

Exhibit No.: _____
Issue: Rate Design
Witness: Timothy R. Johnston
Exhibit Type: Surrebuttal
Sponsoring Party: Summit Natural Gas of Missouri, Inc.
Case No.: GR-2014-0086
Date: August 8, 2014

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2014-0086

SURREBUTTAL TESTIMONY

OF

TIMOTHY R. JOHNSTON

ON BEHALF OF

SUMMIT NATURAL GAS OF MISSOURI, INC.

**Jefferson City, MO
August, 2014**

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SUMMIT NATURAL GAS OF MISSOURI, INC.

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REBUTTAL TESTIMONY

TIMOTHY R. JOHNSTON

SUMMIT NATURAL GAS OF MISSOURI, INC.

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. Timothy R. Johnston, 7810 Shaffer Parkway, Littleton, CO 80127.

3 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY AND SCHEDULES IN**
4 **THIS CASE?**

5 A. Yes. I adopted the Direct Testimony of Ms. Michelle Moorman and I submitted
6 Rebuttal Testimony in this case on behalf of Summit Natural Gas of Missouri, Inc.
7 (SNG).

8 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS**
9 **PROCEEDING?**

10 A. I will: (1) respond to the Rebuttal Testimony of Missouri Propane Gas Association
11 (MPGA) witness Brian T. Brooks; (2) respond to the recommendation in Office of
12 the Public Counsel (OPC) witness Barbara Meisenheimer's Rebuttal Testimony
13 to reject Summit's proposed tariff sheets; (3) propose a modification to the
14 Commission's Order in GA-94-127, in further response to Ms. Meisenheimer's
15 Rebuttal Testimony; and, (4) propose a partial plan by which to transfer certain
16 assets in the Warsaw and Branson Divisions to Plant Held for Future Use, FERC
17 Account 105, in response to the testimony of Staff witness Amanda McMellen
18 and Ms. Meisenheimer.

1 **RESPONSE TO MPGA WITNESS BROOKS' TESTIMONY**

2 **Q. MR. BROOKS HAS REFERRED TO REPRESENTATIONS MADE IN THE**
3 **DIRECT TESTIMONIES OF MS. MOORMAN AND MR. TAYLOR**
4 **CONCERNING SNG's REQUEST TO RECOVER LESS THAN THE FULL**
5 **COST OF SERVICE FROM THE BRANSON DISTRICT, DUE IN PART TO THE**
6 **FACT THAT THE CUSTOMER COUNT IN THIS SYSTEM IS STILL GROWING**
7 **(PAGE 6, LINES 1 THROUGH 18). PLEASE EXPLAIN THE USE OF THE**
8 **TERM "EARLY MOVER" AS IT IS USED IN MS. MOORMAN'S TESTIMONY.**

9 A. Ms. Moorman explained that SNG sought something less than the full revenue
10 requirement in order to avoid assigning the full cost of new systems to early
11 moving customers. Within that context, an Early Mover is a customer who
12 accepts service when service is made available, rather than waiting for a
13 significant customer penetration to occur. Without early movers, systems may
14 never be built.

15 **Q. AT PAGE 6, LINE 18, OF MR. BROOKS' TESTIMONY, HE ASSERTS, " IF**
16 **SNG IS PROPOSING A REVENUE SHORTFALL NOW, ONE CAN**
17 **LOGICALLY INFER THAT FUTURE SUBSTANTIAL RATE INCREASES WILL**
18 **BE NECESSARY....". IS THAT ASSERTION ACCURATE?**

19 A. No. Distribution mains investments necessary to serve the eventual anticipated
20 customer base have to occur and be placed in-service in advance of customer
21 growth. Approximately 74%¹ of Summit's Branson-related rate base is related to
22 the net plant arising from Distribution Mains, FERC Account 101-376; most of the

1 See Schedule TRJ-1, page 1 of 1.

1 amounts posted to this account are the construction costs for the 8 inch and 6
2 inch steel mainline that brings natural gas to the Branson area from the meter
3 station on the Southern Star Central Gas Pipeline located just north and west of
4 the town of Aurora, MO. That investment was made to serve the customer base
5 that is ultimately contemplated, and building a pipeline with less capacity would
6 not have been prudent based on the projected ultimate load in the Branson
7 service area. As the capacity related to that investment is absorbed by new
8 customers, the costs will also be spread over a larger customer base. So, just
9 the opposite of Mr. Brooks' assertion is true. One can expect rates to decline
10 over time as customer growth occurs.

