

Exhibit No.: \_\_\_\_\_  
Issue: Merger  
Witness: David N. Moody  
Exhibit Type: Direct  
Sponsoring Party: Southern Missouri Gas Company, L.P.  
d/b/a Southern Missouri Natural Gas  
File No.: GM-2011-0354  
Date: April 27, 2011

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

**DIRECT TESTIMONY OF DAVID N. MOODY**

**ON**

**BEHALF OF**

**SOUTHERN MISSOURI GAS COMPANY, L.P.  
D/B/A SOUTHERN MISSOURI NATURAL GAS**

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**DIRECT TESTIMONY  
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**I. INTRODUCTION AND QUALIFICATION**

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

2 A. My name is David N. Moody, my business address is 500 W 19<sup>th</sup> Street,  
3 Mountain Grove, Missouri, 65711.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?**

5 A. I am employed by Southern Missouri Gas Company L.P. d/b/a Southern Missouri  
6 Natural Gas ("SMNG") as the Chief Executive Officer.

7 **Q. PLEASE DESCRIBE YOUR EDUCATION, EXPERIENCE, AND EMPLOYMENT  
8 HISTORY.**

9 A. In my youth, I was raised on a farm that was on the edge of a large natural gas  
10 production region. Natural gas was used extensively in refrigeration, lighting,  
11 space/water heating and irrigation. Much of the gas was sourced directly from  
12 well head, gathering and transmission supplies where I became familiar with  
13 those aspects of the natural gas industry I began my career in the natural gas  
14 business in March 1978 working as a meter reader for Peoples Natural Gas  
15 ("Aquila"). I spent 23.5 years with Aquila in several mid-western states. My last  
16 position for Aquila was in Colorado as a Director of Customer Operations for the  
17 state. In August 2001, I was employed by Colorado Natural Gas as a District

1 Manager and in 2005 became Vice President of Operations. In February 2010, I  
2 relocated to southwest Missouri and became CEO of Southern Missouri Natural  
3 Gas.

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 A. The purpose of my testimony is to provide background on SMNG, the reasons for  
6 the consolidation, and why the transaction is in the best interest of the SMNG  
7 customers. In addition, I will provide details on how the two systems will be  
8 integrated, and how operations will be managed after the two companies are  
9 consolidated.

10 **II. BACKGROUND**

11 **Q. PLEASE PROVIDE AN OVERVIEW OF SMNG.**

12 A. SMNG owns and operates a natural gas transmission and distribution system  
13 located in southern Missouri that serves approximately 9,000 residential,  
14 commercial and industrial customers. SMNG provides natural gas service in the  
15 Missouri counties of Greene, Webster, Laclede Wright, Douglas, Texas, Howell  
16 Stone, and Taney.

17 **Q. WHAT IS THE CURRENT OWNERSHIP STRUCTURE OF SMNG?**

18 A. SMNG is wholly owned by a partnership, for which the limited partner is Sendero  
19 SMGC Limited Acquisition Company, LLC, and the general partner is Sendero  
20 SMGC GP Acquisition Company LLC. These two entities are both owned by IIF  
21 SMNG Investment LLC, which holds 99.7% of the assets in each of the partners,  
22 and IIF SMNG Investment II LLC, which holds the remaining 0.3%. Both IIF

1 SMNG Investment LLC and IIF SMNG Investment II LLC are under common  
2 ownership (“IIF”).

3 **Q. HAS THIS ALWAYS BEEN THE OWNERSHIP STRUCTURE?**

4 A. No. IIF SMNG Investment II LLC obtained its ownership in March, 2011. IIF  
5 SMNG Investment LLC bought its majority ownership in 2008. Prior to that, both  
6 Sendero entities had different ownership.

