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Witness: Michelle A. Moorman
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Date: April 27, 2011

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

DIRECT TESTIMONY OF MICHELLE A. MOORMAN

ON

BEHALF OF

MISSOURI GAS UTILITY, INC.

APRIL 27, 2011

**DIRECT TESTIMONY
MICHELLE A. MOORMAN
MISSOURI GAS UTILITY, INC.**

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**DIRECT TESTIMONY
MICHELLE A. MOORMAN
MISSOURI GAS UTILITY, INC.**

I. INTRODUCTION AND QUALIFICATION

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

2 A. My name is Michelle A. Moorman, my business address is 7810 Shaffer
3 Parkway, Suite 120, Littleton, CO 80127.

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

5 A. I am employed by Summit Utilities, Inc., the parent company of Missouri Gas
6 Utility, Inc. ("MGU"), as the Manager of Regulatory Affairs.

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

9 A. I graduated from the Colorado School of Mines, in Golden, Colorado with a
10 Bachelors of Science in Metallurgical and Materials Engineering. I began
11 employment with Summit Utilities, Inc., parent company of Missouri Gas Utility,
12 Inc., in April 2010. Prior to joining MGU, I was a Regulatory Case Specialist for
13 Xcel Energy Services, Inc., managing electric, natural gas, and wholesale
14 regulatory filings. From 2003-2007, I was a Production Engineer for Xcel Energy
15 Services, Inc.

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

17 A. The purpose of my testimony is to address the regulatory issues related to the
18 business transaction to merge Southern Missouri Natural Gas ("SMNG") and
19 MGU ("the Merger"), including how tariffs will be handled, regulatory treatment of
20 assets, and parallel filings made by the Joint Applicants. In addition, I will cover

1 the regulatory plan for the Joint Applicants' annual filings, Purchased Gas
2 Adjustments ("PGA"), and the expectation for future rate proceedings of the
3 consolidated entity.

4 II. REGULATORY BACKGROUND

5 Q. ARE THE JOINT APPLICANTS FILING UNDER A SPECIFIC RULE?

6 A. Yes, this Joint Application and supporting documents are being filed under 4
7 CSR 240-3.215, but are also referencing Rule 3.225.

8 Q. WHY DO THE JOINT APPLICANTS REFERENCE THE ADDITIONAL RULE?

9 A. The plan is to merge SMNG into MGU, pursuant to Sections 347.700, RSMo and
10 per Section 7-90-203 and 7-111.106.5 of the Colorado Revised Statutes. As a
11 result of the termination of the partnership, this acquisition and merger are
12 treated as an asset purchase for tax and GAAP reporting purposes.

13 Q. PLEASE SUMMARIZE SMNG'S CURRENT NATURAL GAS RATES AND 14 WHEN THEY WERE ESTABLISHED.

15 A. SMNG implemented new rates effective February 1, 2011, following the Small
16 Utility Rate Case procedure (4 CSR 240-3.050) in Case No. GR-2010-0347.

17 Q. PLEASE SUMMARIZE MGU'S CURRENT NATURAL GAS RATES AND 18 WHEN THEY WERE ESTABLISHED.

19 A. MGU established rates in Case No. GR-2008-0060. MGU is currently scheduled
20 to provide a rate check 36 months after the completion of construction on the
21 Warsaw (Southern) system, or in the year 2013.

22

1 **III. CONCURRENT PROCEEDINGS OF JOINT APPLICANTS**

2 **Q. ARE THERE ANY PENDING CASES BEFORE THE COMMISSION THAT**
3 **IMPACT THE JOINT APPLICANTS?**

4 A. Yes. Currently SMNG has pending a financial application (Case No. GF-2011-
5 0352) seeking authorization to issue short term (less than 365 days) debt.