11 **Q. ARE WARSAW'S CAPACITY UTILIZATION ATTRIBUTES SIMILAR TO**
12 **BRANSON?**

13 A. Somewhat. The primary driver of Warsaw future rate relief will come from
14 increased transfer of cost responsibility for those mainline assets shared with the
15 Lake of the Ozarks Division. Similar to Branson, 73%² of Warsaw's rate base is
16 composed of the net plant related to Distribution Mains, FERC Account 101-376.

17 **Q. AT PAGE 7, LINE 2, OF MR. BROOKS' TESTIMONY, HE SUGGESTS THAT**
18 **THE CUSTOMERS IN OTHER MISSOURI RATE DIVISIONS WILL SUBSIDIZE**
19 **BRANSON AND WARSAW CUSTOMERS. IS THAT TRUE?**

20 A. No. The revenue requirements of the other SNG divisions are separately
21 calculated based on cost-causation and do not cause interdivision subsidies.

22 The financial burden of lower-than-cost rates falls squarely on SNG's

2 See Schedule TRJ-1, page 1 of 1.

1 shareholder.

2 **RESPONSE TO OPC WITNESS MEISENHEIMER'S TESTIMONY**

3 **Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF MS. MEISENHEIMER'S**
4 **POSITION AND RECOMMENDATION REFLECTED IN HER REBUTTAL**
5 **TESTIMONY.**

6 A. Ms. Meisenheimer asserts that SNG and its predecessors have not complied with
7 past Commission orders to isolate SNG's customers from financial hazards
8 associated with expansion and therefore the Commission should reject SNG's
9 request for a rate increase. She quotes the Commission's admonitions in
10 numerous Commission orders. She discusses each SNG operating division and
11 offers a comparison of the feasibility studies used to justify the certificates of
12 public convenience and necessity ("CPCN") with her understanding of current
13 customer counts and adjusted test period annual sales and transport volumes (as
14 found in Tables 1 through 4 of Ms. Meisenheimer's Rebuttal Testimony).

15 **Q. ARE THE DATA SHOWN IN TABLES 1 THROUGH 4 OF MS.**
16 **MEISENHEIMER'S REBUTTAL TESTIMONY CORRECT?**

17 A. No. As demonstrated in SNG Witness Porter's Surrebuttal Testimony, Ms.
18 Meisenheimer's data contains numerous data interpretation errors and arithmetic
19 errors. In addition, comparisons of historic per-customer usage figures from past
20 filings to current per customer usage figures is not valid due to the ongoing
21 effects of conservation measures and the increases in the efficiency of natural
22 gas fired equipment.

1 **Q. PLEASE DESCRIBE, FOR EACH RELEVANT OPERATING DIVISION, YOUR**
2 **RESPONSE TO MS. MEISENHEIMER'S TESTIMONY.**

3 A. First, it is important to state that which may not be obvious. SNG provides a
4 service in less-populated areas of Missouri in which other utilities have declined
5 to provide service and, more importantly, saves customers money. SNG is not a
6 pure monopoly because its customers are not prohibited from fuel switching.

7 **Q. ARE SNG'S EARNINGS ROBUST OR IS IT FAIR TO SAY THAT SNG'S**
8 **COMMON EQUITY HOLDERS HAVE EXPERIENCED DEGRADED EARNINGS**
9 **THROUGH THE ASSUMPTION OF FINANCIAL RESPONSIBILITY FOR ITS**
10 **EXPANSIONS?**

11 A. The latter. SNG's ownership has born the financial responsibility for all the growth
12 within Missouri. SNG Witness Anderson's Direct Testimony includes Schedule 1,
13 which provides an historical summary of actual returns to common equity. The
14 data therein supports my financial responsibility assertion. Building new
15 distribution systems into areas with existing homes always results in lower
16 revenues during the time the system is under construction and for a number of
17 years after construction as customers gradually convert to natural gas. This
18 tends to put the company in a situation where the return authorized by the
19 Commission will not be realized until the third year of operation at the least, on
20 smaller systems, and much later on larger investments such as Branson.

21 **Q. IS IT YOUR BELIEF THAT THE RECESSION BEGINNING IN LATE 2008 WAS**
22 **INSTRUMENTAL IN RETARDING SYSTEM GROWTH?**

1 A. Yes. The Branson, Lake of the Ozarks, and Warsaw areas were among the
2 fastest growing regions in Missouri prior to the recession. The main systems for
3 Branson and Warsaw were sized in part to accommodate projected growth that
4 has not occurred.

