

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

SNGMO'S STATEMENT OF POSITIONS

COMES NOW Summit Natural Gas of Missouri, Inc. (SNGMO or Company), and for its Statement of Positions, states the following to the Missouri Public Service Commission (Commission) concerning the issues contained in the Joint List of Issues, List and Order of Witnesses, Order of Opening and Order of Cross-Examination, filed on August 14, 2014:

INTRODUCTION

SNGMO is the current name of the corporate entity formerly known as MGU. MGU, a subsidiary of Summit Utilities, Inc. (Summit Utilities), acquired SMNG on January 1, 2012, and at the same time changed the name of the entity to Summit Natural Gas of Missouri, Inc.

SNGMO has constructed significant new gas service facilities and has experienced increased operating expenses, including increased property taxes associated with the new facilities. The Company and its predecessor companies have not filed a formal general rate proceeding in at least six years, and have never filed a class cost of service study to assist in developing rates.

MGU

Summit Utilities acquired the municipal gas facilities of Gallatin and Hamilton, Missouri and formed MGU in December of 2004. MGU has since expanded to provide natural gas service through distribution facilities in the Missouri counties of Harrison, Daviess, Caldwell, Pettis, Benton, Morgan, Camden, and Miller, subject to the jurisdiction of the Commission.

Southern Missouri Natural Gas, L.P.

In 1993, Tartan Energy, doing business as Southern Missouri Gas Company filed for a CCN for what is now considered the legacy SMNG system. The application for CCN was approved in the fall of 1994 and since then SMNG has gone through multiple reorganizations and various owners in its nearly 20 year history. At the time of acquisition, SMNG provided natural gas service in the Missouri counties of Greene, Webster, Laclede, Wright, Douglas, Texas, Howell, Stone and Taney, subject to the jurisdiction of the Commission.

Future

SNGMO has been instrumental in bringing natural gas service to areas of the state that did not previously have access to this fuel source. In this case, SNGMO is asking the Commission to set rates that will allow it to continue to provide this service in a safe and adequate manner, and that will provide it the incentive to continue its growth in areas of the state where this fuel source will be useful and desired by Missouri citizens.

POSITIONS

I. COST OF CAPITAL

A. What is the appropriate cost of capital that the Commission should apply in this case to determine a revenue requirement for SNGMO?

SNGMO POSITION:

i. Cost of Common Equity: The company's evidence demonstrates that a cost of common equity as high as 15% is justified for ratemaking purposes. This number is an average from a number of estimates ranging 12% to 17.6%, adjusted for a risk premium of 4.4%, as derived from the use of three approaches, those being (1) the capital asset pricing model (CAPM), (2) the discounted cash flow (DCF) method and (3) the Total Return model.

Additionally, a common equity cost of 15% reasonably approximates the return expectations of the Company's investors. Even though a higher return is justified by the analytical tools typically used to ascertain the cost of common equity for ratemaking purposes, the revenue requirement as proposed by SNGMO is based on only a 12% return on equity capital because it fairly balances the interests of ratepayers and investors and appropriately addresses the market for competitive fuels in SNGMO's service areas.

Moorman (as adopted by Johnston), Dir. p. 14;
Anderson, Dir., all;
Anderson Reb., p. 1-12;
Anderson Sur., all (excepting p. 10-14).

ii. Cost of Long-Term Debt: SNGMO's case as filed is premised on the use of its actual capital structure (see below) and, consequently, had contemplated the use of the Company's actual cost of long-term debt of 3.21% for establishing cost-of-service-based rates. If the Commission adopts Staff's projected capital structure proposal, the Company contends that a cost of long-term debt in the range of 6.5% to 7.0% is appropriate for ratemaking purposes because the company would most likely receive a 'B' credit rating and twenty-year term loans for corporations rated 'B' currently bear an interest rate of 7.25%, slightly higher than would be the case for a utility company.

Anderson Sur., p. 14-16.

