

**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 to Increase its Annual Revenues for Natural Gas Service.	)	)	Case No. GR-2014-0086
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**INITIAL BRIEF OF THE  
OFFICE OF THE PUBLIC COUNSEL**

Summit Natural Gas of Missouri, Inc. (“SNG” or “Company”) originally requested a \$7.4 million increase in revenues, but now states that it needs an \$8.2 million increase in revenues. Unlike a typical gas company rate case, all remaining issues are impacted by the fact that SNG is operating its developing distribution system subject to Commission-ordered conditions that require SNG to bear the risk of reaching projected levels, and to bear the risk of overall expansion project success. SNG’s request in this case is precisely why the Commission requires SNG to bear the risk – without that condition customers could be subject to future rate increases that are a direct result of SNG’s failure to meet its projections – projections the Company used to show that the projects were economically feasible.

If approved, the proposed increase would raise residential rates by an alarming \$253 to \$384 annually for an *average* customer.<sup>1</sup> Customers with above average usage would pay considerably more. By comparison, the average annual rate increase for other gas company rate cases in Missouri is approximately \$50.<sup>2</sup> Requiring residential and

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<sup>1</sup> Tariff (YG-2014-0285), filed January 2, 2014, EFIS Docket Sheet Item No. 2. The rate increase range in SNG’s filed case was \$228.32 to \$346.61. These figures were increased by 10.8% to reflect the increase in SNG’s revenue request from \$7.4 million to \$8.2 million.

<sup>2</sup> See Table on page 29.

small business customers to bear an increase of the magnitude requested by SNG is unjust and unreasonable and should be denied.

The facts of this case show that raising rates up to seven times the average for a gas company is a product of expansion projects which have not been successful. This conclusion is supported by the fact that the current customer numbers, volume numbers, and revenue numbers are short of the Company's projections found in the feasibility studies it filed to support its expansion requests. Further support for the conclusion that the expansion projects have been unsuccessful is evidenced by the \$19 million discount below book value that SNG paid when it acquired the Southern Missouri Natural Gas (SMNG) assets.

## **1. BACKGROUND**

"SNG is the current name of the corporate entity formerly known as MGU. MGU, a subsidiary of Summit Utilities, Inc. ("Summit Utilities"), acquired SMNG on January 16, 2012, and at the same time changed the name of the entity to SNG."<sup>3</sup>

SNG serves mostly small rural communities in southern and northwestern Missouri through a newly built distribution system.<sup>4</sup> SNG and its predecessors requested at least twenty-two applications for certificates of convenience and necessity (CCNs) from the Commission.<sup>5</sup> All but two of these CCNs were issued within the last nine years.

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<sup>3</sup> Exhibit (Ex) 4, Moorman Direct, p. 3.

<sup>4</sup> SNG serves the following twenty-six (26) communities in Missouri: Hamilton, Jamesport, Pattonsburg, Ridgeway, Jameson, Green Ridge, Cole Camp, Lincoln, Warsaw, Lake of the Ozarks, Rogersville, Fordland, Diggins, Marshfield, Seymour, Mansfield, Norwood, Mountain Grove, Ava, Cabool, Houston, Licking, Willow Springs, West Plains, Lebanon, and Branson. Tariff (YG-2014-0285), filed January 2, 2014, EFIS Docket Sheet Item No. 2.

<sup>5</sup> Case Nos. GA-94-127, GA-95-349, GO-2005-0120, GA-2007-0168, GA-2007-0212, GA-2007-0310, GA-2007-0521, GA-2008-0078, GA-2008-0321, GA-2008-0322, GA-2008-0348, GA-

When determining whether to grant a CCN application, the Commission seeks to ensure the following five criteria: “(1) There is a public need for the proposed service; (2) The applicant is qualified to provide the proposed service; (3) The applicant has the financial ability to provide the proposed service; (4) The applicant’s proposal is economically feasible; and (5) The proposed service promotes the public interest.”<sup>6</sup>

When SNG and its predecessors sought to develop gas distribution systems in Missouri, they knew the projects had significant risks due to the low economies of scale inherent in serving small communities, and due to competition from established and unregulated propane gas providers.<sup>7</sup> These risks raised questions over whether the distribution system proposal was economically feasible and could achieve the company’s projections.<sup>8</sup> The Commission granted the authority to serve in the various expansion areas, but subjected that authority to the condition that the financial risks of the projects shall not be passed on to customers.<sup>9</sup> These conditions required SNG to assume the risk that their gas systems would achieve their projected levels.<sup>10</sup> The facts of this case show that SNG has not yet met its projections.<sup>11</sup> Rates must, therefore, not be increased to a level that would have consumers assume the risk that the Commission repeatedly ordered must be assumed by the Company.

The first CCN under which SNG currently provides service was granted in 1994 for Tartan Energy d/b/a Southern Missouri Gas Company (SMGC), which allowed SMGC to

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2009-0264, GA-2009-0422, GA-2010-0012, GA-2010-0114, GA-2010-0189, GA-2010-0289, GA-2010-0290, GA-2010-0291, GA-2010-0044, GA-2012-0285, and GA-2013-0404.

<sup>6</sup> GA-2007-0168, Report and Order, February 5, 2008, p.7.

<sup>7</sup> Case No. GA-94-127, *Report and Order*, September 16, 1994.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> *Id.*

serve ten small communities in Southern Missouri.<sup>12</sup> The Commission's Staff opposed the request, but ultimately agreed after the Company agreed to several conditions, including the following, in a Stipulation and Agreement between the Company, the Staff, and Public Counsel:

Applicant also agrees that a normalized volume level of at least 1,797,000 Mcf shall be used in this 2-year anniversary rate case, all subsequent rate cases and actual cost adjustment cases (ACA) for determining the appropriate rates. In the event the normalized test year volume level for the service area granted in this proceeding is less than 1,797,000 Mcf per year, Applicant agrees that revenues associated with this volume level shall be imputed in the 2-year anniversary rate case, all subsequent rate cases and ACA cases. Applicant will not defer those costs to a future rate proceeding. In the event that the normalized volume level for the service area granted in this proceeding exceeds 1,797,000 Mcf per year, the Applicant, Commission Staff and Public Counsel agree that this level of normalized test year volumes shall be utilized for establishing rates. Applicant also agrees that the provisions of this paragraph shall apply to its successors or assigns.<sup>13</sup> [emphasis added].