7 **Q. PLEASE PROVIDE A GENERAL DESCRIPTION OF SMNG’S EXISTING**  
8 **SYSTEM.**

9 A. SMNG has 202 miles of high pressure steel intra-state transmission lines. It  
10 utilizes 452 miles of polyethylene mains for medium pressure distribution. The  
11 initial steel mains installed in 1995 extended from Rogersville just east of  
12 Springfield along Highway 60 east to Willow Springs and South along Highway  
13 63 to West Plains. There were two spurs that fed off of this line, one that  
14 extended North to Marshfield and one that extended south to Ava, Missouri. In  
15 2009, a 36 mile steel line was installed to Lebanon from the Marshfield lateral. In  
16 2010, a similar 42 mile line was extended southeast to Branson from Aurora.

17 **Q. HOW WILL THE COMBINED SYSTEM COMPARE?**

18 A. By consolidating SMNG and MGU, the combined system will service  
19 approximately 12,000 customers across Missouri with a footprint that spans from  
20 the northwest corner of the state, including Gallatin and Hamilton to the south-  
21 central part of Missouri, including Branson, Lebanon and Mountain Grove,  
22 Missouri.

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**III. OPERATIONS**

**Q. WHAT OFFICES WILL BE MAINTAINED IMMEDIATELY AFTER THE TRANSACTION HAS BEEN CONCLUDED?**

A. MGU plans to maintain all existing offices. In addition, a new MGU Corporate office will be co-located with the current Branson local office. The existing SMNG offices will become district offices of MGU and will operate much as they do today.

**Q. WILL ALL CURRENT EMPLOYEES BE RETAINED?**

A. No. Not all employees will have a position with the consolidated company when the consolidation is completed as there will be some duplication of responsibilities in the corporate operations.

**Q. HOW WILL THIS BE COMMUNICATED TO EMPLOYEES?**

A. It is our intention to notify all affected employees as soon as possible. Employees that will not be retained will receive a severance package.

**Q. DO OPERATIONAL SYNERGIES EXIST BETWEEN SMNG AND MGU?**

A. Yes. SMNG and MGU believe synergies exist in the areas of compliance safety, field operations, corporate operations, customer service, engineering, information technology, and human resources.

**Q. PLEASE DESCRIBE THE SYNERGIES YOU SEE IN EACH OF THE IDENTIFIED AREAS.**

A. Over the next several paragraphs I will explain the synergies in each identified area.

Field Operations:

1 As mentioned above, SMNG will maintain all its offices as field offices of MGU,  
2 with the state corporate office co-located with the Branson office. SMNG and  
3 MGU will be able to combine best practices with regard to safety and training,  
4 general operations, and construction and maintenance. MGU brings with it a  
5 new dispatching system that communicates directly with technicians in the field  
6 and uses satellites and truck-mounted computers to address gas emergencies in  
7 the quickest method possible. All technologies will be rolled-out to SMNG during  
8 the transition phase. The companies will work together to develop common  
9 policies and procedures that will keep field operations safe and reliable.

10 Corporate Operations:

11 Synergy savings exist in the corporate operations, primarily in customer service,  
12 regulatory, and external legal fees. MGU offers various e-services including pay  
13 by phone and online bill-pay. MGU also operates a state of the art account  
14 management and billing system. SMNG currently utilizes a Daffron system that  
15 is outdated and would have had to have been replaced within the next two years.  
16 By consolidating SMNG and MGU, SMNG customers and their account history  
17 will be rolled into the existing system, allowing customers to take advantage of  
18 MGU's tried and tested innovative systems. There will be labor savings  
19 associated with the corporate operations, as all corporate administrative function  
20 will be absorbed by the MGU corporate office in Littleton, Colorado.

21 Currently SMNG regulatory and legal services are supplied by external  
22 contractors. MGU provides in-house regulatory and legal expertise that will

1 provide these services for the consolidated company. This issue is further  
2 discussed by Ms. Michelle Moorman in her Direct Testimony.