B. What Capital Structure should the Commission use in this case to determine a revenue requirement for SNGMO?

SNGMO POSITION:

SNGMO contends that the Commission should use the Company's actual capital structure of 43%:57% debt-to-equity as of September 30, 2014, for ratemaking purposes. This ratio represents the actual mix of capital deployed by the Company to provide service to its

customers in Missouri and, thus, is the presumptively correct approach for determining revenue requirement. This mix of capital components to set rates is appropriate for setting rates because (1) it compares favorably to that of other Missouri utilities and, therefore, is not inherently unreasonable and (2) it reflects the practical limits of debt capital available to the Company from lenders based on (a) its current mix of activities (i.e., equal parts construction company and utility company) and (b) a cap on long-term debt availability that is restricted to a multiple of 5X EBITDA.

Anderson Dir., p. 7-8;
Anderson Reb., p. 13-16;
Anderson Sur., p. 10-14;
Lawler Reb., all.

II. REVENUE REQUIREMENT

A. Should the Commission grant the Company a rate increase? If so, in what amount?

SNGMO POSITION: The appropriate total cost of service numbers by division are as follows:

- Gallatin - \$1,658,753;
- Warsaw - \$2,078,274;
- Rogersville - \$14,547,793; and,
- Branson - \$4, 295,518.

The corresponding revenue requirements by division are as follows:

- Gallatin - \$396,162;
- Warsaw - \$901,896;
- Rogersville - \$5,117,387; and,

- Branson - \$1,812,581.

These numbers have been updated for the adjustments noted in SNGMO Witness Porter's Surrebuttal Testimony and for the FERC Account 105 transfer as proposed in Staff Witness McMellen's Surrebuttal Testimony. The acceptance of Staff's FERC Account 105 methodology is a change from what was filed as part of Witness Johnston's Surrebuttal Testimony. The numbers also reflect a return on equity of 12% and a cost of debt of 3.21%. Finally, the Company's actual capital structure of 43% debt and 57% equity was used.

As stated above, this cost of service contemplates that the Commission directs SNGMO to transfer a portion of its mainline investments in Warsaw and Branson into Plant Held for Future Use, FERC Account 105. If the Commission so directs this transfer, the Uniform System of Accounts requires that the Commission also include in its order a process for repatriating those transferred amounts based on future growth. SNGMO provides a detailed proposal as to this process in the Surrebuttal Testimony of SNGMO Witness Johnston.

Moorman Dir. (adopted by Johnston), p. 8-9, 14;
Johnston Sur., p. 20-22 (and Sched. TRJ-4);
Porter Sur., p. 8-9.

B. Should school accounts be based on the GS and CS rate classes?

SNGMO POSITION: The customer and commodity charge for the school program should be based upon the otherwise applicable retail sales tariff for each metered facility.

Taylor Reb., Sched. KDT-1.

C. How should the revenue be adjusted for customers switching rate classes during the test year?

SNGMO POSITION: This issue has been appropriately addressed by the Billing Determinants utilized by in the surrebuttal testimony of SNGMO, Staff and Public Counsel.

D. What level of O&M expense should be utilized in determining a cost of service for SNGMO?

SNGMO POSITION: SNGMO agrees with the O & M expense reflected in Staff's latest revenue requirement calculations.

E. What depreciation rates should SNGMO use to accrue depreciation expense for each rate district on a going-forward basis?

SNGMO POSITION: SNGMO believes that on a going-forward basis, it should accrue depreciation expense for all divisions in accordance with the same depreciation rates that were ordered in Commission Case No. GA-2012-0285.

Picard Dir., all.

F. Should SNGMO make an adjustment to its depreciation reserves in the former MGU districts as recommended by Staff?

SNGMO POSITION: SNGMO has agreed to make the adjustments to depreciation reserve proposed by the Staff.

Porter Reb., p. 10.

G. Should SNGMO make an adjustment to Account 302?

SNGMO POSITION: SNGMO will make an adjustment to reverse Depreciation expense and related Accumulated Depreciation concerning costs related to Franchises.