The Commission approved the Stipulation and Agreement, and stated specifically that its approval of the above condition was based upon its finding that the following testimony evidence from the Staff was "persuasive":

First, SMGC should bear all risk associated with recovering the cost resulting from this project. If approved, rates would be established for the provision of service in the proposed area. If the rates are somehow made to be competitive with propane and enough customers convert to natural gas, the company would theoretically, with time, recover its investment. However, if the number of customers is insufficient to generate enough sales to recover the costs, the unrecovered cost should be the responsibility of SMGC's stockholders, not its customers. These unrecovered revenues should not be recovered through rate increases in a subsequent rate case.

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<sup>11</sup> Ex. 202 and 203, Meisenheimer Rebuttal and Surrebuttal Testimony, as amended.

<sup>12</sup> Case No. GA-94-127, *Report and Order*, September 16, 1994. Service area included Cabool, Houston, Licking, Mountain Grove, West Plains, Ava, Mansfield, Marshfield, and Willow Springs.

<sup>13</sup> *Id.*, Stipulation and Agreement, July 22, 1994, pp. 6-7.

Language assigning a minimum sales volume and maximum rate base and cost figures should be included in any order approving the certificate. Staff's proposed figures are reflected in Schedule 1 of Staff witness David Winter's rebuttal testimony. These figures will have to be maintained in future rate cases to prevent the risk of the project from being shifted to the ratepayers in subsequent rate cases. In my opinion this is the only way to prevent the risk of this project from being included in rates that customers pay in future years (i.e. , rate base and depreciation).

If SMGC is confident in its numbers used in this Application, they should have no objection to protective language, designed to minimize the risk to the company's customers, being placed in any order that might grant a certificate.<sup>14</sup> [emphasis added].

The Commission also quoted the Staff witnesses testimony that the Company had overstated its projected conversion rate of 70% when a more realistic conversion rate was 45%.<sup>15</sup> The Commission's Report and Order granting the CCN stated:

The Commission finds the testimony of Mr. Jones to be persuasive, and that the Stipulation provisions relating to the imputation of the 1,797,000 Mcf volume level adequately shift the risk to Tartan and its shareholders, and provide reasonable protection to customers against the possibility that Tartan has overestimated the conversion rates reasonably attainable.<sup>16</sup>

...

The Commission is of the opinion that the biggest risk facing Tartan is that it may take more time than predicted to obtain the necessary conversions, not that the project is not viable at all. Tartan is aware of the risk and has chosen to accept it. It agreed to the imputed volume levels contained in the Stipulation and also agreed that the provision involving imputation of volume levels be binding on its successors and assigns. Tartan also conducted a sensitivity analysis which showed that in the event conversions took place at a lower rate than anticipated, Tartan's return on its investment would be

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<sup>14</sup> *Id.*, Case No. GR-94-127, Report and Order, September 16, 1994, pp. 17-18.

<sup>15</sup> *Id.*

<sup>16</sup> *Id.* p. 18.

reduced to a single-digit level. Tartan seems willing to accept this risk.<sup>17</sup>  
[emphasis added].

The Commission ordered the imputation agreed to by the Company of 1,797,000 Mcf. In other words, the Commission set rates as if the Company's customers used 1,797,000 Mcf annually even though they actually use less. This lowered the rate paid by each customer to a rate that would be paid if more customers were subscribed and using 1,797,000 Mcf, as projected by the Company.

The Report and Order in Case No. GR-94-127 set the standard that the Commission followed for subsequent expansion requests for MGU, Southern Missouri Natural Gas (SMNG), and SNG. The following quotes come from the subsequent CCN orders:

- **Rogersville, Fordland, Diggins, Norwood and Seymour (1995)**

"...the Commission will grant the requested certificate of convenience and necessity subject to the conditions contained in the Nonunanimous Stipulation and Agreement entered into and approved in Case No. GA-94-127."<sup>18</sup>

- **Gallatin and Hamilton (2005)**

"The Company shall be responsible in future rate cases for any failure of this system to achieve forecasted conversion rates and/or its inability to successfully compete against propane."<sup>19</sup>

- **Lebanon, Licking and Houston (2007)**

"...the shareholders, rather than the ratepayers, being deemed responsible for the detrimental effects of a loss resulting from inaccurate estimations of customer conversion or usage rates."<sup>20</sup>

- **Branson, Branson West and Hollister (2008)**

"SMNG's shareholders bear the economic risks associated with the

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<sup>17</sup> *Id.* pp. 24-25.

<sup>18</sup> Case No. GA-95-349, Order Granting Certificate, September 13, 1995.

<sup>19</sup> Case No. GO-2005-0120, Order Approving Stipulation and Agreement, December 14, 2004.

<sup>20</sup> Case No. GA-2007-0212, Report and Order, August 16, 2007, pp. 25-26.

expansion of its service area to the Branson area (just as in the Lebanon case), including a failure to achieve forecasted conversion rates and/or customer growth projections.”<sup>21</sup>

- **Green Ridge, Cole Camp, Lincoln, and Warsaw (2009)**

“MGU’s shareholders are totally responsible for the success of this project, with no liability or responsibility put on customers.”<sup>22</sup>

- **Camdenton, Osage Beach and Lake Ozark (2009)**

“MGU’s shareholders are totally responsible for the success of this project, with no liability or responsibility put on customers.”<sup>23</sup>

- **Bolivar and Buffalo (2010)**

“MGU’s shareholders are totally responsible for the success of this project, with no liability or responsibility put on customers.”<sup>24</sup>

- **Warsaw (2010)**

“MGU’s shareholders accept full financial responsibility for the success of these projects, with no liability or responsibility falling on customers.”<sup>25</sup>

- **Cole Camp and Lincoln (2011)**

“MGU’s shareholders shall be fully responsible for the success of this project, with no liability or responsibility put on MGU’s existing customers.”<sup>26</sup>

- **Camdenton, Osage Beach, Hurricane Deck, Linn Creek, Sunrise Beach, the Village of Four Seasons, Gravois Mills and Laurie (2012)**

“Summit’s shareholders shall be responsible for the success of this project, with no liability or responsibility put on its customers.”<sup>27</sup>

- **Pettis and Benton Counties (2013)**

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<sup>21</sup> Case No. GA-2007-0168, Report and Order, June 24, 2008, p. 10.

<sup>22</sup> Case No. GA-2009-0264 and GA-2009-0422, Order Granting Certificate, April 29, 2009, p. 6.