5 **Q. WERE YOUR BASE RATES AFFECTED BY THE RECESSION?**

6 A. No.

7 **Q. IN YOUR OPINION HAS SNG PROVIDED BENEFITS TO ITS CUSTOMERS
8 AND VARIOUS AREAS OF THE STATE DUE TO THE AVAILABILITY OF
9 NATURAL GAS AS A FUEL SOURCE ALTERNATIVE?**

10 A. Yes. The availability of natural gas along a street increases property values, and
11 its presence in a community is often critical to economic growth. Most recently,
12 access to natural gas insulated many of our customers from dramatically higher
13 winter propane price spikes.

14 **GALLATIN**

15 **Q. DOES TABLE 1 ON PAGE 8 OF MS. MEISENHEIMER'S REBUTTAL
16 TESTIMONY ADEQUATELY REFLECT APPROPRIATE FINANCIAL
17 RESPONSIBILITY MEASUREMENTS FOR SNG'S GALLATIN DIVISION?**

18 A. No. The table possesses all the flaws described earlier and should be ignored.
19 See SNG Witness Porter's detailed explanation in his Surrebuttal Testimony.

20 **Q. HAS MS. MEISENHEIMER FULLY ACKNOWLEDGED THE RISKS BORN BY
21 SNG FOR ITS GALLATIN DIVISION?**

22 A. No. She has focused all her attention on feasibility studies as the only indicator

1 of risk assumption. She has not acknowledged the uncertainties that accompany
2 a growth utility and the result that SNG has born the financial responsibility as
3 promised.

4 **Q. DID SNG (THEN MISSOURI GAS UTILITY, INC.) CONSTRUCT THE PRIMARY**
5 **SYSTEMS THAT MAKE UP THE GALLATIN OPERATING DIVISION?**

6 A. No. The original Gallatin and Hamilton systems were built as municipal systems
7 in 1995. For a variety of reasons, the residents of these towns and other
8 communities along the pipeline route did not connect to the system at the rate
9 anticipated in the original projections. By the summer of 2004, both the Gallatin
10 and Hamilton town councils had elected to cease payments on the Certificates of
11 Participation used to finance the original system, and the banks representing the
12 holders of those Certificates had foreclosed on the systems. The banks had
13 made arrangements with the towns to continue to operate the systems, but
14 neither the towns nor the banks were willing to enter into contracts for the gas
15 necessary to provide service for the 2004/2005 heating season. The gas
16 transportation contract for the Gallatin and Hamilton system includes some
17 storage capacity, but the gas remaining in that storage would have only sufficed
18 to supply the system until early December, 2004. Summit Utilities, Inc. became
19 aware of this situation in late September, 2004, and was able to obtain approval
20 from this Commission to form Missouri Gas Utility, purchase this system and take
21 over the operations by January 1, 2005. Even prior to that approval, Summit
22 Utilities took steps to purchase additional gas and have it placed into storage to

1 enable the system to continue service to these communities.

2 **Q. CAN YOU PROVIDE AN EXAMPLE OF GALLATIN-RELATED RISKS THAT**
3 **WERE ASSUMED BY SNG?**

4 A. Yes. A CPCN to serve a single additional customer was approved in
5 Commission Case No. GA-2007-0421, on June 26, 2007. The construction was
6 completed before the base rates approved in GR-2008-0060 were in effect. To
7 the extent the subject expansion underperformed, SNG was on the hook until the
8 next rate case. This is the next rate case. Underperformance for seven years, if
9 underperformance has occurred, has been a financial burden for SNG, not the
10 rate payers.

11 **Q. CAN YOU CITE OTHER FINANCIAL RESPONSIBILITIES BORN BY SNG AND**
12 **NOT THE RATE PAYERS?**

13 A. Yes. Ms. Meisenheimer fails to mention that SNG purchased natural gas for the
14 winter of 2004-2005, before it even owned the Gallatin and Hamilton systems.
15 This was accomplished in anticipation of a successful acquisition transaction, but
16 represented a significant risk to SNG since it had no assurance of cost recovery
17 when the transaction was completed. Fortunately, the financial hazard did not
18 occur. She also failed to mention that Gallatin's assets were brought onto SNG
19 books at a heavily discounted purchase price and it was that amount, rather than
20 the significantly higher outstanding municipal debt related to the system's cost of
21 construction, that became the foundation for Gallatin's rate base going forward.
22 Gallatin's customers, who would otherwise have been required to pay the costs

1 associated with the original system investment, were relieved of that
2 responsibility. She also failed to mention that SNG moved quickly to take over
3 these systems and that such movement was instrumental in allowing the Gallatin
4 customers to avoid loss of a heat source during the winter of 2004-2005.

