021 gas supply costs also rules out funding those*
12 *costs solely through debt. Relying only on debt financing would cause MidCo's credit worthiness*
13 *to decrease with a higher leverage level. This would result in the credit markets viewing MidCo*
14 *as a riskier borrower, and lenders would require higher interest rates on debt.*
15 *Depending on the degree of over leveraging, debt covenants under existing and future credit*
16 *facilities could be triggered. Also, over leveraging the capital structure with debt would make the*
17 *Company riskier to equity holders also, who in turn would require a higher return on their equity*
18 *investment.*

19 Q. What carrying cost rate is the Company seeking?

20 A. The Company states this rate in paragraph 24 of its November 5, 2021 filing:

21 *As a result of the financing for the extraordinary gas supply cost, SNGMO is*
22 *seeking to recover carrying costs for the cost associated with February winter storm Uri at*

1 SNGMO's last Commission approved pre-tax rate of return, 9.64%, as ordered in
2 Case No. GR-2014-0086.

3 Q. What is Staff's initial position with regard to this request?

4 A. The PGA tariff's longstanding rate of prime minus 2% should be applied to the
5 under-recovered cost from Storm Uri. This is based upon the fact that other Missouri LDCs have
6 not pursued the higher carrying costs rates, SNGMO has not shown its sources of short-term debt
7 capabilities throughout its various corporate organizations, and it is not directly apparent that
8 SNGMO acted in a prudent manner with regard to mitigating costs from Storm Uri.

9 Q. Are there other states where carrying costs related to Storm Uri has been or could
10 be an issue for Company affiliates?

11 Q. Yes, I am aware of two SNGMO affiliate LDCs in Arkansas that are currently
12 addressing the carrying cost issue, as well as SNGMO affiliates in Oklahoma and Colorado.

13 Q. Have other Missouri LDCs requested carrying costs greater than the traditional
14 PGA tariffed rate?

15 Q. My understanding from public filings is that Spire Missouri Inc. and Ameren
16 Missouri have not requested these higher rates. Empire District Gas and Liberty Midstates have
17 not yet made a filing to recover at higher rates. I will note that the Liberty Midstates' Iowa
18 jurisdiction has limited the carrying cost rate for Storm Uri costs to a short-term debt rate.

19 A. Do you have concerns that SNGMO's ownership structure could have relevance to
20 SNGMO's access of short-term or intermediate funds?

21 Q. Yes. SNGMO is a wholly owned subsidiary of Summit Utilities Inc. that is owned
22 by a private equity fund managed by J.P Morgan. This structure limits the amount of public

1 information known regarding access to short-term debt instruments. In addition, the structure itself
2 may impact the availability of low-cost working capital.

3 Q. What bearing does prudence have on the carrying cost rate in this case?

4 A. Although Staff agrees that testimony regarding Summit's prudence regarding gas
5 purchasing practices related to Storm Uri won't be addressed until Staff's report is filed in
6 December 2022, ideally, any ultimate recovery of higher carrying costs should be deferred until
7 the matter of prudence is decided by this Commission. In other words, even though no prudence
8 testimony is expected in this part of the case, it should be stated that even if the Company prevails
9 with a higher carrying cost, the application of the rate to Storm Uri dollars should be subject to the
10 ultimate review of the Company's purchasing practices, and the Commission's subsequent
11 decision related to those practices.

12 Q. Does this conclude your direct testimony?

13 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

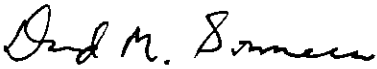
In the Matter of Summit Natural Gas of)
Missouri, Inc.'s Purchased Gas Adjustment) **Case No. GR-2022-0122**
Tariff Filing)

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW David M. Sommerer, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Direct Testimony of David M. Sommerer*; and that the same is true and correct according to his best knowledge and belief, under penalty of perjury.

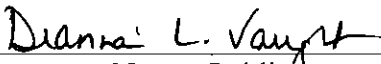
Further the Affiant sayeth not.



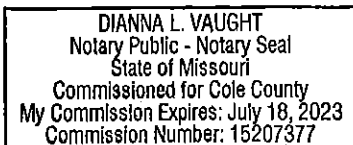
David M. Sommerer

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 12th day of May, 2022.



Notary Public



David M. Sommerer

Educational Background and Work Experience

In May 1983, I received a Bachelor of Science degree in Business and Administration with a major in Accounting from Southern Illinois University at Carbondale, Illinois. In May 1984, I received a Master of Accountancy degree from the same university. Also, in May 1984, I sat for and passed the Uniform Certified Public Accountants examination. I am currently a licensed CPA in Missouri. Upon graduation, I accepted employment with the Commission.

From 1984 to 1990 I assisted with audits and examinations of the books and records of public utilities operating within the state of Missouri. In 1988, the responsibility for conducting the Actual Cost Adjustment (ACA) audits of natural gas utilities was given to the Accounting Department. I assumed responsibility for planning and implementing these audits and trained available Staff on the requirements and conduct of the audits. I participated in most of the ACA audits from early 1988 to early 1990. On November 1, 1990, I transferred to the Commission's Energy Department. Until November of 1993, my duties consisted of reviews of various tariff proposals by electric and gas utilities, Purchased Gas Adjustment (PGA) reviews, and tariff reviews as part of a rate case. In November of 1993, I assumed my present duties of managing a newly created department called the Procurement Analysis Department. This Department was created to more fully address the emerging changes in the gas industry especially as they impacted the utilities' recovery of gas costs. My duties have included managing the Procurement Analysis staff, reviewing ACA audits and recommendations, participating in the gas integrated resource planning project, serving on the gas project team, serving on the natural gas commodity price task force, and participating in matters relating to natural gas service in the state of Missouri. In July of 2006, the Federal Issues/Policy Analysis Section was transferred to the Procurement Analysis Department. That group analyzes filings made before the Federal Energy Regulatory Commission (FERC). During the reorganization in August 2011, the Federal Issues/Policy Analysis Section was transferred to the Secretary/ General Counsel Division. In 2015, I assumed the responsibility for the rate design aspects of the Gas Infrastructure System Replacement Surcharge (ISRS) process. The Gas ISRS allows for a more expedited process of including eligible pipeline replacements in rates prior to general rate cases. In April of 2021, I participated in the development of Staff's Report in the Cold Weather Event Investigation Case No. AO-2021-0264.