<sup>23</sup> Case No. GA-2010-0012, Order Granting Certificate, November 30, 2009, p. 5.

<sup>24</sup> Case No. GA-2010-0189, Order Granting Certificate, April 10, 2010, p. 4.

<sup>25</sup> Case No. GA-2010-0289, Order Granting Certificate, July 10, 2010, p. 4.

<sup>26</sup> Case No. GA-2012-0044, Order Granting Certificate, October 8, 2011, p. 4.

<sup>27</sup> Case No. GA-2012-0285, Order Granting Certificate, July 27, 2012, p. 2.

“SNG’s shareholders are totally responsible for the success of this project, with no liability or responsibility put on customers.”<sup>28</sup>

In 2012, MGU and SMNG filed an application seeking Commission approval of MGU’s acquisition of SMNG’s assets. To resolve concerns raised by the request’s impact on the CCN conditions, MGU agreed to the following in a stipulation and agreement approved and ordered by the Commission:

In its CCN case, Case No. GA-94-127, SMNG agreed to “bear most of the risk” of building the system because the economic feasibility of the system was an issue in that case. The original application assumed that “Company would bear most of the risk” that the system might not meet revenue expectation or the system might cost more to build than was originally estimated. The original applicant accepted and agreed to this condition to secure the Commission’s authorization to build the system. It is not in the public interest for the Commission to eliminate the condition in this case. The condition was imposed to place the risk of viability on the company was in the form of an imputation of revenues for customer volumes. This imputation, which was imposed in the original CCN should remain in effect at least until such time as the merged company files a rate case and the Commission issues an Order approving termination of the revenue imputation.<sup>29</sup>

Here MGU specifically agreed to continue the above referenced imputation of revenues, as well as all additional conditions placed on SMNG’s service authority. The acquisition stipulation also states, “MGU shall comply with all Commission orders that currently impose any requirement or condition upon SMNG.”<sup>30</sup> SNG’s request to raise rates must be considered in light of these CCN conditions, which SNG specifically agreed to continue for the SMNG service areas.<sup>31</sup>

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<sup>28</sup> Case No. GA-2013-0404, Order Granting Certificate, May 11, 2013, p.3.

<sup>29</sup> Case No. GM-2011-0354, Stipulation and Agreement, September 15, 2011, p. 7.

<sup>30</sup> *Id.* p. 8.

<sup>31</sup> Section 393.170 RSMo authorizes the Commission to “impose such condition or conditions as it may deem reasonable and necessary” when granting service authority.



## 2. ARGUMENT

### 1. Revenue Requirement

The parties identified three unresolved revenue requirement issues. The first two issues are: (a) *Should the Commission grant the Company a rate increase? If so, what amount?* and (b) *Should the Commission require SNGMO to impute a level of volumes, customer levels, and/or revenues in any of the four rate divisions in this rate case?*

These revenue requirement issues are unavoidably linked to the expansion history of SNG. The CCN's that currently authorize SNG to provide service were conditioned upon SNG's shareholders, not ratepayers, assuming the risk of meeting the Company's projected rate of converting customers and the projected volumes to be sold through the expansions. **The only way for SNG to shift those risks onto customers is through requested rate increases that require ratepayers to pay more for their service than they would pay if the projected conversions and throughput had been met**, which would be a violation of the CCN orders cited above.

Public Counsel's witness and Chief Economist Ms. Barbara Meisenheimer analyzed the feasibility studies submitted by the companies to support their CCN expansion proposal, and compared those projections to current actual customer numbers and gas volumes. What she found is a distribution system that, as the Commission predicted for this new and developing system, is taking time to grow and still has not met its projections. A summary of those findings appears in the following Highly Confidential table:

Service Area	Customer Level Shortfall	Gas Volume Shortfall
Gallatin <sup>32</sup>	** /0**	** /0**
Warsaw <sup>33</sup>	** /0**	* /0**
Branson <sup>34</sup>	** /0**	** /0**
Rogersville <sup>35</sup>	** /0**	** /0**

The newer systems of Branson (2007) and Warsaw (2009) are much further below their customer and volume projections, which is to be expected as those are newer expansions. The oldest system, Rogersville (1994), is the closest to achieving its projections, followed next by the second oldest system, Gallatin (2005). All systems, however, have not met the Company's feasibility study projections.

SNG's cost of capital witness, Mr. James Anderson, acknowledged the projection shortfalls when he characterized the company's feasibility studies as "inadequate."<sup>36</sup> He testified that they were inadequate because the Company has experienced "fewer customer's connecting, lower gas consumption, construction delays, delays in customers connecting, and higher construction costs incurred."<sup>37</sup> The risks that the Company's projections were inadequate on consumption, customer numbers, construction costs, and other construction factors, are SNG's risks to bear alone. Increasing the return on equity, or any other increase in rates due to these factors, would shift these risks to customers.

To a limited extent, SNG recognizes that customers should pay less than the full cost of the distribution system. SNG witness Ms. Michelle Moorman testified:

<sup>32</sup> Ex. 203, Meisenheimer Surrebuttal, p. 3.

<sup>33</sup> *Id.* p. 4.

<sup>34</sup> *Id.*

<sup>35</sup> *Id.*, p. 3.

<sup>36</sup> Ex. 161, Anderson Direct, p. 20.

- Q. What management policy decision was made for the Branson division?
- A. SNG also decided to seek less than the full revenue requirement in the Branson Division. Similar to the LOO [Lake of the Ozarks] Division, the Branson Division is still growing. Accordingly, SNG has sought something less than the full revenue requirement in order to avoid assigning the full cost of the system to early moving customers.

While SNG recognizes the issue, it does not attempt to adequately identify other areas where reductions to the revenue requirement should be made to protect “early moving customers” from paying the full cost of the system.

To protect customers from bearing the financial risk of the Company’s aggressive expansions, the Commission has several tools at its disposal. First, the Commission can impute revenues, which would act to protect customers by requiring them to pay no more than a customer would pay if the projected customer levels and volumes were achieved.<sup>38</sup> Second, the Commission may also order “excess capacity” adjustments to remove from rate base those portions of plant that were built to serve future growth, such as adjusting out those portions of distribution costs incurred for larger diameter distribution main than what is necessary to serve the current customer base.<sup>39</sup> The Company and Staff use this method on a limited basis but fail to reflect that other costs such as operations and maintenance, and corporate costs, would be spread over a larger customer base had the projected customer numbers and volumes been achieved.<sup>40</sup> Lastly, the Commission can deny the rate increase in its entirety because SNG has not met its burden under § 386.430 RSMo of proving that the rate increase request would not require customers to bear the

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<sup>37</sup> *Id.*

<sup>38</sup> Ex. 202, Meisenheimer Rebuttal.