5 **Q. TO YOUR KNOWLEDGE, DID OPC PROPOSE A RATE CONDITION OR**
6 **OTHER CONSTRAINT ON THE GALLATIN SYSTEM DURING THE**
7 **STATUTORY PERIOD RELATED TO THE GALLATIN RATE CASE YOU HAVE**
8 **CITED?**

9 A. Ms. Meisenheimer's testimony did not include any mention of revenue
10 requirement issues in her direct testimony in Case No GR-2008-0060. Mr. Ted
11 Robertson did provide testimony in that Case related to the amount of utility plant
12 in service.

13 **Q. PLEASE SUMMARIZE YOUR RESPONSE TO MS. MEISENHEIMER.**

14 A. Ms. Meisenheimer has failed to consider the entire basket of responsibilities born
15 by SNG in the acquisition and growth of the Gallatin Division. SNG has born
16 substantial risk and, in some case, the attendant hazards have occurred, causing
17 SNG to incur degraded earnings.

18 **Q. HAS SNG ACCEPTED THE FINANCIAL RESPONSIBILITY FOR ITS**
19 **GALLATIN ACQUISITION AND GROWTH?**

20 A. Yes.

21 **Q. DOES SNG INTEND TO ACCEPT FINANCIAL RESPONSIBILITY FOR ITS**
22 **GALLATIN ACQUISITION AND GROWTH IN THE FUTURE?**

1 A. Yes.

2 **WARSAW**

3 **Q. DOES TABLE 2 ON PAGE 11 OF MS. MEISENHEIMER'S REBUTTAL**
4 **TESTIMONY ADEQUATELY REFLECT APPROPRIATE FINANCIAL**
5 **RESPONSIBILITY MEASUREMENTS FOR SNG'S WARSAW DIVISION?**

6 A. No. Ms. Meisenheimer included the billing determinants for the proposed Buffalo
7 and Bolivar expansion, as approved in Case No GA-2010-0189. This expansion
8 did not occur, and would not, in any case, have been part of or connected
9 physically to the Warsaw system. As designed, the Buffalo and Bolivar system
10 would have been supplied with natural gas from a proposed tap on the Southern
11 Star Central Gas Pipeline line in Brookline, MO. See SNG Witness Porter's
12 detailed explanation in his Surrebuttal Testimony.

13 **Q. HAS MS. MEISENHEIMER FULLY ACKNOWLEDGED THE RISKS BORN BY**
14 **SNG FOR ITS WARSAW DIVISION?**

15 A. No. As was true for Gallatin, she has focused all her attention on feasibility
16 studies as the only indicator of risk assumption. She has not acknowledged the
17 uncertainties that accompany a growth utility.

18 **Q. DO YOU BELIEVE THE 2008 RECESSION HAD AN IMPACT ON THE**
19 **GROWTH IN THE WARSAW DIVISION?**

20 A. Yes. The Commission Order in Case No. GA-2009-0422 occurred on July 8,
21 2009, and SNG began construction shortly thereafter. I believe the recession
22 and its persistence have affected SNG's ability to connect new customers, as

1 well as reducing the organic growth in this area that had been occurring for
2 several years, the effect of which was anticipated in the design of this system.

3 **Q. HOW WERE THE RATES SET FOR THE WARSAW DIVISION?**

4 A. The rates were established by the Commission based on the results of the
5 original feasibility study in Case No. GA-2009-0264.

6 **Q. HAVE THE BASE RATES CHANGED SINCE THE ORIGINAL RATES WERE**
7 **SET?**

8 A. No.

9 **Q. FROM YOUR PREVIOUS ANSWER IS IT REASONABLE TO CONCLUDE**
10 **THAT WARSAW'S CUSTOMERS HAVE NOT SUFFERED FROM THE POOR**
11 **GROWTH PERFORMANCE CITED BY MS. MEISENHEIMER?**

12 A. Yes.

13 **Q. WHY IS SNG REQUESTING LESS THAN FULL COST RECOVERY IN THE**
14 **WARSAW DIVISION?**

15 A. Warsaw's existing rate base contains a materially underutilized investment in
16 Distribution Mains, FERC Account 101-376. SNG believes it is inappropriate to
17 burden existing customers with the full cost recovery for that investment. The
18 distribution mains installed were designed to serve a larger population than
19 currently exists in this area, due in large part to the reduction in growth caused by
20 the recession. The manner in which the reduction in recovery was calculated
21 was intended to only assign the existing customers the proportionate cost
22 recovery for the fraction of the capacity of the system which they are using.