Porter Reb., p. 10-11

H. Should the Commission require SNGMO to impute a level of volumes, customer levels, and/or revenues in any of the four rate divisions in this rate case?

SNGMO POSITION: No.

As to the Rogersville Division, SNGMO has exceeded the minimum level of volumes set in Case No. GA-94-127 during the test year/update period applicable to this case. Accordingly, there is no factual basis for an imputation of volumes.

Further, SNGMO requests that the Commission eliminate the Case No. GA-94-127 Rogersville throughput requirement because changes in circumstances make this standard no longer meaningful. The analysis that formed the basis for the Rogersville requirement was performed around 1994 and included an average residential customer usage of 100 mcf per year. The average residential usage today is less than 60% of that figure, as the standard was developed based on per customer usage levels that greatly exceed today's experiences due to changes in usage patterns and equipment.

As to the Warsaw and Branson Divisions, SNGMO has asked for the Commission to direct it to transfer a portion of SNGMO's mainline investments in Warsaw and Branson into Plant Held for Future Use, FERC Account 105. Doing so will recognize the underutilization of mainline assets at Branson and Warsaw and no imputation of volumes, customer levels, and/or revenues is necessary.

The Gallatin Division systems (Gallatin and Hamilton) were small, troubled, municipal systems when they were purchased. SNGMO has brought stability to those systems. Its purchase has already brought great benefits to the customers in that the assets were brought onto the Company's books at a heavily discounted price, and it was that amount, rather than the significantly higher outstanding municipal debt related to the systems' cost of construction, which became the foundation for SNGMO's rate base. There is no basis for any imputation of volumes, customer levels, and/or revenues in regard to this system.

Johnston Sur., p. All;
Porter Sur., p. 4-7.

I. How should the former SMNG assets be booked to plant in service in light of MGU’s merger with SMNG that was approved in GM-2011-0354?

SNGMO POSITION: The assets of the legacy Southern Missouri Natural Gas systems were brought to SNGMO’s books at net original cost. This is consistent with long-standing Commission practice. There is no reason to deviate from that practice in this case, especially in that the ultimate owner of the assets did not change as a result of the merger. The “merger purchase price” should have no impact or import to the Commission’s decision in this case.

Lawler Sur., All.

J. How should weather be normalized for purposes of calculating test year revenue?

SNGMO POSITION: SNGMO’s weather normalization methodology is virtually identical to that of the Staff and produces weather normalized volumes that are very similar. If the Billing Determinants used by SNGMO, Staff and Public Counsel in surrebuttal testimony are accepted by the Commission, there is no need to specifically address weather normalization.

Porter Dir., p. 6;
Porter Reb., p. 4-6;
Porter Sur., p. 2-4, 7-9.

III. MISC. TARIFF ISSUES

A. Should the Commission approve SNGMO’s proposed Conversion Program?

SNGMO POSITION: The Commission should approve SNGMO’s proposed conversion program. The Company currently has a tariff which provides for free conversions in certain circumstances. SNGMO would like to amend the tariff to begin offering the service to new customers *for a charge* in all circumstances.

Wankum Dir., p. 14;
Wankum Sur., p. 8-9.

B. What conversion costs should SNGMO be required to charge?

SNGMO POSITION: SNGMO should be authorized to charge the labor rates which are set forth in the current tariff, and should also be authorized to begin charging customers the actual cost of pipe and fittings.

Wankum Dir., p. 14;
Wankum Sur, p. 8-9.

C. Should SNGMO's conversion practices be revised?

SNGMO POSITION: Yes. The revisions proposed by SNGMO should be approved.

Wankum Dir., p. 14;
Wankum Sur., p. 8-9.

D. Should SNGMO be required to revise its tariff provision that requires applicants for gas service to agree not to use propane inside any structure using natural gas?

SNGMO POSITION: The tariff provision was included in the SMNG tariff for safety reasons, as having both propane and natural gas serving the same home or small business can be unsafe.