<sup>39</sup> Ex. 107, McMellan Rebuttal, pp. 3-4.

<sup>40</sup> Tr. 284.

financial risks of the expansions.

**a. Rogersville Service Area**

The Commission's first CCN order for the SNG service area was issued in 1994 and requires SNG to impute 1,797,000 Mcf per year "until the normalized volume level for the service area granted in this proceeding exceeds 1,797,000 Mcf per year."<sup>41</sup> By agreement of the parties and by order of the Commission, this imputation is required to apply to the service area until the normalized volume levels exceed the imputation amount. Accordingly, the Commission should require SNG to continue to impute 1,797,000 Mcf per year until the normalized volume area for the original CCN service area reaches that level.

SNG and the Staff argue that the ordered imputation should cease because, by their calculations, the annualized and normalized sales volumes are 1,888,994 Mcf, rather than the 1,755,522 Mcfs referenced in Public Counsel's testimony, and that the Rogersville system has exceeded the sales target requirements. The 1,888,994 Mcf figure, however, includes volumes for the entire Rogersville Service Area, whereas the ordered imputation was only for the original nine communities.<sup>42</sup> The 1.8 million Mcf figure even includes the City of Lebanon, which was not part of the original CCN upon which the 1.7 million Mcf imputation was ordered.<sup>43</sup> In fact, testimony from the Company's witness during the original CCN case was that the imputation number was not based upon volumes from Rogersville, Fordland, Diggins, Seymour and Norwood.<sup>44</sup>

The Staff recognizes this discrepancy when Ms. McMellen states, "The portion of

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<sup>41</sup> Case No. GR-94-127, Report and Order, September 16, 1994, p. 18.

<sup>42</sup> Tr. 254.

<sup>43</sup> Tr.254.

<sup>44</sup> Ex. 206; Tr. 257-258.

the Rogersville system subject to the revenue imputation conditions established in Case No. GA-94-127 forms the bulk of the Rogersville system.”<sup>45</sup> The Staff recognizes that the original imputation amount of 1,797,000 Mcf was based on the projected volumes for the original service area, not the larger Rogersville Service Area as it appears today. SNG also sought additional expansions of the Rogersville Service Area projecting incremental increases to customer counts and volumes. By including volumes for areas not originally included when the imputation was set, the Staff’s testimony distorts the volume level required before the imputation can be removed. The 1,797,000 Mcf imputation should be adjusted to reflect incremental additions to the original certificated service area.

Since the previously ordered imputation involves only the original service area granted in Case No. GA-94-127 for the communities of Marshfield, Mansfield, Mountain Grove, Ava, Cabool, Houston, Licking, Willow Springs, and West Plains, the additional financial risks created by expanding into Rogersville, Fordland, Diggins, Seymour or Norwood should require an additional imputation. It is clear that these additional communities were not included in the CCN granted in Case No. GA-94-127,<sup>46</sup> and the imputation level of 1,797,000 was based on projections that *specifically excluded* the projected volumes for these additional communities.<sup>47</sup> Therefore, the volumes used in the additional communities should not be included in the calculation of current volumes relevant to the imputation in the original CCN.

The following tables summarize the Rogersville Service Area’s projected and

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<sup>45</sup> Ex. 128, McMellan Surrebuttal, p. 7. Emphasis added.

<sup>46</sup> Case No. GA-94-127, Report and Order, p. 6.

<sup>47</sup> Ex. 206; Tr. 257-258.

current customers and volumes, and provides a supportable basis for imputing revenues to protect customers from paying more for their service than what they would pay if the Company's projections had been met.

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**Rogersville Division**

	Projected Yr 3		Current Case	
	<u>Customers</u>	<u>Volumes</u>	<u>Customers</u>	<u>Volumes</u>
GS-Residential				
GS-Commercial				
Large General Service				
Large Volume Service				
Transport Service				
Shortfall				
Shortfall Percentage				

**Adjustments to Rogersville Division Exhibit 212 based on Page 6, Exhibit 15 and Schedule 1 GA-95-349 Rogersville HC, Exhibit 202**

- 1) Adjust the Residential class to account for Houston (      customers and      Mcf), Licking (      customer and      Mcf), Mountain View (      customer and      Mcf)
- 2) Adjust Residential for Rogersville, Fordland, Diggins, Seymour and Norwood (      customers and      )
- 3) Adjust the Commercial class to account for Houston (      ), Licking (      ), Mountain View (      )
- 4) Adjust Commercial for Rogersville, Fordland, Diggins, Seymour and Norwood (      customers and      )

Note- The table reflects only adjustments to the Residential and Commercial classes. The Feasibility Study in GA-95-349 also projected increased Industrial activity for Rogersville, Fordland, Diggins, Seymour and Norwood (a total of      ), however,      was not specified in the Study.

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Public Counsel's evidence provides a conservative estimate of the projected incremental additions. However, SNG is critical of Public Counsel's analysis in part because SNG claims it does not serve all communities included in its feasibility analyses. For example, SNG now states that it does not serve Mountain View despite Mountain View being a part of the original CCN. To address this concern, the 5-year projections could be modified to reflect areas not served as identified on cross-examination. However, it should be noted that the feasibility of each project was based upon the entirety of the expansion request as a whole. It is not known whether the Commission would have granted the CCN had the Company eliminated Mountain View or other communities that SNG has since chosen not to serve. The CCNs were approved as a complete package that included the customer numbers and volumes in all proposed communities.

**b. Branson and Warsaw Service Areas**

The evidence shows that the Branson and Warsaw Service Areas are not close to reaching the Company's projections anytime in the near future. For the Branson Service Area, the Company's feasibility studies in the 2008 CCN case projected \*\* 100,000 \*\* customers for all classes combined within three years.<sup>48</sup> SNG currently serves approximately \*\* 50,000 \*\* customers in the Branson Service Area, which is only \*\* 50% \*\* of where the Company projected it would be by 2011.<sup>49</sup> SNG projected its volumes would reach \*\* 100,000 \*\* within three years.<sup>50</sup> Today, SNG's volumes are approximately \*\* 50,000 \*\* or less than half of what was projected to occur by 2011.<sup>51</sup>

<sup>48</sup> Ex. 203, Meisenheimer Surrebuttal, p. 4.