1 **Q. DO YOU BELIEVE THIS APPROACH IS FAITHFUL TO THE COMMISSION**
2 **ORDER TO INSULATE THE CUSTOMERS FROM FINANCIAL**
3 **RESPONSIBILITY?**

4 A. Yes.

5 **Q. IS SNG'S POSITION CONSISTENT WITH THE NEED TO ACCEPT THE**
6 **FINANCIAL RESPONSIBILITY RELATED TO ASSET UNDERUTILIZATION?**

7 A. Yes. Further on in my testimony, I will describe a formal process for assigning
8 some of the value of the assets in Distribution Mains, FERC Account 101-376, to
9 Plant Held for Future Use, FERC Account 105 to maintain this financial
10 responsibility.

11 **Q. IN MS. MEISENHEIMER'S TESTIMONY AT PAGE 10, LINES 1 - 5, SHE CITES**
12 **THE NEED FOR TRANSPARENCY AND QUESTIONS THE ADEQUACY OF**
13 **SNG'S PROPOSED REVENUE REDUCTION. HOW DO YOU PROPOSE TO**
14 **ACCOUNT FOR THE REVENUE REDUCTION?**

15 A. Ms. Meisenheimer questions the use of "management policy decisions" (page 18,
16 line 12 – 13) as a rate design principle at Warsaw and Branson. Management's
17 decision to reduce the requested revenue was based on a rough comparison of
18 the number of current customers to the number of potential customers. This
19 methodology is fair and results in an adequate reduction.

20 **Q. HAS SNG ACCEPTED THE FINANCIAL RESPONSIBILITY FOR ITS**
21 **WARSAW EXPANSION?**

22 A. Yes.

1 **Q. DOES SNG INTEND TO ACCEPT FINANCIAL RESPONSIBILITY FOR ITS**
2 **WARSAW EXPANSION IN THE FUTURE?**

3 A. Yes.

4 **ROGERSVILLE**

5 **Q. DOES TABLE 4 ON PAGE 17 OF MS. MEISENHEIMER'S TESTIMONY**
6 **ADEQUATELY REFLECT APPROPRIATE FINANCIAL RESPONSIBILITY**
7 **MEASUREMENTS FOR SNG'S ROGERSVILLE DIVISION?**

8 A. No. The table possesses all the flaws described earlier and should be ignored.
9 See SNG Witness Porter's detailed explanation in his Surrebuttal Testimony.

10 **Q. IN MS. MEISENHEIMER'S TESTIMONY AT PAGE 15, LINE 5 – 7, SHE CITES**
11 **THE IMPUTED VOLUME FOR ROGERSVILLE WHICH EMERGED FROM THE**
12 **ORIGINAL CERTIFICATE FILING, CASE NO. GA-94-127 (ISSUED**
13 **SEPTEMBER 16, 1994). THAT COMMISSION ORDER CONTAINED AN OPEN-**
14 **ENDED REQUIREMENT FOR INITIAL BASE RATES AND BASE RATES**
15 **FROM SUBSEQUENT FILINGS TO USE A MINIMUM THROUGHPUT OF**
16 **1,797,000 MCF. IS MS. MEISENHEIMER'S ASSERTION CONSISTENT WITH**
17 **YOUR UNDERSTANDING?**

18 A. Yes.

19 **Q. DO THE VOLUMES FOR ROGERSVILLE IN SNG'S FILED CASE REFLECT**
20 **THE IMPUTED VOLUME?**

21 A. Yes, because the total throughput in SNG's filed case are greater than the
22 imputed volume.

1 **Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF ROGERSVILLE TEST**
2 **PERIOD THROUGHPUT.**

3 A. SNG's Rogersville filed throughput was 1,755,522 Mcf. In addition, SNG'S
4 transportation study included an additional 104,049 Mcf³ of throughput, the
5 revenues from which were included as a revenue credit to the cost-of-service and
6 therefore excluded from billing determinants. So, the filed adjusted test-period
7 throughput was 1,859,571. This exceeds the imputed volume of 1,797,000 Mcf.

8 **Q. DOES STAFF'S FILED CASE AGREE WITH SNG'S ANNUAL VOLUMES?**

9 A. Yes. Staff updated its cost-of-service study by moving the test period forward
10 three months. Staff's billing determinant calculations are still under review.
11 However, it appears Staff's throughput will be close to 1,900,000 Mcf.