**CASES WHERE TESTIMONY
WAS FILED
DAVID M. SOMMERER**

COMPANY	CASE NO.	ISSUES
Summit Natural Gas of Missouri	GC-2022-0158	Ozark Healthcare Complaint
Spire East/West	GR-2021-0108	PGA/ACA Consolidation, Seasonal PGA
Spire East	GO-2019-0356	ISRS rates
Spire West	GO-2019-0357	ISRS rates
Spire East	GO-2019-0115	ISRS rates
Spire West	GO-2019-0116	ISRS rates
Spire East	GO-2018-0309	ISRS rates
Spire West	GO-2018-0310	ISRS rates
Missouri Gas Energy	GO-2017-0201	ISRS rates
Laclede Gas Company	GO-2017-0202	ISRS rates
Missouri Gas Energy	GR-2017-0216	Gas Inventory Carrying Cost and Service Agreements
Laclede Gas Company	GR-2017-0215	Gas Inventory Carrying Cost and Service Agreements
Laclede Gas Company	GO-2016-0333	ISRS rates
Missouri Gas Energy	GO-2016-0332	ISRS rates
Laclede Gas Company (MGE)	GO-2016-0197	ISRS rates
Laclede Gas Company	GO-2016-0196	ISRS rates
Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty Utilities	GR-2014-0152	Special Contact Customers Gas Contract

COMPANY	CASE NO.	ISSUES
Missouri Gas Energy	GR-2014-0007	Gas Supply Incentive Plan Property Tax PGA Recovery
Laclede Gas Company	GR-2010-0171	Bad Debt in PGA, CAM
Atmos Energy Corporation	GR-2009-0417	Affiliated Transactions
Atmos Energy Corporation	GR-2008-0364	Affiliated Transactions
Missouri Gas Energy	GR-2009-0355	PGA tariff
Laclede Gas Company	GT-2009-0026	Tariff Proposal, ACA Process
Missouri Gas Utility	GR-2008-0060	Carrying Costs
Laclede Gas Company	GR-2007-0208	Gas Supply Incentive Plan, Off-system Sales, Capacity Release
Laclede Gas Company	GR-2005-0284	Off-System Sales/GSIP
Laclede Gas Company	GR-2004-0273	Demand Charges
AmerenUE	EO-2004-0108	Transfer of Gas Services
Aquila, Inc.	EF-2003-0465	PGA Process, Deferred Gas Cost
Missouri Gas Energy	GM-2003-0238	Pipeline Discounts, Gas Supply
Laclede Gas Company	GT-2003-0117	Low-Income Program
Laclede Gas Company	GR-2002-356	Inventory, Off-System Sales
Laclede Gas Company	GR-2001-629	Inventory, Off-System Sales
Laclede Gas Company	GR-2001-387	ACA Price Stabilization
Missouri Gas Energy	GR-2001-382	ACA Hedging/Capacity Release
Laclede Gas Company	GT-2001-329	Incentive Plan
Laclede Gas Company	GO-2000-394	Price Stabilization
Laclede Gas Company	GT-99-303	Incentive Plan
Laclede Gas Company	GC-99-121	Complaint PGA

COMPANY	CASE NO.	ISSUES
Laclede Gas Company	GR-98-297	ACA Gas Cost
Laclede Gas Company	GO-98-484	Price Stabilization
Laclede Gas Company	GR-98-374	PGA Clause
Missouri Gas Energy	GC-98-335	Complaint Gas Costs
United Cities Gas Company	GO-97-410	PGA Clause
Missouri Gas Energy	GO-97-409	PGA Clause
Missouri Gas Energy	GR-96-450	ACA Gas Costs
Missouri Public Service	GA-95-216	Cost of Gas
Missouri Gas Energy	GO-94-318	Incentive Plan
Western Resources Inc.	GR-93-240	PGA tariff, Billing Adjustments
Union Electric Company	GR-93-106	ACA Gas Costs
United Cities Gas Company	GR-93-47	PGA tariff, Billing Adjustments
Laclede Gas Company	GR-92-165	PGA tariff
United Cities Gas Company	GR-91-249	PGA tariff
United Cities Gas Company	GR-90-233	PGA tariff
Associated Natural Gas Company	GR-90-152	Payroll
KPL Gas Service Company	GR-90-50	Service Line Replacement
KPL Gas Service Company	GR-90-16	ACA Gas Costs
KPL Gas Service Company	GR-89-48	ACA Gas Costs
Great River Gas Company	GM-87-65	Lease Application
Grand River Mutual Tel. Company	TR-87-25	Plant, Revenues
Empire District Electric Company	WR-86-151	Revenues
Associated Natural Gas Company	GR-86-86	Revenues, Gas Cost
Grand River Mutual Telephone	TR-85-242	Cash Working Capital

cont'd David M. Sommerer

COMPANY	CASE NO.	ISSUES
Great River Gas Company	GR-85-136	Payroll, Working Capital
Missouri-American Water Company	WR-85-16	Payroll