<sup>49</sup> *Id.*

<sup>50</sup> *Id.*

<sup>51</sup> Ex. 212.

For the Warsaw Service Area, the Company's feasibility studies in the 2009 CCN case projected **1,000** **1,000** customers in all classes combined.<sup>52</sup> SNG currently serves **1,000** **1,000** customers. The Company's feasibility study projected **1,000** **1,000** volumes would be used in the Warsaw area, however, the current usage is **1,000** **1,000**, or only **1,000** **1,000** of the projected volumes.

An imputation similar to that used in the Rogersville Service Area should be ordered for the Branson and Warsaw service areas to protect customers in those areas against assuming SNG's risk. In addition, the projections for Warsaw could be adjusted to reflect areas not served as identified under cross-examination. However, as discussed above regarding the Rogersville Service Area, the feasibility of the Branson and Warsaw expansions were based upon the expansion requests as a whole. It is not known whether the Commission would have granted the CCN had the Company eliminated certain communities that SNG has since chosen not to serve.

The following tables summarize the Branson and Warsaw Service Areas' projected and current customers and volumes, and provides a supportable basis for imputing revenues to protect customers from paying more for their service than what they would pay if the Company's projections had been met.<sup>53</sup>

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<sup>52</sup> *Id.*

<sup>53</sup> Ex. 212.



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**Branson Division**

	Projected Yr 3		Current Case	
	<u>Customers</u>	<u>Volumes</u>	<u>Customers</u>	<u>Volumes</u>
GS-Residential				
GS-Commercial				
Large General Service				
Large Volume Service				
Transport Service				
Shortfall				
Shortfall Percentage				

**Warsaw Division**

	Projected		Current Case	
	<u>Customers</u>	<u>Volumes</u>	<u>Customers</u>	<u>Volumes</u>
General Service				
Commercial Service				
Large General Service	-	-		
Large Volume Service				
Transport Service				
Shortfall				
Shortfall Percentage				

**Adjustments to Exhibit 203 are based on Page 5, Exhibit 15 and Schedule 1 GA-2010-0189 Warsaw HC, Exhibit 202**

1) Reduced the customer counts and class volumes to exclude the proposed Buffalo and Bolivar expansion, General Service ( customers and Mcf), Commercial Service ( rs and ), Large Volume ( ic).

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While imputation is one method to address the risk conditions for Branson and Warsaw, the Staff suggests a different and very limited approach as an alternative. Ms. Amanda McMellan first explained the Staff's concerns:



... because natural gas service will face competition from these other sources [propane gas], there is an inherent financial risk to the natural gas utility that it will not be able to attract the planned number of customers on which the amount of actual plant investment was premised. If a gas utility's rates are set at a point in time when it has attracted a significantly lower level of customers than what was planned for in constructing the actual plant facilities installed, as a consequence each customer would have to pay for a higher amount of plant investment than is economically optimal, if the full amount of plant investment is included in the utility's rate base. Staff is opposed to passing on the cost of excess capacity plant investment to current customers in those circumstances.<sup>54</sup>

Ms. McMellan further states, "neither the Branson district nor the Warsaw district...has attained the planned level of customers on which the full amount of rate base investment made by SNG was premised."<sup>55</sup>

To address the Staff's concerns, the Staff suggests two approaches: an "excess capacity" adjustment to rate base, or by imputing a level of revenues equivalent to the projected level of customers originally assumed by the utility.<sup>56</sup> The Staff proposes the excess capacity adjustment to apply only to the excess capacity cost for the 8-inch and 6-inch main line that serves Branson and Warsaw. The Staff "calculated preliminary "excess capacity" adjustments to net rate base of \$27.64 million for Branson and \$6.97 million for Warsaw."<sup>57</sup> The accounting treatment Staff recommends is for "the amount of the Company's current plant and depreciation reserve balances that are deemed to be excess capacity should be moved into the "plant held for future use" account (Account No. 105) for possible recovery in a future case."<sup>58</sup> The Staff's excess capacity adjustment is consistent with case law limiting the costs that can be included in rate base to only

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<sup>54</sup> Ex. 107, McMellan Rebuttal, pp. 3-4.

<sup>55</sup> *Id.*, p.3.

<sup>56</sup> *Id.*, p.4.

<sup>57</sup> Ex. 108, McMellan Surrebuttal, p. 7.

those costs for plant that is used and useful in the provision of service.<sup>59</sup>

The Staff's excess capacity adjustment is a good approach for determining the portion of excess capacity on the main line that should be adjusted out, but it is incomplete. For the same reason the main line adjustment is appropriate, similar adjustments for other excess capacity costs throughout SNG's distribution system should also be made. During the evidentiary hearing, the Staff's witness on this issue, Ms. Amanda McMellen, testified that the Staff did not consider costs such as operations and maintenance, and corporate costs, which would have been spread over a larger customer base had the projected customer numbers and volumes been achieved.<sup>60</sup> Requiring similar adjustments for these additional and related costs is necessary to accurately reflect the portion of SNG's distribution system that is in excess of what is necessary to serve existing customers.

**c. Gallatin Service Area**

The Gallatin Service Area is somewhat different than the other service areas; it is smaller in size and customers, and MGU began operating this system when it acquired two existing municipal gas systems from the cities of Gallatin and Hamilton. The systems were built in 1995, and MGU acquired them in 2005. The municipal systems had been struggling financially,<sup>61</sup> and the Commission conditioned the CCN on the company being "responsible in future rate cases for any failure of this system to achieve forecasted conversion rates and/or its inability to successfully compete against

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<sup>58</sup> *Id.*

<sup>59</sup> *State ex rel. Union Electric Co. v. Public Service Commission*, 765 S.W.2d 618 (Mo. App. W.D. 1988).

<sup>60</sup> Tr. 284.

<sup>61</sup> Tr. 66-67.

propane.”<sup>62</sup> SNG later pursued expansions into other rural communities near the Hamilton and Gallatin systems.<sup>63</sup>

The risk condition imposed on MGU’s first CCN is to apply in future rate cases such as this, and requires SNG to be responsible for *any* failure to achieve forecasted conversion rates. SNG’s feasibility studies in 2005 projected that by 2008 the Company would have \*\* \* customers, yet currently SNG serves \*\* \* customers.<sup>64</sup> Presumably, the Company has also failed to compete successfully against propane because propane users are likely a large percentage of the customers SNG did not successfully convert. Customers in this service area should be protected from assuming the financial risks that are the responsibility of the Company, at a minimum, through an imputation of \* \* customers and \* gas volumes.<sup>65</sup> These were the projections SNG used to justify the economic feasibility of the distribution system as it was being built, and should be the minimum number of customers over which rates should now be spread.