12 **Q. DO YOU BELIEVE THE IMPUTED VOLUMES FROM CASE NO. GA-94-127**
13 **SHOULD BE RELEVANT IN THIS RATE CASE OR FUTURE RATE CASES?**

14 A. No. Even though SNG's and Staff's billing determinants in this case are greater
15 than the imputed volumes now, circumstances have changed substantially since
16 1994 and this throughput requirement should no longer have an impact. For
17 example, the average residential customer usage is less than 60% of that which
18 was assumed in the original 1994 Rogersville feasibility studies. The
19 Commission should acknowledge that the antiquated annual residential customer
20 usage that formed the foundation for the imputed volume should be discarded in
21 the wake of customer conservation efforts in the last twenty years. Later in my
22 testimony, I will discuss in more detail SNG's recommendation to eliminate or

3 Highly Confidential TDP-4, Exhibit 4, p. 1 of 2 modified to reflect Mcf (106,650 MMBTU ÷ 1.025)

1 materially modify the rate condition primarily because customer conservation
2 efforts have successfully reduced annual residential consumption.

3 **Q. DOES THE MISSOURI PUBLIC SERVICE COMMISSION ENCOURAGE**
4 **CONSERVATION PROGRAMS?**

5 A. Yes.

6 **Q. DOES IT MAKE SENSE THAT THE COMMISSION WOULD PENALIZE A**
7 **UTILITY BY ADHERING TO A 20 YEAR OLD PER CUSTOMER USAGE**
8 **STANDARD THAT NO LONGER REFLECTS REASONABLE**
9 **EXPECTATIONS?**

10 A. No.

11 **Q. HOW DO YOU RECOMMEND THE COMMISSION DEAL WITH THE IMPUTED**
12 **VOLUME ISSUE?**

13 A. Although the imputed volume has been exceeded by the Company in this case, I
14 recommend the Commission eliminate the Rogersville imputed volume
15 requirement from this and future rate cases.

16 **BRANSON**

17 **Q. HOW WERE CURRENT RATES SET FOR THE BRANSON DIVISION?**

18 A. The initial base rates were established by the Commission based on the results
19 of the original feasibility study in Case No. GA-2007-0168 (the certificate case),
20 and then again by the Commission in Case No. GR-2010-0347 (a rate case). In
21 both cases, the rates were set by adding a fixed volumetric charge to the base
22 rates then in effect for the Rogersville Division.

1 **Q. WHY WERE BASE RATES LINKED TO ROGERSVILLE IN CASE NO. GR-**
2 **2010-0347?**

3 A. Retail sales service was initiated in Branson in December 2010. There was no
4 useable operating history for Branson when the rates from GR-2010-0347 went
5 into effect in early 2011.

6 **Q. FROM YOUR PREVIOUS ANSWERS, IS IT REASONABLE TO CONCLUDE**
7 **THAT BRANSON'S CUSTOMERS HAVE NOT SUFFERED FROM THE POOR**
8 **GROWTH PERFORMANCE CITED BY MS. MEISENHEIMER?**

9 A. Yes.

10 **Q. WHY IS SNG REQUESTING LESS THAN FULL COST RECOVERY?**

11 A. Like Warsaw, Branson's existing rate base contains a materially underutilized
12 investment in Distribution Mains, FERC Account 101-376. As mentioned
13 previously for Warsaw, SNG believes it is inappropriate to burden existing
14 customers with the full cost recovery for that investment. Much of this
15 underutilization is in the 8 inch and 6 inch steel mainline that brings natural gas to
16 the Branson area from the meter station on the Southern Star Central Gas
17 Pipeline located just north and west of the town of Aurora, MO. SNG sized this
18 line to serve the existing natural gas load in Branson and also load from the
19 anticipated future growth in the area. The area around Branson includes over
20 20,000 platted residential lots in subdivisions that were designed and registered
21 prior to the recession. SNG does not believe it would have been prudent to build
22 this line without building in the capacity to supply these developments; most of

1 the developers had stated their intention to work with the company to provide
2 access to natural gas for these future residents.

3 **Q. DO YOU BELIEVE THIS APPROACH IS FAITHFUL TO THE COMMISSION**
4 **ORDER TO INSULATE THE CUSTOMERS FROM FINANCIAL**
5 **RESPONSIBILITY?**

6 A. Yes.

7 **Q. IS SNG'S POSITION CONSISTENT WITH THE NEED TO ACCEPT THE**
8 **FINANCIAL RESPONSIBILITY RELATED TO ASSET UNDERUTILIZATION?**

9 A. Yes.

10 **Q. IN MS. MEISENHEIMER'S TESTIMONY AT PAGE 10, LINES 1 - 5, SHE CITES**
11 **THE NEED FOR TRANSPARENCY AND QUESTIONS THE ADEQUACY OF**
12 **SNG'S PROPOSED REVENUE REDUCTION. HOW DO YOU PROPOSE TO**
13 **ACCOUNT FOR THE REVENUE REDUCTION?**

14 A. Ms. Meisenheimer questions the use of "management policy decisions" (page 18,
15 line 12 – 13) as a rate design principle at Warsaw and Branson. As mentioned
16 earlier in my comments concerning Warsaw, SNG proposes to transfer a portion
17 of Distribution Mains, Account 376, assigned to the Warsaw and Branson
18 Divisions, to Plant Held for Future Use, FERC Account 105.