Moody Sur., p. 3.

IV. TRANSPORTATION ISSUES

A. How should SNGMO calculate cashouts of transportation customer monthly imbalances?

SNGMO POSITION: Cash-outs of transportation customer monthly imbalances should be calculated using the method proposed by SNGMO, to include the use of the Company's effective PGA among others. SNGMO's cashout price determinants are linked to the actual costs incurred by the Company, which is reflective of its own gas purchasing behaviors

(Purchase WACOG), including storage activity (Storage WACOG). Using this process will insure that goals of recovering actual costs while protecting its retail sales customers are from any financial harm resulting from Shipper's behaviors are achieved. Also, progressively punitive cashout percentages per Imbalance Tiers shall be applied for purposes of encouraging effective imbalance management by its Shippers..

Nitura Reb., p. 3-4;

Nitura Sur., All.

B. Should the monthly metered transportation imbalances of Missouri School Pilot Program participant schools be cashed out using the three tiers proposed by SNGMO?

SNGMO POSITION: Because of the absence of telemetry, SNGMO supports tariff language that would subject the School Program only to Tier I cash-out pricing status.

Taylor Reb., Sched. KDT-1.

C. What cashout price determinant should SNGMO reference to calculate the cashout of the transportation monthly imbalances?

SNGMO POSITION: Depending on Shipper's month end imbalance either positive or negative, cash-outs of transportation customer monthly imbalances should be based on the greatest of (negative imbalance) and least of (positive imbalance) principles using the pricing methods proposed by SNGMO.

Nitura Reb., p. 3-4;

Nitura Sur., All.

D. Should school transportation pool groups that do not require daily metering be cashed out differently than other transportation customer monthly imbalances?

SNGMO POSITION: Yes. Because of the absence of telemetry, SNGMO supports tariff language that would subject the School Program only to Tier I cash-out pricing status.

Taylor Reb., Sched. KDT-1.

E. Should the school transportation customers' monthly imbalances be cashed out at Tier-1?

SNGMO POSITION: Yes but only to the extent telemetry is not required for a participant school. Because of the absence of telemetry, SNGMO supports tariff language that would subject the School Program only to Tier I cash-out pricing status.

Taylor Reb., Sched. KDT-1.

F. Should the school transportation customers' monthly imbalances be cashed out using a different cashout price determinant than the other transportation customers?

SNGMO POSITION: SNGMO takes no position on this issue at this time.

G. Should the monthly imbalance cashout include pipeline fuel, pipeline capacity and pipeline commodity charges?

SNGMO POSITION: Yes. These costs are reasonable and justifiable and currently reflected in the Company's effective PGA but are not included in the Cashout price calculation using Storage WACOG or Purchased WACOG.

Nitura Sur., p. 10.

H. What Pool Operator charge or Administration and Balancing Charge should be included?

SNGMO POSITION: SNGMO supports elimination of SNGMO's proposed tariff language charging the Pool Operator \$250.00 per month for each Pool (paragraph 6a, Sheet No. 48), and replacing it with a \$0.004 per therm applied to delivered volumes.

Taylor Reb., Sched. KDT-1.

I. Should SNGMO’s tariffs include a standard Pool Operator Agreement?

SNGMO POSITION: Yes.

Taylor Reb., Sched. KDT-1.

J. Should SNGMO continue to use its Pre-Determined Pipeline Algorithm (PDA)?

SNGMO POSITION: Yes. It is important to note that the Interconnecting Party (the upstream pipeline) allocates volumes based on the metered volumes at the Delivery Point. The Company does not make nomination reductions to the Delivery Point nor does it prioritize its own natural gas supply over MSBA’s or any other Shipper’s. Any reduction is not a result of the Company making a nomination reduction, but rather a result of volume reductions which exceed the Company’s own nomination to the Delivery Point.