6 **Q. WHY IS SMNG PURSUING A FINANCING APPLICATION AT THE SAME**
7 **TIME AS IT IS SUBMITTING A JOINT APPLICATION FOR A MERGER?**

8 A. SMNG has several short term goals that it must accomplish in order to maintain
9 quality of service to its customers. In Case No. GF-2011-0352, SMNG states
10 that it intends to apply the funds gained from the issuance of debt to capital
11 expenditures, including short main line and service line extension, the purchase
12 of gas for storage in preparation for the 2011-2012 winter heating season, and
13 partial replacement of existing debt. SMNG intends to use the debt to maintain
14 operations until the Merger can be completed.

15 **Q. SHOULD THESE CASES REMAIN SEPARATE?**

16 A. Yes. SMNG requested expedited treatment in Case No. GF-2011-0352, in order
17 to achieve the short term corporate goals and maintain quality of service.
18 Approval of the financing application has no impact on the proposed Merger, but
19 does impact SMNG's ability to operate during the transition period.

20 **Q, DO THE JOINT APPLICANTS INTEND TO FILE ANY OTHER CASES**
21 **RELATED TO THIS JOINT APPLICATION?**

22 A. Yes. The Joint Applicants intend to file a joint financing application seeking
23 authorization to recapitalize debt and equity of the consolidated MGU.

1 **Q. PLEASE ELABORATE.**

2 A. The consolidated MGU will carry with it the existing financing currently held by
3 SMNG and MGU, as modified by Case No. GF-2011-0352. This consists of
4 bonds and high interest debt. MGU was authorized to use bonds for funding in
5 Cases Nos. GF-2010-0334, GF-2009-0331, and GF-2009-0057. Since then,
6 MGU has developed strong relationships in the financial industry. By
7 recapitalizing the debt and equity of the consolidated entity, long term, low
8 interest debt could replace existing debt financed by bonds and high interest
9 loans. The bonds currently financing MGU have maintained a low interest rate,
10 but are inherently risky as the interest rate is subject to change on a monthly
11 basis based on the LIBOR average.

12 **Q. WILL THIS RESULT IN ANY SAVINGS FOR THE CONSOLIDATED**
13 **COMPANY?**

14 A. The consolidated MGU will see interest savings by replacing the short term, high
15 interest debt with long term, low interest debt. MGU has already begun talks with
16 several financial entities to prepare for the financial filing. The amount of savings
17 is difficult to quantify at this time as we have been given a pro forma interest rate
18 that is subject to change. These savings will be identified in the joint financing
19 application.

20 **Q. SHOULD THE JOINT FINANCING APPLICATION BE CONSOLIDATED WITH**
21 **THIS MERGER CASE?**

1 A. Not necessarily. The Joint Applicants only request that the merger application
2 and the financing application proceed on a similar track, so that approval of the
3 financial application is in place at the time the Merger transaction closes.

4 **IV. REGULATORY PLAN**

5 **Q. PLEASE EXPLAIN THE JOINT APPLICANTS' PLAN FOR TARIFF**
6 **MANAGEMENT OF THE CONSOLIDATED ENTITY.**

7 A. MGU plans to maintain the existing, Commission approved, SMNG tariffs upon
8 the closing of the Merger.

9 **Q. HOW DOES MGU PLAN TO MAINTAIN TRANSPARENCY THROUGHOUT**
10 **THE CONSOLIDATION AND TRANSITION PERIODS?**

11 A. The Joint Applicants understand that transparency with the Commission,
12 company employees, and the customers is of utmost importance through this
13 Merger. With respect to transparency with the Commission approval process,
14 the Joint Applicants will work quickly and closely with the parties involved in the
15 case to provide clear, concise responses to data requests as well as work with
16 the parties through negotiations to make sure all involved have a clear
17 understanding of the Merger outcomes.

18 MGU and SMNG plan to keep employees of both companies updated with
19 the progress of the Joint Application and be clear as to how the Merger will
20 impact jobs and responsibilities of each employee. MGU Executive Management
21 plans to meet with each employee affected by the Merger to explain how the
22 change will directly impact the individual. The Joint Applicants believe that

1 providing available information to the employees up front will alleviate fears and
2 anxiety that can be associated with mergers.

