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MISSOURI PUBLIC SERVICE COMMISSION
FINANCIAL AND BUSINESS ANALYSIS DIVISION
PROCUREMENT ANALYSIS DEPARTMENT

REBUTTAL TESTIMONY
OF
RANDALL T. JENNINGS

SUMMIT NATURAL GAS OF MISSOURI, INC.

Case No. GR-2022-0122

Jefferson City, Missouri
2022

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RANDALL T. JENNINGS
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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **RANDALL T. JENNINGS**

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

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

6 Q. Please state your name and business address.

7 A. My name is Randall Jennings and my business address is P.O. Box 360,
8 Jefferson City, Missouri 65102.

9 Q. Who is your employer and what is your present position?

10 A. I am employed by the Missouri Public Service Commission (“Commission”) as
11 a member of Commission Staff (“Staff”) and my title is Utility Regulatory Auditor for the
12 Financial Analysis Department, in the Financial and Business Analysis Division.

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

15 A. Yes. My education background and work experience is included as
16 Schedule RTJ-d1.

17 **I. EXECUTIVE SUMMARY**

18 Q. What is the purpose of your rebuttal testimony?

19 A. The purpose of my rebuttal testimony is to respond to the direct testimony of
20 Craig Root filed on behalf of Summit Natural Gas of Missouri, Inc. (“SNGMO”), a wholly
21 owned subsidiary of Summit LDC Holdings, LLC (“Summit Holdings”) and an indirect,
22 wholly-owned subsidiary of Summit Utilities, Inc. (“Summit”). Mr. Root sponsored recovery
23 period, financing of gas costs, and carrying costs testimony.

1 Within my testimony, I will address Staff’s position related to SNGMO’s request to
2 recover carrying costs associated with its deferred recovery of gas costs due to the extreme
3 winter weather event, Storm Uri, which is to be applied to the Purchased Gas Adjustment
4 (“PGA”) and Actual Cost Adjustment (“ACA”). Staff’s analyses and conclusions are supported
5 by the data presented in my rebuttal workpapers.

6 **II. RESPONSE TO TESTIMONY OF MR. ROOT**

7 Q. Please provide an overview of Mr. Root’s testimony.

8 A. On May 13, 2022, SNGMO filed the Direct Testimony of Craig Root,
9 Vice President and Corporate Treasurer at Summit. Mr. Root’s testimony was to provide an
10 overview of SNGMO’s business, the current five-year recovery period, financing of gas costs,
11 current carrying costs and proposed carrying costs. According to Mr. Root, Winter Storm Uri
12 resulted in a historic cost of gas for SNGMO’s September 1, 2020 to August 31, 2021 season
13 (the 2020-2021 Actual Cost Adjustment period) and because SNGMO had to initially finance
14 these gas costs through equity and expects to finance the cost of gas through a combination of
15 equity and debt, the interest rate provided by the PGA Clause will not address SNGMO’s actual
16 costs associated with carrying these gas costs.

17 Q. Please provide an overview of your responses to Mr. Root’s testimony.

18 A. Staff’s rebuttal will focus on Mr. Root’s discussion on financing of gas costs and
19 proposed carrying costs. For financing gas costs, Mr. Root proposed to replace approximately
20 half of the equity injection (to cover additional costs resulting from Winter Storm Uri) with
21 debt. Staff agrees with Mr. Root because relying solely on debt financing would not be in the
22 best interests of Summit Holdings or SNGMO’s rate payers. To recover carrying costs for the
23 costs associated with Winter Storm Uri, Mr. Root proposed the Commission approve a pre-tax

1 rate of return (“ROR”) of 9.47% as previously approved in SNGMO’s last rate case,
2 Case No. GR-2014-0086.¹ Staff disagrees with Mr. Root’s proposal because this is
3 an 8-year old authorized ROR that does not properly reflect SNGMO’s current carrying costs
4 and is not the same ROR/WACC referenced in the 2014 SNGMO rate case.