The following table summarizes the Gallatin Service Area’s projected and current customers and volumes, and provides a supportable basis for imputing revenues to protect customers from paying more for their service than what they would pay if the Company’s projections had been met.<sup>66</sup>

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<sup>62</sup> Case No. GO-2005-0120, Order Approving Stipulation and Agreement, December 14, 2004.

<sup>63</sup> Case Nos. GA-2007-0421, GA-2008-0078, GA-2008-0321, GA-2008-0322, GA-2008-0348, GA-2009-0264, GA-2009-0422, GA-2010-0012, GA-2010-0189, GA-2010-0289, and GA-2012-0044.

<sup>64</sup> Ex. 203, Meisenheimer Rebuttal.

<sup>65</sup> *Id.*

<sup>66</sup> *Id.*

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**Gallatin Division**

	Projected Yr 3		Current Case	
	<u>Customers</u>	<u>Volumes</u>	<u>Customers</u>	<u>Volumes</u>
General Service				
Commercial Service				
Large Volume Service				
Government				
Transport Service				
<hr/>				
Shortfall				
Shortfall Percentage				

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**d. Imputation Summary**

SNG owns a new distribution system and is still working to achieve its projections in all service areas. These are the same projections that formed the basis for the Commission concluding that the Company had satisfied its burden of proof that the distribution system was economically feasible. The Commission recognized at the time that developing a system, especially one facing established competition from propane, takes time and involves substantial risk. Over time SNG may meet its projections, but until then SNG's customers are to be protected from the risk that SNG does not meet the projections that it relied on to justify economic feasibility. The original CCN order for the Rogersville Service Area used imputation as a method to ensure that ratepayers pay no more than they would pay for service if the projections had been met. Similar imputations, and excess capacity adjustments, should be used in this case for all service areas. This will ensure customers do not pay for the portion of the distribution system and associated expenses that were to serve customers SNG has yet to convert.

## 2. SNG's \$19 Million Purchase Price Discount

The third and last revenue requirement issue asks; *how should the former SMNG assets be booked to plant in service in light of MGU's merger with SMNG that was approved in GM-2011-0354?*

When MGU purchased SMNG in 2012, the purchase price paid by MGU was \$19,565,924 less than the book value of the acquired assets.<sup>67</sup> SNG does not dispute that it received this discount. The question is whether it is just and reasonable to require SNG's customers to pay \$19,565,924 of costs that SNG never incurred. Public Counsel's testimony evidence supports a Commission conclusion that the former SMNG assets should be booked to plant at the lower actual purchase price rather than original recorded book value.<sup>68</sup> SNG and the Staff would have SNG's customers provide a return of, and a return on, \$19 million that SNG never spent. This is not just and reasonable.

A utility company is only able to earn a return "upon capital actually expended." §393.270.4 RSMo. SNG has not expended the \$19 million at issue, and therefore, a return on this non-investment is prohibited by statute. This conclusion is supported by the Supreme Court of Missouri's holding that "where the customers and users of a utility have substantially paid for the facilities employed in the public service, the antithesis of a just and reasonable rate is one that would permit a utility's stockholders to recover a return on money which they, in fact, never invested." *State ex rel. Martigney Creek Sewer Company*, 537 S.W.2d 388 (Mo. 1976) (*Martigney*). SNG seeks to have customers pay for the entire \$19 million, while SNG pays nothing and recovers a return on the \$19 million that they never invested. This is "the antithesis of a just and

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<sup>67</sup> Ex. 200, Roth Rebuttal, pp. 5-6.

<sup>68</sup> *Id.*

reasonable rate.” *Id.* It is also inherently inequitable according to the Court of Appeals in *Reinhold v. Fee Fee Trunk Sewer, Inc.*, 664 S.W.2d 599 (Mo. Ct. App. 1984) (*Reinhold*). The Court in *Reinhold* concluded that in utility law there is an “inherent inequity” in increasing rates if “it allows the utility's shareholders to receive a return on money which they never invested.”

Under the terms of § 393.130(1) RSMo, “all charges made or demanded by any such gas corporation...for gas... service rendered or to be rendered shall be just and reasonable and not more than allowed by law or by order or decision of the commission.” This mandates just and reasonable rates and the Supreme Court already determined that it is not just and reasonable to allow stockholders to earn a return on amounts that they never expended. *Martigney*, 537 S.W.2d 388; and *Reinhold*, 664 S.W.2d 599.

Regarding the “return of” the \$19 million never spent, it is simply not possible to “return” an amount that the investors never invested. It ends up amounting to an additional \$19 million in profit once the plant is fully recovered in rates. The purchase discount is evidence that the Company overbuilt its system by \$19 million. Requiring ratepayers to pay for \$19 million more than the value that the Company itself placed on its assets, and \$19 million more than the company paid for those assets, is a clear example of SNG’s attempt to pass risk on to its customers. While the Company has enjoyed the tax benefits of discounting the value of the assets,<sup>69</sup> which reduces the Company’s risks, SNG has not attempted to shelter its customers from bearing that same risk, and has instead attempted to *shift* that risk to its customers by asking them to pay above what the Company paid. Customers are to be protected against such risk shifts pursuant to the multiple CCN orders requiring SNG to bear all risk. Removing the \$19

million from rate base will preserve those consumer protections.

Missouri case law states that in determining the price to be paid for utility service, the fair value of the company's property, which the Commission is empowered to ascertain "is a relevant factor for consideration in the establishment of just and reasonable rate schedules and must be considered in its proper relationship to all other facts that have a material bearing upon the establishment of "fair and just" rates as contemplated by our statutes and decisions." *State ex rel. Missouri Water Co. v. Public Service Com.*, 308 S.W.2d 704, 719 (Mo. 1957). The fair value of the assets acquired by SNG from SMNG is a very relevant factor that the Commission has the power to determine and exclude from rate base under § 393.230 RSMo 2010.