3 Additionally the consolidated company will find synergies in areas of  
4 information technology ("IT") and Human Resources ("HR"). MGU brings a  
5 dedicated IT department that will oversee the conversion of equipment, hardware  
6 and software, and equipment for service technicians in the field. MGU's HR  
7 department will oversee the consolidation from a personnel standpoint and will  
8 provide employee services, including benefits and health care to both companies  
9 during and after the transition.

10 Engineering:

11 MGU brings with it a dedicated Engineering department for construction, design,  
12 maintenance and inspection of the gas distribution system. This will be  
13 particularly beneficial as SMNG continues to expand to outlying areas around the  
14 system that currently do not have natural gas service available. In addition to the  
15 Engineering department, MGU offers experts in Geographic Information Systems  
16 ("GIS"), field design systems and distribution automation systems. MGU  
17 personnel will work with existing GIS systems at SMNG to create a unified  
18 system that will provide reliability benefits to all customer and growth in the  
19 consolidated service territory.

20 Other Synergies:

21 Additionally, synergy savings will be realized in debt interest savings and  
22 economies of scale. As discussed further by Ms. Moorman's and Mr. Johnston's  
23 testimonies, the consolidated MGU is securing long term debt simultaneously



1 with this Joint Application. The long term debt will not only reduce current SMNG  
2 interest rates but also replace MGU's current bond financing, which has variable  
3 interest rates, with long term, low interest, fixed-rate debt. This can be achieved  
4 due to the combined size of the utilities in conjunction with MGU's existing  
5 relationship with the financial industry.

6 **Q. PLEASE PROVIDE A GENERAL OVERVIEW OF THE IMPACT OF THE**  
7 **TRANSACTION ON SMNG'S AND MGU'S OPERATIONS.**

8 A. Throughout the transition, MGU personnel will continue to coordinate with SMNG  
9 management and personnel to ensure no adverse impacts on day-to-day  
10 operations. Due to an already strong working relationship, there will be minimal  
11 impact to the ratepayers of either utility.

12 **Q. HOW WILL THIS TRANSACTION IMPACT ONGOING CONSTRUCTION IN**  
13 **LEBANON AND BRANSON?**

14 A. The personnel currently in charge of those construction activities will remain in  
15 the consolidated MGU. No adverse impact is anticipated.

16 **Q. WILL THIS CONSOLIDATION IMPACT GAS SUPPLY FOR THE INVOLVED**  
17 **COMPANIES?**

18 A. No. While the MGU Warsaw area and SMNG both receive gas through Southern  
19 Star Central Gas Pipeline, the flow paths to the respective delivery points are  
20 sufficiently separated such that no impact, positive or negative, should result  
21 from the merger. For the 2011/2012 heating season, each company will have  
22 secured gas supply prior to the merger. After consolidation, MGU will solicit bids

1 for the gas supply contracts for all the delivery points in the state to a variety of  
2 supply companies for the 2012/2013 heating season.

3  
4 **III. IMPACT TO RATEPAYERS**

5 **Q. HOW WILL THIS TRANSACTION PROVIDE BENEFITS TO THE SMNG**  
6 **RATEPAYERS?**

7 A. As part of due diligence, the team members from SMNG and MGU will evaluate  
8 existing policies and procedures of both companies. The best practices that  
9 arise out of that due diligence will be applied to the consolidated company. This  
10 will ensure a seamless transition in the operations and customer service side due  
11 to the internal knowledge and expertise that both companies bring to the table.

12 **Q. HOW WILL CUSTOMERS BE NOTIFIED OF THE TRANSACTION AND**  
13 **CHANGES THAT RESULT FROM THE CONSOLIDATION?**

14 A. MGU has developed a communication plan in order to provide transparency to  
15 the customers as the companies go through this transition. This plan includes  
16 announcements in the local newspapers, direct mailing, bill inserts, town  
17 hearings, and updates through both company websites.

18 **Q. DO YOU BELIEVE THIS TRANSACTION IS IN THE BEST INTEREST OF THE**  
19 **PUBLIC?**

20 A. Yes, for the reasons identified above.

21 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

22 A. Yes.