5 **1. Financing of Gas Cost**

6 Q. Please explain Mr. Root’s position on SNGMO’s financing of gas costs due to
7 Winter Storm Uri.

8 A. Mr. Root stated that under normal circumstances, SNGMO funds its gas supply
9 costs through cash generated from operations and any differences between the forecasted and
10 actual gas costs are refunded to or recovered from customers in the subsequent gas year.²
11 However, the increase in natural gas prices realized during Winter Storm Uri were significantly
12 outside the range of a typical cost.³ As an initial solution, Summit received an equity infusion
13 from its sole shareholder to cover the extraordinary gas supply costs which was then transferred
14 to Summit Holdings and subsequently, a portion to SNGMO.⁴ Mr. Root also stated that because
15 Summit Holdings is required to maintain debt covenants with lenders that restrict its ability to
16 assume additional debt, relying only on debt financing would cause Summit Holdings’ credit
17 worthiness to deteriorate.⁵ Mr. Root surmised that because of this deterioration, lenders would
18 require higher interest rates on debt and due to the increased leverage, the company would be a
19 riskier investment for equity holders who in turn would require a higher ROR on equity
20 investments. Mr. Root said in the long term SNGMO intends to replace approximately half of

¹ On page 13, lines 5-8, Craig Root’s Direct Testimony.

² On page 9, lines 8-12, Craig Root’s Direct Testimony.

³ On page 5, lines 18-20, Craig Root’s Direct Testimony.

⁴ SNGMO’s Response to Staff’s Data Request No. 0120 for Case No. GR-2022-0122.

⁵ On page 9, lines 18-22, Craig Root’s Direct Testimony.

Rebuttal Testimony of
Randall T. Jennings

1 this equity injection with debt through Summit Holdings.⁶ Mr. Root asserts that relying solely
2 on debt financing would not be in the best interests of Summit Holdings or customers and would
3 be inconsistent with the capital structure reviewed and found reasonable by the Commission in
4 Case No. GR-2014-0086.⁷

5 Q. Does Staff agree with Mr. Root that relying solely on debt financing would not
6 be in the best interests of Summit Holdings or customers?

7 A. Yes. On Page 11, lines 17-19, Mr. Root claims that if Summit Holdings had
8 financed 100% of the Winter Storm Uri costs using only debt, the deterioration in its credit
9 metrics would indicate a reduction in credit rating by 2 – 4 levels or from “roughly an A rating
10 to Baa- or even Ba+, which would be considered below investment grade.” In response to Staff
11 Data Request No. 0128, Mr. Root claimed that Summit Holdings’ credit rating would decrease
12 three levels using Moody’s rating methodology. Neither Summit Holdings nor SNGMO have
13 official bond or credit ratings issued by Moody’s or S&P Global Ratings.⁸ Based on financial
14 ratios (Debt/EBITDA, FFO/Debt, Debt/Capital) and using S&P’s Business Risk/Financial Risk
15 Matrix⁹ (assuming an Excellent business risk profile), Summit Holdings would have a bond
16 rating of approximately BBB as of March 31, 2022.¹⁰ Conversely, SNGMO would have a bond
17 rating of AAA as of the same date due to having zero debt.¹¹ According to Staff’s investigation,
18 if Summit Holdings financed SNGMO’s Winter Storm Uri costs using only debt, it would not
19 decrease Summit Holdings’ credit rating. If SNGMO were to use only debt to finance its

⁶ On page 10, lines 20-23, Craig Root’s Direct Testimony.

⁷ On page 11, lines 7-10, Craig Root’s Direct Testimony.

⁸ Home | S&P Global Ratings (spglobal.com), retrieved May 25, 2022,
(<https://www.spglobal.com/ratings/en/index>)

⁹ ARCHIVE | Criteria | Corporates | General: Method | S&P Global Ratings (spglobal.com), retrieved May 25,
2022, (<https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/1773978>)

¹⁰ Jennings’ Rebuttal Workpaper.

¹¹ Jennings’ Rebuttal Workpaper.

1 portion, it SNGMO's credit rating would decrease to approximately AA; a reduction
2 of two levels.¹²

3 Q. Does Staff agree with Mr. Root that relying solely on debt financing would be
4 inconsistent with the capital structure reviewed and found reasonable by the Commission in
5 Case No. GR-2014-0086?