SNG and SMNG had common ownership, and therefore the acquisition by SNG of SMNG's assets was an affiliate transaction and, therefore, not conducted at arm's-length.<sup>70</sup> There was no evidence of a competitive bid process wherein SMNG sought out a highest bidder, and by all appearances, there was no effort by SMNG to seek bids on the sale at all.<sup>71</sup> It is therefore not known whether SMNG could have sold the assets for more or less than SNG's discounted price.

The Commission's affiliate transaction rules dictate that when a utility sells assets to an affiliate it cannot sell the assets *below* the *greater* of fair market price or the fully distributed cost because to do so would provide the affiliate with a prohibited financial advantage. 4 CSR 240-40.015)(2)(A)2. In this instance, the only way the transaction is in compliance with the affiliate transaction rules is if the discounted purchase price is the

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<sup>69</sup> *Id.*, p. 8.

<sup>70</sup> Ex. 202, Meisenheimer Rebuttal, p. 22.

<sup>71</sup> Tr. 423.



higher of fully distributed cost or fair market price. There is no evidence in this case regarding the fully distributed cost of the assets acquired by SNG. The only cost evidence indicates that SNG paid below book value,<sup>72</sup> and testimony evidence that the price paid for an asset is one measure of fair market price.<sup>73</sup> The conclusion to be reached by these facts is that either the acquisition violated the affiliate transaction rules because SMNG sold the assets below the greater of the fully distributed cost or fair market price, or the purchase price with the \$19 million discount *is* the greater of fully distributed cost or fair market value. Either the rules have been violated, or the fair market price is *no more* than the discounted purchase price. Under either interpretation, it is not just and reasonable to require ratepayers to pay more for the acquired assets than what the Company paid for those assets.

### **3. Cost of Capital**

The Commission has an opportunity through the setting of the Company's capital structure and through the setting of the Company's return on equity, to provide consumers with some relief from the huge bill increase requested by SNG. Until the distribution system is fully developed, the Company understood when it was first certificated to serve in 1995 that it may have to experience single digit returns on equity.

The Commission explained:

The Commission is of the opinion that the biggest risk facing Tartan is that it may take more time than predicted to obtain the necessary conversions, not that the project is not viable at all. Tartan is aware of the risk and has chosen to accept it. It agreed to the imputed volume levels contained in the Stipulation and also agreed that the provision involving imputation of volume levels be binding on its successors and assigns. Tartan also conducted a sensitivity analysis which showed that in the event conversions took place at

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<sup>72</sup> Ex. 200, Roth Rebuttal, pp.5-6.

<sup>73</sup> Tr. 428.

a lower rate than anticipated, Tartan's return on its investment would be reduced to a single-digit level. Tartan seems willing to accept this risk.<sup>74</sup>

As the Company originally recognized with its sensitivity analysis, in the event conversions took place at a lower rate than anticipated, the Company's return on its investment would be reduced to a single-digit level. The facts of this case are clear in that the conversions have in fact occurred at a much lower rate than anticipated, which provides justification for lowering SNG's return to a single-digit level.

Cost of capital is an issue that is more expert-driven than most issues because the setting of an appropriate capital structure and return on equity (ROE) is often based more on expert interpretations of facts than the facts themselves. For this reasons, the qualifications of the experts themselves are an important factor. The Staff's witness Mr. David Murray has extensive experience with cost of capital issues, and has testified on rate of return and capital structure before this Commission in approximately one-hundred cases over the last fourteen years.<sup>75</sup> Mr. Murray has an M.B.A. and a B.S. in business administration, and has received the professional designations of Chartered Financial Analyst (CFA), and the professional designation of Certified Rate of Return Analyst (CRRA) by the Society of Utility and Regulatory Financial Analysts (SURFA).<sup>76</sup> By way of comparison, SNG's cost of capital witness Mr. James Anderson has a BS in business administration, but is not a certified financial analyst and does not typically testify as a cost of capital witness.<sup>77</sup>

Mr. Murray employed his extensive background when he testified on capital

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<sup>74</sup> Case No. GA-94-127, Report and Order, pp. 24-25.

<sup>75</sup> Ex. 103, Staff Report, Class Cost of Service, Appendix 1, p. 21.

<sup>76</sup> *Id.*

<sup>77</sup> Tr. 139.

structure as follows:

As SNG's (and both predecessor companies MGU and SMNG) certificate cases have consistently been conditioned on the shareholder carrying the burden of risks due to expansion, it is important to ensure that there are no soft dollar cost shifts to ratepayers from the more established districts. Staff believes the best way to ensure this is to set the capital structure based on how SNG had planned to capitalize its operations before expansion into the Lake of the Ozarks.<sup>78</sup>

Mr. Murray also testified that an appropriate capital structure for SNG is 40% common equity and 60% debt, and that SNG incorrectly included the Lake of the Ozarks system when it calculated its cost of capital, which is not at issue in this case, and which distorts the capital structure.<sup>79</sup> Mr. Murray's capital structure is more consistent with the capital structure used by SNG's auditor to estimate the value of the equity investment in Summit Utilities.<sup>80</sup>

Regarding ROE, Mr. Murray applied a cost of common equity range of 9.8% to 10.8%.<sup>81</sup> However, he also testified that the average authorized return on equity in the first quarter of 2014 for natural gas companies is 9.54%.<sup>82</sup> Mr. Murray additionally testified regarding Mr. Anderson's ROE analysis, and concluded that if Mr. Anderson had used a more appropriate growth rate in his analysis, the resulting return on equity estimate for the gas distribution industry is 8.2%.<sup>83</sup> This evidence supports an ROE ordered by this Commission that is below the Staff's range, and instead falls somewhere between 8.2% and 9.54%. An ROE in this range would recognize that SNG is to bear the

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<sup>78</sup> Ex. 130, Murray Surrebuttal, p. 6.

<sup>79</sup> Ex. 103, Staff Revenue Requirement Cost of Service Report, p. 19.

<sup>80</sup> Ex. 130, Murray Surrebuttal, p. 8.

<sup>81</sup> Ex. 103, Staff Revenue Requirement Cost of Service Report, p. 37.

<sup>82</sup> *Id.*, p. 34.

<sup>83</sup> Ex. 118, Murray Rebuttal, p. 21.

risk of meeting the feasibility projections, and it would be consistent with Mr. Murray's testimony stating, "The ratepayers of SNG's established systems should not pay a higher revenue requirement because SNG has to maintain more common equity to support its growth initiatives."<sup>84</sup> The risk of those growth initiatives should fall squarely onto SNG, and SNG's ROE recommendation would shift that risk to consumers.

