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Case No.: GR-2014-0086

REBUTTAL TESTIMONY

OF

KERI ROTH

Submitted on Behalf of
the Office of the Public Counsel

SUMMIT NATURAL GAS

Case No. GR-2014-0086

July 11, 2014

CRC Exhibit No. 200 NP
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**REBUTTAL TESTIMONY
OF
KERI ROTH**

**SUMMIT NATURAL GAS OF MISSOURI, INC.
CASE NO. GR-2014-0086**

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Keri Roth, P.O. Box 2230, Jefferson City, Missouri 65102-2230.

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

A. I am employed by the Missouri Office of the Public Counsel (OPC or Public Counsel) as a Public Utility Accountant I.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of this rebuttal testimony is to provide the Commission with information that identifies the bargain purchase discount that resulted from Missouri Gas Utility's (MGU) purchase of Southern Missouri Natural Gas (SMNG) as authorized in Case No. GM-2011-0354. In addition, I will describe the Company's and MPSC Staff's current recommendations for recovery of the bargain purchase discount from ratepayers. Lastly,

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1 I will briefly address the Public Counsel's position as to the proper regulatory
2 ratemaking for the costs at issue in this case.

3
4 Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES AT THE OPC?

5 A. My duties include performing audits and examinations of the books and records of
6 public utilities operating within the state of Missouri under the supervision of the Chief
7 Public Utility Accountant, Mr. Ted Robertson.

8
9 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER
10 QUALIFICATIONS.

11 A. I graduated in May 2011, from Lincoln University, in Jefferson City, Missouri, with a
12 Bachelor of Science Degree in Accounting.

13
14 Q. HAVE YOU RECEIVED SPECIALIZED TRAINING RELATED TO PUBLIC
15 UTILITY ACCOUNTING?

16 A. Yes. In addition to being employed by the Missouri Office of the Public Counsel since
17 September 2012, I have also attended the NARUC Utility Rate School held by Michigan
18 State University.

19

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1 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE MISSOURI
2 PUBLIC SERVICE COMMISSION (COMMISSION OR MPSC)?

3 A. Yes. Please refer to Schedule KNR-1, attached to this testimony, for a listing of cases in
4 which I have submitted testimony.

5
6 Q. PLEASE SUMMARIZE PUBLIC COUNSEL'S POSITION ON THE ISSUE.

7 A. It is Public Counsel's position that the bargain purchase discount resulting from the sale
8 of SMNG to MGU represents assets acquired for which no cost was incurred by the
9 purchaser. The costs associated with related assets should not be passed on to
10 ratepayers. As described in greater detail in the rebuttal testimony of OPC witness, Ms.
11 Barbara Meisenheimer, she will explain that the seller failed to achieve the owner's
12 expected, and promised, targets for customer numbers and sales. The Company agreed,
13 and the Commission authorized, if SMNG failed to meet its proposed business/operating
14 targets in its original Certificate of Convenience and Necessity (CCN) and subsequent
15 CCN and rate cases, that any risk associated with this failure would not be passed on to
16 ratepayers. Furthermore, Public Counsel is concerned that the Company's and MPSC
17 Staff's ratemaking recommendations for the associated costs would result in a violation
18 of the Commission's affiliated transaction rules, due to the fact the owners of the seller
19 and buyer, SMNG and MGU, were one and the same. Since the buyer recorded the
20 value of the assets purchased at SMNG's higher recorded book value rather than the

1 lower actual purchase price, Public Counsel believes that a violation of the affiliated
2 transaction rules has occurred. Ms. Meisenheimer explains the affiliated transaction
3 rules further in her testimony.
4

5 **III. SMNG BARGAIN PURCHASE DISCOUNT**

6 Q. WHAT IS A BARGAIN PURCHASE DISCOUNT?

7 A. FASB ASC 805, in general, explains that a bargain purchase is a business combination
8 in which one corporate entity is acquired by another for a dollar amount less than fair
9 market value of its net assets.
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11 Q. WHAT IS THE VALUE OF THE BARGAIN PURCHASE DISCOUNT?

12 A. The Company's response to OPC DR #1120 explains this answer in the Company's

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Q. WHAT IS THE BREAKDOWN OF THE NET ASSETS AND LIABILITIES
ACQUIRED?