*Nitura Reb., p. 3-4;
Nitura Sur., p. 5.*

K. Should SNGMO be required to monitor school imbalances?

SNGMO POSITION: No. SNGMO believes that the application of the proposed cashout price determinants will result in appropriate economic incentive to effectively manage their imbalance. Monitoring the schools would be a time consuming task that is fundamentally the responsibility of the Shipper.

Nitura Sur., p. 10.

L. Should SNGMO’s tariff include consistent definitions for “Shipper,” “Customer,” “Participant” and “School District”?

SNGMO POSITION: SNGMO does not object to this change.

Taylor Reb., Sched. KDT-1.

M. Should SNGMO’s tariff add language requiring telemetry for schools with certain volumes?

SNGMO POSITION: Yes.

Taylor Reb., Sched. KDT-1.

N. Should the interruptible status for School Program Shippers in SNGMO’s tariff be eliminated, and should the following language be added to SNGMO’s proposed tariff sheet No. 49?

“10. Delivery Priority

Each Shipper taking service under the Missouri School Program will possess the same delivery priority as retail sales customers to the extent The Pool Operator delivers and is allocated natural gas to the TBS from the upstream pipeline.”

SNGMO POSITION: SNGMO agrees with this tariff addition.

Taylor Reb., Sched. KDT-1.

O. Should SNGMO add the following language to its tariffed capacity release provisions for schools’ transportation service?

“To the extent that the Company has excess capacity available that may be released, any capacity released by the Company to the Pool Operator will be released for the full term of that capacity and will be non-recallable for the term of the agreement. Any capacity released by the Company to the Pool Operator will be released at the full demand rate charged by the upstream pipeline and the Pool Operator is directly responsible for any commodity related charges imposed by the upstream pipeline.”

SNGMO POSITION: Yes.

Taylor Reb., Sched. KDT-1.

V. RATE DESIGN

A. What is “rate shock”? If it exists, should the Commission address rate shock in this case and, if so, how?

SNGMO POSITION: SNGMO is unsure what constitutes “rate shock.” However, there are Company proposals that the Commission should accept that will be of benefit to customers.

First, SNGMO has asked the Commission to direct it to transfer a portion of the Company’s mainline investments in Warsaw and Branson into Plant Held for Future Use, FERC Account 105. Doing so will recognize the underutilization of mainline assets at Branson and Warsaw. SNGMO’s proposed method and its calculation of these transfers is found in the Surrebuttal Testimony of SNGMO Witness Johnston.

Secondly, the Commission should continue the use of a customer charge, plus volumetric charge, rate design and reject the use of straight fixed variable (SFV) Rate Design. While SNGMO generally believes that the use of SFV Rate Design as a tool by which to decouple utility non-gas costs from gas usage makes sense in an overall context which also promotes conservation, it is not appropriate for SNGMO or its customers. This is because a majority of SNGMO’s investment in plant has occurred in the last ten years, providing little time for investment recovery. Consequently, the investment per customer and corresponding non-gas revenue requirement per customer would drive a significant SFV charge. Additionally, SNGMO exists in a competitive environment. SNGMO believes SFV pricing may artificially drive customers to competitive fuels because low usage customers may migrate away from SNGMO’s system harming those customers that remain.

Lastly, SNGMO has proposed customer charges in amounts less than that called for by its class cost of service study. SNGMO reduced its requested customer charges to maintain the ratio of revenues collected from fixed monthly fees at approximately 12% of revenues.

*Moorman Dir. (adopted by Johnston), p. 11-13;
Johnston Reb., All.*

B. How should any rate increase/decrease be applied to volumetric and monthly charges?

SNGMO POSITION: None of the discrete divisions in this rate case has ever been subjected to a rigorous class cost of service study (CCOSS). To the extent that cross-customer-class inequities exist in current rates, applying increases in an equal percentage without correcting those inequities will simply compound the problem. SNGMO's CCOSS should be used to assign the rate increase to customer classes and rate elements.