#### 4. **Rate Shock**

This issue asks; *What is "rate shock"? If it exists, should the Commission address rate shock in this case and, if so, how?*

There can be no denying that rate shock is very real for customers forced to endure an unaffordable rate increase. An increase of between \$252 and \$384 per year would undoubtedly be a shock to the budgets of many SNG customers. This is especially true for low-income customers, including the elderly on social security that cannot afford such an increase in rates.

SNG's request goes far beyond that of other gas companies in Missouri. The table below compares SNG's request with all gas rate cases within the last five years. The table shows that SNG is asking the Commission to increase residential rates up to *seven times* the increase that a typical gas company was granted.<sup>85</sup>

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<sup>84</sup> Ex. 130, Murray Surrebuttal, p. 2.

<sup>85</sup> Ex. 202, Meisenheimer Rebuttal, pp.23-24, includes a table showing *proposed* rate increases over this same 5-year period. The proposed annual impacts ranged from \$27.96 to \$105.72.

<b>Natural Gas Company</b>	<b>Annual Res Increase</b>	<b>Monthly Res Increase</b>	<b>Year</b>
Summit Natural Gas proposed	\$252.97 to \$384.04/year	\$21.08 to \$32.00/month	2014
Missouri Gas Energy <sup>86</sup>	\$15.60/year	\$1.30/month	2014
Laclede Gas Company <sup>87</sup>	\$24.66/year	\$2.05/month	2013
So. Mo. Natural Gas <sup>88</sup>	\$54.50/year	\$4.54/month	2011
Ameren Missouri <sup>89</sup>	\$65.16/year	\$5.43/month	2010
Laclede Gas Company <sup>90</sup>	\$34.70/year	\$2.89/month	2010
Missouri Gas Energy <sup>91</sup>	\$62.52/year	\$5.21/month	2010
Empire District Gas Co. <sup>92</sup>	\$53.89 or \$89.86/year	\$4.49 or \$7.48/month	2009

<sup>86</sup> Case No. GR-2014-0007, *Order Approving Stipulation and Agreement*, April 23, 2014. Missouri Gas Energy was authorized to raise base rates by \$7.8 million. Spread out over approximately 500,000 customers equals roughly \$15.60 per customer.

<sup>87</sup> Case No. GR-2013-0171, *Order Approving Unanimous Stipulation and Agreement*, June 26, 2013. Laclede was authorized to raise base rates by \$14.8 million. Spread out over approximately 600,000 customers, equals roughly \$24.66 per customer.

<sup>88</sup> Case No. GR-2010-0347, *Order Approving Small Company Rate Increase and Approving Tariff*, January 19, 2011, p.2.

<sup>89</sup> Case No. GR-2010-0363, *Order Directing Notice, Suspending Tariff, Setting Hearings and Directing Filings*, June 16, 2010, p. 1, and *Order Approving Stipulation and Agreement*, January 19, 2011, p.1. Ameren granted 75% of its requested increase; \$65.16 is 75% of the proposed annual customer impact of \$87.

<sup>90</sup> Case No. GR-2010-0171, *Order Setting Local Public Hearings and Directing Notice*, February 23, 2010, p. 3; *Report and Order*, August 18, 2010. Laclede granted 51% of requested rate increase; this impact amount is 51% of the proposed annual customer impact of \$67.08.

<sup>91</sup> Case No. GR-2009-0355, *Order Directing Customer Notice and Setting Local Public Hearings*, July 8, 2009, incorporating by reference, MGE's Response to Order Directing Filing Concerning Customer Notice, June 26, 2010 (proposed increase).

<sup>92</sup> Case No. GR-2009-0434, *Order Setting Local Public Hearings and Directing Notice to Customers*, August 21, 2009, p.3. Empire was granted 97% of its requested rate increase; \$53.89 or \$89.86/year is 97% of the proposed customer impact. *Order Approving Partial Stipulation and Agreement and Partial Stipulation and Agreement on Transportation Tariff Issues*, January 20, 2010; and *Report and Order on DSM Funding*, February 24, 2010.

The rate shock experienced by SNG customers will be intensified for many customers who feel they were misled into believing the rates they agreed to when signing up for service were based on the cost of the system that was recently built to serve them. To these customers, the cost of the new distribution system should have been known by the Company and accurately reflected in the rates offered *before* the customers switched their fuel source over to natural gas and SNG's services. The City of Branson's Mayor Reanne Presley testified:

On behalf of our citizens and business owners within the City of Branson, Missouri, I would like to raise a voice of concern about the proposed level of increase in the price of natural gas. It appears that much of the requested increase is due to the installation of the distribution system in our area. Before this installation took place, the community was not given adequate notification that the cost of this construction was not built into the current rate structure. It was not clear that the utility expected to recoup these expenses in future years with rate increases. I have learned, since, that this is a common practice, but I must say that it was not made clear to our community, I think neither to our citizens, nor to our businesses, nor to our city staff.<sup>93</sup>

Alternatively, if such an increase is granted, consumers should not be required to take on any large increase in a single year. It should occur gradually over a number of years to lessen the harm, and to better represent typical rate increases. This *gradualism* approach has been used by the Commission in the past, and if an increase is granted, should be used here as well.<sup>94</sup>

## **5. Conclusion**

SNG's cost of capital witness Mr. Anderson testified that the risks of building a

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<sup>93</sup> Tr., Vol. 6, p. 6.

<sup>94</sup> Tr. 327.

new gas system from the ground up remain long after the construction is complete.<sup>95</sup> This is a recognition that the risk of economic feasibility has not subsided, which further supports a strong order from the Commission reinforcing the CCN order conditions.

The Commission's CCN orders recognize that due to the very real possibility that SNG's aggressive expansions would not be economically feasible, customer must be protected. Those protections should be enforced in this case because they were designed specifically for rate increase requests, and because it is premature to draw a conclusion today on whether SNG's distribution system will ultimately become economically feasible. The most important protection that the Commission can provide in this case for consumers is to set rates that are no greater than the customers would pay if the systems had achieved the projections that SNG used as the basis for convincing the Commission that the expansions were economically feasible.

Respectfully submitted,

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<sup>95</sup> Ex. 3, Anderson Surrebuttal, p. 20.

**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, emailed or hand-delivered to all counsel of record this September 16, 2014:

**/s/ Marc Poston**

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