3 As mentioned by Mr. Dave Moody in his Direct Testimony, MGU has
4 developed a communication plan for customers that includes announcements in
5 the local newspapers, direct mailing, bill inserts, town hearings, and updates
6 through both company websites. The goal of this communication plan is to keep
7 customers informed of changes in order to maintain a high level of service.

8 **Q. HOW WILL MGU MANAGE THE COMMISSION REQUIRED ANNUAL FILINGS**
9 **(I.E. PGA, ACA AUDIT, FERC REPORT, AFFILIATED TRANSACTIONS,**
10 **ETC...) FOR BOTH COMPANIES?**

11 A. Due to the nature of the Merger, the SMNG entity will be consolidated into MGU.
12 Therefore, MGU will prepare and provide SMNG's annual reports for 2010 under
13 the SMNG name, and separate from MGU's 2010 annual reports.

14 **Q. WILL MGU CONSOLIDATE THE 2011 ANNUAL REPORTS?**

15 A. Once the Merger is complete, SMNG will become a division of MGU, similar to
16 the MGU's existing Northern and Southern divisions. All 2011 annual reports will
17 be filed together, but the SMNG division will continue to be broken out and
18 accounted for separately in all filings.

19 **Q. HOW WILL MGU MANAGE THE GAS SUPPLY PLANNING, PGA/ACA**
20 **REPORTING?**

21 A. As mentioned in Mr. Moody's Direct Testimony, each company will have already
22 secured gas supply for 2010-2011 prior to the Merger. MGU's internal regulatory
23 department will work with SMNG personnel to develop the ACA and PGA

1 reporting and response requirements for 2010. After consolidation, MGU will
2 solicit new bids for gas supply contracts to all delivery points and SMNG's supply
3 planning and reporting will then be included as a division in MGU's filings, similar
4 to other annual reports.

5 **Q. WILL THE CONSOLIDATED ENTITY PROVIDE AN UPDATED COST**
6 **ALLOCATION MANUAL?**

7 A. Yes. MGU will file with the Commission an updated Cost Allocation Manual in
8 conjunction with its annual affiliate transaction reporting requirements.

9 **Q. DOES MGU INTEND TO FILE A RATE CASE AT THE COMPLETION OF THE**
10 **MERGER?**

11 A. No. MGU will maintain the existing SMNG rates that went into effect February 1,
12 2011.

13 **Q. BOTH MR. JOHNSTON AND MR. MOODY IDENTIFY IN THEIR DIRECT**
14 **TESTIMONY THAT REGULATORY SYNERGIES WILL BE ACHIEVED AS AN**
15 **OUTCOME OF THIS MERGER. PLEASE EXPLAIN WHAT TYPE**
16 **REGULATORY SYNERGIES WILL OCCUR.**

17 A. Currently, SMNG does not have a dedicated regulatory department, and relies
18 heavily on outside consultants and outside legal counsel. MGU brings with it
19 dedicated regulatory and internal legal counsel that have experience with the
20 reporting and operational requirements of the Missouri Public Service
21 Commission. Synergy savings will occur because the SMNG requirements will
22 be rolled into MGU's reports, and due to the similarities between the two
23 companies, the existing MGU regulatory staff will maintain all reporting

1 requirements, and external consulting fees will be reduced. While some external
2 counsel will continue to be used, a majority of the day-to-day legal questions can
3 be handled internally.

4 **Q. IS THE PROPOSED TRANSACTION IN THE PUBLIC INTEREST?**

5 A. Yes. The proposed regulatory treatment in this case provides the public with a
6 financially and operationally stronger utility. Ultimately, the customers of both
7 companies will benefit from the combined best practices and technologies of the
8 two utilities.

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

10 A. Yes.