As modified by SNGMO's proposal to limit the customer charges to amounts less than that called for by its class cost of service study. SNGMO reduced its requested customer charges to maintain the ratio of revenues collected from fixed monthly fees at approximately 12% of revenues.

Moorman Dir. (adopted by Johnston), p. 11-13;
Taylor Reb., p. 4-5.

C. What billing determinants should be used for ratemaking purposes?

SNGMO POSITION: The Commission should use the customer counts and weather normalized usages presented in Surrebuttal Schedule TDP-1 for ratemaking purposes. These billing determinants have also been used by both Staff and the Public Counsel in their surrebuttal testimony.

Porter Dir., p. 6;
Porter Reb., p. 4-6;
Porter Sur., p. 7-8.

D. What customer charges should be paid by schools in the Missouri School Aggregation Program?

SNGMO POSITION: SNGMO supports Staff's proposal that the customer charges for each school metered location be billed at the companion sales rate for each school participating in the aggregation program.

Taylor Reb., Sched. KDT-1.

E. Should schools be billed a different customer and volumetric charge than would be applied to the customer class that SNGMO and Staff placed the schools in their Class Cost of Service Studies?

SNGMO POSITION: SNGMO takes the position that no such mismatch exists as the Billing Determinants utilized by SNGMO, Staff, and Public Counsel appropriately reflect the schools' customer classes and usages.

Porter Reb., p. 6.

VI. ENERGY EFFICIENCY/LOW INCOME WEATHERIZATION PROGRAMS

A. Should the Commission approve an Energy Efficiency Collaborative for SNGMO?

SNGMO POSITION: SNGMO does not oppose the authorization and formation of an energy efficiency advisory (non-voting) collaborative.

Wankum Reb., p. 1-2.

B. What programs, if any, should the Commission authorize?

SNGMO POSITION: SNGMO initially proposed the creation of a residential energy efficiency rebate program. Staff and DE, however, support the establishment and funding of additional energy efficiency and low-income weatherization programs. SNGMO does not oppose

the establishment of these programs, provided funding levels are as agreed to by the Company and provided an appropriate rate recovery mechanism is approved.

Wankum Dir., p. 15-16;
Wankum Reb., p. 2.

C. What funding level, if any, should the Commission authorize?

SNGMO POSITION: SNGMO does not oppose an annual funding level of \$30,000, to support a low-income weatherization assistance program, provided an appropriate form of rate recovery mechanism is approved. SNGMO does not believe a goal of 0.5 percent of annual revenues is realistic or reasonable for a natural gas energy efficiency program and a low-income weatherization program.

Wankum Reb., p. 2-4;
Wankum Sur., p. 4.

D. How should SNGMO recover funding for any programs?

SNGMO POSITION: SNGMO initially proposed the establishment of a regulatory asset account, but this proposal was tied to the Company's proposed energy efficiency program (only a residential energy efficiency rebate program) and funding level (\$15,000 annually). In the event additional programs are established and/or a higher annual funding level is approved, a tracker should be established to allow SNGMO timely cost recovery.

Wankum Reb., p. 4;
Wankum Sur., p. 4-5.

E. Should the Commission direct SNGMO to enter into a funding agreement with the Division of Energy for administration and monitoring of the SNGMO weatherization program?

SNGMO POSITION: No. SNGMO is not requesting approval for any such agreement, and the Commission may not order SNGMO to enter into any such agreement. SNGMO,

however, is willing to discuss the issue informally and/or as part of an energy efficiency advisory collaborative.

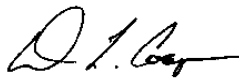
F. If the Commission approves an energy efficiency program, what measures should be included in the program?

SNGMO POSITION: SNGMO is requesting approval to offer cost-effective energy efficiency rebates to new and current residential customers who purchase high efficiency furnaces and/or programmable thermostats.

Wankum Dir., p. 16-18.

WHEREFORE, SNGMO respectfully requests that the Commission consider this Statement of Positions.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been sent by electronic mail this 15th day of August, 2014, to:

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