Exhibit No.:	
Issue(s):	Financing Issues
Witness/Type of Exhibit:	Murray/Rebuttal
Sponsoring Party:	Public Counsel
Case No.:	GR-2022-0122

REBUTTAL TESTIMONY

OF

DAVID MURRAY

Submitted on Behalf of the Office of the Public Counsel

SUMMIT NATURAL GAS OF MISSOURI, INC

FILE NO. GR-2022-0122

** **
Denotes Confidential Information that has been redacted

June 8, 2022

PUBLIC

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of	)	
Missouri, Inc.'s Purchased Gas	)	Case No. GR-2022-0122
Adjustment Tariff Filing	)	Tariff No. JG-2022-0146

AFFIDAVIT OF DAVID MURRAY

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

David Murray, of lawful age and being first duly sworn, deposes and states:

1. My name is David Murray. I am a Utility Regulatory Manager for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

David Murray
David Murray
Utility Regulatory Manager

Subscribed and sworn to me this 8th day of June 2022.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI
TIFFANY HILDEBRAND
My Commission Expires
August 8, 2023
Cole County
Commission #15637121

Tiffany Hildebrand
Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2023.

REBUTTAL TESTIMONY

OF

DAVID MURRAY

SUMMIT NATURAL GAS OF MISSOURI, INC.

CASE NO. GR-2022-0122

Q. Please state your name and business address.

A. My name is David Murray and my business address is P.O. Box 2230, Jefferson City, Missouri 65102.

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

A. I am employed by the Missouri Office of the Public Counsel ("OPC") as a Utility Regulatory Manager.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the OPC.

Q. What are you addressing in your rebuttal testimony?

A. I am addressing Summit Natural Gas of Missouri, Inc.'s ("SNGMO" or the "Company") requested carrying costs for financing extraordinary natural gas costs related to Winter Storm Uri ("Storm Uri"). SNGMO witness Craig Root sponsors testimony supporting SNGMO's request to be allowed carrying costs based on the authorized rate of return ("ROR") from SNGMO's 2014 rate case, Case No. GR-2014-0086. Mr. Root requests the Commission allow SNGMO to recover carrying costs in its Purchased Gas Adjustment ("PGA") Clause at a pre-tax ROR of 9.47%. Mr. Root requests this rate to allow SNGMO compensation for financing and carrying $30.7 million associated with gas supply costs related to Storm Uri.[1]

Staff witness David M. Sommerer sponsors testimony recommending that the Commission compensate SNGMO for carrying costs based on the standard rate specified in SNGMO's

[1] Craig Root Direct Testimony, p. 8, lns. 19-26.

PGA tariff sheet, which is the Prime Rate less 2% (the Prime Rate is currently 4% so the current rate as specified in the tariff is 2%).

I agree with Mr. Sommerer's logic of using a rate that approximates a debt cost. My understanding of the logic for the rate specified in the SNGMO's tariff is that it is a proxy for a cost of short-term debt. A debt rate is logical because the risk of recovery of costs in excess of those estimated in the PGA Clause is limited to the time value of money. If the recovery occurs over a period greater than twelve months, then an additional term premium may be appropriate, but even this can be mitigated by borrowing funds at a variable interest rate. However, SNGMO should not be allowed a profit for funding such costs, as Mr. Root's recommended use of an authorized ROR contemplates. Understanding such principles, I will provide alternative suggestions for debt rates I consider appropriate and specific to the credit facilities SNGMO uses for liquidity.

Q. What credentials qualify you to testify on fair and reasonable financing charges related to funding operations?

A. Please see Schedule DM-R-1 for my qualifications as well as a summary of the cases in which I have sponsored testimony on ROR and other financial issues.

Q. The Company claims that it financed its working capital needs caused by Storm Uri by obtaining an equity investment. Did the owners of Summit Utilities Inc. (the ultimate parent company of SNGMO) make an equity contribution to Summit Utilities Inc. for purposes of contributing equity into the SNGMO operating subsidiary?

A. Yes. I verified that the owners of Summit Utilities Inc., IIF US Holdings 2 LP ("IIF," the investment vehicle used by the Infrastructure Investment Fund and managed by JP Morgan) contributed equity capital into Summit Utilities Inc. for purposes of providing liquidity to SNGMO to fund the extraordinary gas costs.

Q. Why did you consider this important to verify?

A. Because Summit Utilities Inc. created an intermediate holding company, Summit Holdings Inc. ("Midco"), to issue debt on behalf of its operating subsidiaries. All debt issued at this intermediate level is transferred to its operating subsidiaries as "equity" investments. However, in applications SNGMO filed with the Commission to establish this arrangement, the Company admits that Midco's debt capacity is based on the combined credit quality of its three subsidiaries: SNGMO, Colorado Natural Gas Company, and Arkansas and Oklahoma Gas Company. Therefore, in order to validate that IIF contributed equity capital, I audited the contributions to fund Storm Uri costs up to the private equity fund, IIF.