6 A. No. In Case No. GR-2014-0086, the Commission set the capital structure
7 (43% Debt / 57% Equity) for SNGMO but did not address a capital structure for
8 Summit Holdings. As of March 31, 2022 Summit Holdings had a capital structure
9 of ** [REDACTED] ** Debt & ** [REDACTED] ** Equity while SNGMO was ** [REDACTED] ** Equity.
10 Using solely debt financing, Summit Holdings' structure would change
11 to ** [REDACTED] ** Debt & ** [REDACTED] ** Equity. Conversely, if SNGMO were to rely solely
12 on debt financing for the additional costs, the capital structure would change
13 to ** [REDACTED] ** Debt & ** [REDACTED] ** Equity. Utilizing solely debt financing for
14 SNGMO's additional costs would move either company's capital structure closer to the ratio
15 set by the Commission for SNGMO in Case No. GR-2014-0086.

16 Q. What is Staff's conclusion regarding SNGMO's financing of gas costs due to
17 Winter Storm Uri?

18 A. Although relying solely on debt financing would not be inconsistent
19 with the capital structure reviewed and found reasonable by the Commission in
20 Case No. GR-2014-0086, it could decrease SNGMO's credit ratings. Therefore, relying solely
21 on debt financing could be detrimental to customers due to a rise in the cost of debts.

¹² Jennings' Rebuttal Workpaper.

1 **2. PGA/ACA Carrying Costs**

2 Q. Please explain Mr. Root’s position on SNGMO’s carrying cost rate to address
3 gas cost under-recoveries related to Storm Uri.

4 A. According to Mr. Root, SNGMO believes that it is appropriate to provide
5 carrying costs at a rate greater than that currently reflected in the tariff.¹³ Mr. Root insisted that
6 instead of the current rate of the prime bank lending rate minus two percentage points, a
7 weighted average cost of capital (“WACC”) is the most appropriate carrying cost to apply to a
8 mixture of debt and equity such as that used by SNGMO in this situation.¹⁴ Mr. Root proposed
9 that the WACC should be set at SNGMO’s last Commission approved pre-tax ROR, 9.47%, as
10 ordered in Case No. GR-2014-0086.¹⁵

11 Q. What was the ordered ROR in the last rate case, Case No. GR-2014-0086?

12 A. The Commission allowed an ROR of 7.54% for SNGMO resulting from an
13 authorized return on equity (“ROE”) of 10.80% and an embedded cost of debt of 3.21% applied
14 to a capital structure of 43% long-term debt and 57% common equity.¹⁶

15 Q. Is the 9.47% ROR proposed by Mr. Root the pre-tax ROR that results from the
16 ordered rate of 7.54%?

17 A. Yes. While Mr. Root did not explain this in his Direct Testimony, he
18 subsequently answered a data request confirming that the proposed 9.47% is the WACC grossed
19 up for Federal and State income taxes resulting in a pre-tax WACC of 9.47%.¹⁷

¹³ On page 12, lines 13-14, Craig Root’s Direct Testimony.

¹⁴ On page 12, lines 17-19, Craig Root’s Direct Testimony.

¹⁵ On page 13, lines 5-8, Craig Root’s Direct Testimony.

¹⁶ On page 36, Report and Order, Case No. GR-2014-0086.

¹⁷ SNGMO’s Response to Staff’s Data Request No. 0132 for Case No. GR-2022-0122.

1 Q. Is the Commission approved ROR of 7.54% in SNGMO's last rate case,
2 Case No. GR-2014-0086, still a proper cost of capital for SNGMO?

3 A. No. Staff cannot recommend an ROR of 7.54% as a proper cost of capital for
4 SNGMO because the last Commission approved ROR for SNGMO is approximately
5 eight years old. Economic conditions have changed since Case No. GR-2014-0086. In order
6 to determine a current reasonable ROR of SNGMO, a proper cost of capital analysis including
7 a calculation of an authorized ROE, cost of debt and capital structure should be reexamined
8 considering the current economic and financial market conditions. A proper current WACC of
9 SNGMO should be determined by the Commission's decision through a full length rate
10 case procedure.