19 **Q. PLEASE DISCUSS MS. MEISENHEIMER'S ADEQUACY ARGUMENT AS**
20 **PRESENTED ON PAGE 19, LINE 2, OF HER TESTIMONY.**

21 A. The reduced revenue request for Branson included in SNG's filed cost-of-service
22 study represents the continued acceptance of financial responsibility by SNG.

1 **Q. DO YOU OFFER A DEFINITIVE PROPOSAL FOR THE ACCOUNT 105**
2 **TRANSFER?**

3 A. As mentioned earlier, SNG has submitted a proposal which it hopes will be
4 acceptable and to which the Parties can agree. A more detailed proposal which
5 embraces Branson and Warsaw is offered later in my testimony.

6 **Q. HAS SNG ACCEPTED THE FINANCIAL RESPONSIBILITY FOR ITS**
7 **BRANSON EXPANSION?**

8 A. Yes.

9 **Q. DOES SNG INTEND TO ACCEPT FINANCIAL RESPONSIBILITY FOR ITS**
10 **BRANSON EXPANSION IN THE FUTURE?**

11 A. Yes.

12 **RECOMMENDATION TO MODIFY THE COMMISSION'S ORDER IN**
13 **CASE NO. GA-94-127**

14 **Q. IS IT YOUR BELIEF THAT THE IMPUTED VOLUME REQUIREMENT**
15 **REFLECTED IN THE COMMISSION'S ORDER IN CASE NO. GA-94-127**
16 **SHOULD BE ELIMINATED IN THIS PROCEEDING ON A GOING FORWARD**
17 **BASIS?**

18 A. Yes.

19 **Q. WHY SHOULD THE IMPUTED VOLUME REQUIREMENT BE REMOVED?**

20 **A.** The imputed volume requirement no longer represents a reasonable residential
21 customer usage expectation. The feasibility study that formed the basis upon
22 which the Commission relied to set the imputed volume, an excerpt from which is

1 attached as Schedule TRJ-2, assumed residential customers would use 100 Mcf
2 per year. The Rogersville Division began operations at a volume lower than 100
3 Mcf per residential customer per year and has steadily decreased since. Today,
4 the average Rogersville annual residential volume from the test period in the
5 instant Case is 55.82 Mcf per year. Although there are doubtless numerous
6 reasons for the decrease, a substantial portion of that decrease is likely related to
7 enhanced customer conservation.

8 **Q. HAVE YOU PERFORMED A STUDY TO SUPPORT YOUR ASSERTIONS?**

9 A. Yes. It is contained in Schedule TRJ-3.

10 **Q. ARE THERE OTHER REASONS YOU WOULD CITE TO JUSTIFY THE**
11 **REMOVAL OF THE IMPUTED VOLUME REQUIREMENT?**

12 A. Yes. The original Commission Order contemplated the inclusion of several towns
13 which were not included in the system build-out. At a minimum, the volumes
14 associated with those towns should be eliminated. This issue is further addressed
15 in SNG Witness Porter's Surrebuttal Testimony.

16 **Q. PLEASE SUMMARIZE THE RESULTS OF YOUR CONSERVATION STUDY.**

17 A. The annual usage for residential customers which formed the basis upon which
18 the imputed volume was established as shown in the original feasibility study,
19 may have been a fair representation of expected customer usage twenty years
20 ago. But the clear trend of reduced customer usage is persuasive evidence that
21 current reliance on such an estimate is inappropriate and should be discarded.

22
23

1 **TRANSFER OF DISTRIBUTION MAINS TO PLANT HELD FOR FUTURE USE, FERC**
2 **ACCOUNT 105**
3

4 **Q. ON PAGE 2 OF HER REBUTTAL TESTIMONY, STAFF WITNESS MCMELLEN**
5 **STATES THAT “ANY REDUCTIONS IN THE RATES CHARGED TO SNG’S**
6 **BRANSON AND WARSAW DISTRICT CUSTOMERS, AS COMPARED TO THE**
7 **LEVELS BASED UPON CURRENT COST-OF-SERVICE VALUES, SHOULD**
8 **ONLY BE PREMISED UPON A REASONABLE MEASUREMENT OF**
9 **CURRENT EXCESS PLANT-IN-SERVICE CAPACITY THAT IS NOT NEEDED**
10 **TO SERVICE CURRENT CUSTOMER LEVELS IN EACH DISTRICT.” DOES**
11 **SNG HAVE A PROPOSAL THAT WILL SATISFY STAFF’S REQUIREMENT?**

12 **A.** Yes. SNG is proposing that a portion of its mainline investments in Warsaw and
13 Branson be transferred into Plant Held for Future Use, FERC Account 105.