Q. Is it possible that IIF issued debt to fund the equity infusion?

A. It's possible, but in the past IIF has provided equity sponsor guarantees to assist SNGMO's ability to issue debt so IIF has typically been a transparent and trustworthy equity sponsor.

Q. Should the fact that equity was used to provide liquidity for financing the gas purchases be controlling as to fair and reasonable carrying costs?

A. No. The PGA/ACA process will ensure SNGMO recovers all of the costs related to the extraordinary gas costs. There is no risk of under recovery or over recovery of these costs. The PGA tariff sheet allows only a debt financing charge for recovery of under collections or refunds of over collections because this debt financing charge is part of the cost of goods sold—the actual cost of the gas itself and the cost to finance the purchase of that gas.

The purpose of the adjustment clauses, such as the PGA/ACA, is simply to ensure the Company recovers the cost of the commodity it purchases from suppliers. It is generally recognized that natural gas distribution companies (SNGMO, Spire Missouri, The Empire District Gas Company, etc.) are cost takers from the suppliers of natural gas (other than potential hedging arrangements these natural gas distribution companies have little control over the costs incurred for the natural gas commodity). This has formed the basis for the logic of directly passing through these natural gas commodity costs to the customers. If a natural gas distribution company does not risk an under or over recovery of these costs, then it certainly does not deserve a return to the shareholder, who bears no risk, because the risk is absorbed by ratepayers.

In contrast, the Company's investment in the infrastructure that allows delivery of its gas should be compensated with a return to the equity investor. This is true because this infrastructure provides the value related to the Company's service.

Q. What is your understanding about the logic of applying the traditional carrying cost rate of Prime less 2% for purchasing natural gas?

A. This rate is intended to approximate a cost of short-term debt, which has a maturity of less than 12 months.

Q. Is it your understanding that this generic rate is specified in all of Missouri's natural gas distribution companies' tariff sheets?

A. Yes.

Q. Do you know of any companies providing natural gas distribution service in Missouri that incur a cost of short-term debt based on this formula?

A. No.

Q. What are the typical terms of short-term debt for companies providing natural gas distribution service in Missouri?

A. Missouri's larger companies, such as Spire Missouri and Ameren Missouri, have access to commercial paper rated A2/P2, which typically has a cost lower than Prime minus 2%. For example, recent 30-day A2/P2 commercial paper currently costs around 1.25%.

Q. Does SNGMO have access to commercial paper?

A. No. SNGMO has relied on Midco's revolving credit facility for short-term capital needs. It is my understanding that Midco has a current revolving credit facility which charges interest at variable rate of ** ______________ **[2] The assigned LIBOR rate is determined by the length of the LIBOR borrowing (e.g. 30-day, 60-day, 90-day, 180-day). SNGMO filed an application with the Commission, Case No. GF-2022-0216, seeking Commission authority for Midco to pledge its ownership in SNGMO as collateral for the revolving credit facility. The Commission approved this request, but as of May 4, 2022, SNGMO indicated that Midco had yet to refinance this revolver.

Q. Do Prime rates, commercial paper rates and bank revolving credit facility rates frequently fluctuate?

A. Yes. Especially when the Federal Reserve is changing the targeted Federal Funds rate, which has increased by 75 basis points since early this year.

Q. Did Spire Missouri refinance the commercial paper it issued to fund its extraordinary gas purchases to allow its interest costs to approximate the fluctuations in short-term rates?

A. Yes. Spire Missouri agreed to continue to use the variable Prime rate less 2% for its carrying costs related to higher gas prices. This is the rate it uses for the PGA/ACA Clause. However, Spire Missouri issued 3-year mortgage bonds with a variable interest rate. This will allow its cost of financing to fluctuate along with the rate it is allowed to charge in the PGA/ACA tariff.

Q. Does Midco have debt facilities that have variable rates?

A. Yes.

Q. Is it reasonable to set SNGMO's carrying cost rate based on the variable rate charged on this revolving credit facility?

A. Yes. I recommend that SNGMO be allowed carrying costs consistent with the terms of the existing revolving credit facility for the period February 2021 through the period SNGMO

[2] Case No. GF-2022-0216, SNGMO's response to Staff Data Request No. 11.

replaces this credit facility with its new credit facility. At that time, the new credit facility rate should be used to determine carrying costs for financing the gas purchases.

Q. Would using a long-term rate, or an authorized ROR, as the Company recommends, accurately capture the changes to capital costs associated with carrying the extraordinary purchased gas costs?

A. No. SNGMO's authorized ROR from the 2014 rate case is a fixed rate based on the cost of long-term debt and allowed ROE of 10.8%. A fixed allowed ROR is logical for a general revenue requirement determined in a general rate case, but not for the PGA/ACA adjustment clauses that are tracked and adjusted periodically in between rate cases. The periodic filings SNMGO makes to adjust its gas costs can capture changes in rates charged on its credit facilities.

Q. Does this conclude your rebuttal testimony?

A. Yes.