A. The Company's response to OPC DR #1120 explains this answer in the Company's

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Q. WHAT IS THE MPSC STAFF AND COMPANY POSITION REGARDING THE
ASSETS ASSOCIATED WITH THE BARGAIN PURCHASE DISCOUNT?

1 A. Both the Company and MPSC Staff have recorded all assets at their original book value.

2 The Company has also **

3 ** . Per MPSC Staff

4 witness, Ms. Amanda McMellen, Staff has not included the negative purchase price
5 adjustment in their case.

6
7 Q. IS THERE ANY LAW, RULE OR REGULATION, OR EVEN COMMISSION
8 PRECEDENT THAT A REGULATED UTILITY SHOULD BE ALLOWED TO
9 RECOVER COSTS ASSOCIATED WITH A BARGAIN PURCHASE DISCOUNT
10 WHEN DEVELOPING RATES?

11 A. The Commission's position on this issue is illustrated by its decision in Kansas City
12 Power & Light, Case No. ER-77-118. On page 42 of its Report and Order, the
13 Commission stated:

14 It is the Commission's position that ratepayers do not acquire any
15 right, title and interest to Company's property simply by paying
16 their electric bills. It should be pointed out that Company investors
17 finance Company while Company's ratepayers pay the cost of
18 financing and do not thereby acquire an ownership position.
19 Therefore, the Commission finds that the disposal of Company
20 property at a gain does not entitle its ratepayers to benefit from that
21 gain, nor does the disposal of Company property at a loss require
22 that Company's ratepayers absorb that loss.

23
24 (Emphasis added by OPC)
25

1 Q. IS IT LIKELY THAT A TAX BENEFIT HAS ALREADY ACCRUED TO SELLER
2 WHICH ALLOWED IT TO RECOVER A PORTION OF THE LOSS IT INCURRED
3 IN THE SALE?

4 A. Yes. Any loss associated with bargain purchase discount would create tax benefits for
5 the owner of the sold entity. For example, assume the owner's effective tax rate was
6 38% (approximate combined federal and state tax rate) and the bargain purchase
7 discount on the sale was \$1. All other things being equal, the owners would receive a
8 tax benefit of 38 cents that represents taxes owed on current and/or future revenues that
9 will be avoided. In effect, the owner's actual loss on the sale is only 62 cents because of
10 the tax benefits.

11
12 Q. DO THE COMPANY AND MPSC STAFF PROPOSALS RECOMMEND A RETURN
13 ON AND RETURN OF THE ASSETS' ACTUAL BOOKED COSTS EVEN THOUGH
14 THE OWNERS HAVE LIKELY FULLY RECOVERED APPROXIMATELY 38% OF
15 THE BARGAIN PURCHASE DISCOUNT ASSOCIATED WITH THE SALE FROM
16 TAX BENEFITS?

17 A. Yes. The Company and MPSC Staff proposals recommend ratepayers be required to
18 provide a return on and return of (i.e., depreciation expense) the difference between the
19 assets book value and the actual purchase price even though approximately 38% of the

1 difference between the costs has likely already been recovered by the utilities owners via
2 tax benefits.

3
4 Q. WHAT DO YOU MEAN WHEN YOU STATE "RETURN ON" AND "RETURN OF?"

5 A. "Return on" rate base refers to profit being received on an investment over a period of
6 time. "Return of" capital refers to depreciation. Depreciation is collected in rates, which
7 is collected by the Company, covering the cost of an investment. Rate base decreases as
8 depreciation reserve accumulates.

9
10 Q. PLEASE SUMMARIZE THE KEY POINTS IN THIS TESTIMONY.

11 A. In Case No. GM-2011-0354, a bargain purchase discount resulted from the sale of
12 SMNG to MGU, which represents that assets were acquired for which no cost was
13 incurred by the purchaser. The buyer recorded the value of the assets purchased at
14 SMNG's original recorded book value rather than the lower actual purchase price. By
15 recording the assets at the original book value, ratepayers will be required to provide a
16 return on and return of the difference between the original book value and the actual
17 purchase price, even though no cost was incurred by the purchaser.

18
19 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

20 A. Yes, it does.

**CASE PARTICIPATION
OF
KERI ROTH**

<u>Company Name</u>	<u>Case No.</u>
Empire District Electric Company	ER-2012-0345
Emerald Pointe Utility Company	SR-2013-0016
Lake Region Water & Sewer Company	WR-2013-0461