14 **Q. PLEASE DESCRIBE THE BACKGROUND RELATED TO SNG'S DECISION**
15 **TO MOVE FORWARD WITH A PROPOSAL TO TRANSFER A PORTION OF**
16 **ITS MAINLINE INVESTMENTS INTO PLANT HELD FOR FUTURE USE, FERC**
17 **ACCOUNT 105.**

18 **A.** During settlement negotiations and also in the testimony offered by Ms.
19 Meisenheimer, intervenors expressed concern with the method by which SNG
20 proposed to acknowledge the underutilization of mainline assets at Branson and
21 Warsaw. In an attempt to assuage their concerns, SNG has developed a method
22 it believes will address these concerns.

23 **Q. PLEASE DESCRIBE THE ANALYTICAL STEPS YOU PERFORMED TO**
24 **PROVIDE A MEASUREMENT FOR YOUR ADJUSTMENT.**

- 1 A. The analytical steps are shown below:
- 2 (1) calculate the peak capacity of the relevant mainline segments;
- 3 (2) identify the current peak day utilization related to test period billing
- 4 determinants;
- 5 (3) calculate the percentage of total peak day capacity that is currently
- 6 utilized;
- 7 (4) calculate the underutilized portion; and,
- 8 (5) multiply the underutilized percentage by the appropriate gross plant and
- 9 reserve for depreciation account balances at December 31, 2013, to
- 10 determine the amount of plant and reserves to transfer.

11 **Q. HAVE YOU PERFORMED AN ANALYSIS?**

12 A. Yes. It is attached as Schedule TRJ-4.

13 **Q. THE UNIFORM SYSTEM OF ACCOUNTS REQUIRES A UTILITY TO**

14 **POSSESS A PLAN FOR THE REPATRIATION OF THOSE ASSETS**

15 **TRANSFERRED TO PLANT HELD FOR FUTURE USE. DO YOU PROPOSE**

16 **SUCH A PLAN?**

17 A. Yes. SNG proposes to repatriate a portion of the balance in FERC Account 105

18 annually based on the analytical process described below: .

- 19 (1) Annual determination based on December 31 (year end) plant balances;
- 20 (2) Warsaw only - Calculate the amount of FERC Account 376 and FERC
- 21 Account 378 that should be assigned to Lake of the Ozarks based on most
- 22 recent winter peak usage/transportation percentages. The amount by

1 which to multiply the percentages will be the sum of year end FERC
2 Accounts 105-376 and 105-378 for plant and reserves, and the year end
3 FERC Accounts 101-376, 101-378, 108-376, and 108-378 balances;

4 (3) Warsaw only - The applicable Warsaw plant amounts from the calculation
5 in (2) will be subjected to the same calculation shown in Schedule TRJ-4
6 after subtracting the portion applicable to Lake of the Ozarks;

7 (4) Warsaw only - The resultant unutilized capacity investment will be
8 compared to the plant balances in FERC Account 105, and an accounting
9 adjustment made to transfer a portion of the year end balance of FERC
10 Account 105 to FERC Accounts 101-376, 101-378, 108-376 and, 108-378;

11 (5) Branson calculations will occur similar to Warsaw except without the need
12 for the intermediate analytical step to split shared assets;

13 (6) Depreciation expense will not be calculated on FERC Account 105 gross
14 plant balances; and,

15 (7) Depreciation expense on repatriated gross plant will begin on January 1 of
16 the year that succeeds the year-end calculations.

17 **Q. DOES THAT CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

18 A. Yes.

19

**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) Case No. GR-2014-0086
To Increase its Annual Revenues For)
Natural Gas Service)

AFFIDAVIT OF TIMOTHY R. JOHNSTON


STATE OF COLORADO)
) ss
COUNTY OF JEFFERSON)

Timothy R. Johnston, being first duly sworn on his oath, states:

1. My name is Timothy R. Johnston and I work in Littleton, Colorado and I am employed by Summit Utilities, Inc. as the Executive Vice President & Chief Strategy Officer.


2. Attached hereto and made a part of hereof for all purposes is my Surrebuttal Testimony on behalf of Summit Natural Gas of Missouri, Inc. consisting of 22 pages, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.



Timothy R. Johnston

Subscribed and sworn to before me this 6th day of August, 2014.



Notary Public

My commission expires: 10/7/16