11 Q. Does Staff agree with Mr. Root that WACC is the most appropriate
12 carrying cost?

13 A. No. Staff found no evidence that SNGMO's WACC as allowed by the
14 Commission is the most appropriate carrying cost. According to the PGA tariff, the
15 longstanding carrying cost rate is prime minus two percent.¹⁸ The prime bank lending rate is
16 currently 4.00%.¹⁹ The Commission ordered a specific ROR approximately eight years ago, it
17 does not mean Summit Holdings and/or SNGMO will incur the same cost of capital for the
18 additional costs associated with Winter Storm Uri.

19 Q. What is Staff's recommended carrying cost for the cost associated with
20 Winter Storm Uri?

¹⁸ On page 5, line 4, David Sommerer's Direct Testimony.

¹⁹ Money Rates (wsj.com), (<https://www.wsj.com/market-data/bonds/moneyrates>), retrieved May 27, 2022.

1 A. Staff recommends that any ultimate recovery of higher carrying costs should be
2 deferred until the matter of prudence is decided by this Commission.²⁰ For a more detailed
3 explanation of Staff's recommended carrying cost for the costs associated with Winter Storm
4 Uri, please see Staff witness David M. Sommerer's rebuttal testimony.

5 **III. SUMMARY AND CONCLUSIONS**

6 Q. Please summarize the conclusions of your rebuttal testimony.

7 A. For the financing of gas costs, Staff has no concerns with the proposed plan of
8 replacing approximately half of this equity injection with debt. For ACA carrying costs,
9 Mr. Root stated that a WACC of the authorized ROR of 9.47% set in Case No. GR-2014-0086
10 is the most appropriate carrying cost rate. This recommendation is problematic. First, this
11 authorized ROR is approximately eight years old and economic conditions have changed since
12 then. Second, according to the current PGA tariff, the current carrying cost is calculated by
13 taking the prime bank lending rate minus two percentage points. Multiple gas companies, using
14 the current carrying cost, were affected by Winter Storm Uri but according to Mr. Sommerer's
15 direct testimony, other Missouri LDCs have not pursued higher carrying cost rates.²¹
16 For a more detailed Staff recommendation regarding carrying cost, please see Staff witness
17 David Sommerer's rebuttal testimony.

18 Q. Does this conclude your rebuttal testimony?

19 A. Yes.

²⁰ On page 6, lines 6-7, David M. Sommerer's Direct Testimony.

²¹ On Page 5, lines 5-6, David M. Sommerer's Direct Testimony.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI


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

AFFIDAVIT OF RANDALL T. JENNINGS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

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

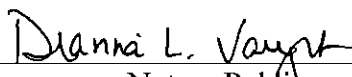
Further the Affiant sayeth not.



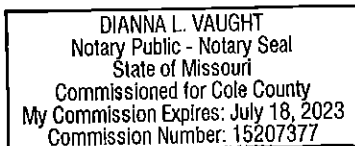
Randall T. Jennings

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 2nd day of June, 2022.



Notary Public



Randall Jennings

Present Position:

I am a Utility Regulatory Auditor in the Financial Analysis Department of the Financial and Business Analysis Division of the Missouri Public Service Commission. I have been employed by the Missouri Public Service Commission Since October 2021.

Educational Background and Work Experience:

I earned a Bachelor of Science degree in Business Administration from Drury University in Springfield, MO. I was previously employed as a Regulatory Auditor and Supervisor with the Missouri Division of Professional Registration for 11 years and prior to that as an Investigator for the Missouri Attorney General for 8 years.

Case Participation:

<u>Company Name</u>	<u>Case Number</u>	<u>Case Type / Type of Testimony</u>	<u>Utility Type</u>
Union Electric Company d/b/a Ameren Missouri	EF-2022-0164	Finance – Staff Memorandum Financing Compliance – Staff Memorandum	Electric
Summit Natural Gas of Missouri, Inc.	GF-2022-0216	Finance – Staff Memorandum	Gas
The Raytown Water Company	WF-2021-0427	Finance – Staff Memorandum	Water
Missouri American Water Company	WF-2022-0161	Finance – Staff Memorandum	Water
Spire Missouri Inc.	GF-2022-0169	Finance – Staff Memorandum	Gas