

Exhibit No.: _____
Issue: Merger
Witness: Michael P. Earnest
Exhibit Type: Direct
Sponsoring Party: Missouri Gas Utility, Inc.
File No.: GM-2011-0354
Date: April 27, 2011

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

DIRECT TESTIMONY OF MICHAEL P. EARNEST

**ON
BEHALF OF
MISSOURI GAS UTILITY, INC.**

APRIL 27, 2011

**DIRECT TESTIMONY
MICHAEL P. EARNEST
MISSOURI GAS UTILITY, INC.**

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**DIRECT TESTIMONY
MICHAEL P. EARNEST
MISSOURI GAS UTILITY, INC.**

I. INTRODUCTION AND QUALIFICATION

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

2 A. My name is Michael P. Earnest, my business address is 7810 Shaffer Parkway,
3 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., (“Summit”) the parent company of
6 Missouri Gas Utility, Inc. (“MGU” or “the Company”) as the President and Chief
7 Executive Officer.

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

10 A. I attended Metropolitan State College of Denver majoring in Criminology and
11 Business Management. I have 30 years in the natural gas industry, and co-
12 founded Summit Utilities, Inc. (then Colorado Natural Gas, Inc.) 14 years ago.
13 Prior to founding the company, I held the position of Vice President of Operations
14 for The Meter and Valve Company, which supplied equipment to natural gas
15 utilities and pipeline companies, as well as sat on the Board of Directors for
16 Pinedale Natural Gas Inc., in Pinedale, Wyoming.

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

18 A. I will provide a description of MGU and the relationship between MGU and
19 Southern Missouri Gas Company L.P. d/b/a Southern Missouri Natural Gas

1 (“SMNG”). I will also explain the similarities and synergies between these two
2 companies, how the consolidated company will look, and the reasons this
3 consolidation is in the public interest.

4 **II. BACKGROUND**

5 **Q. PLEASE PROVIDE AN OVERVIEW OF MISSOURI GAS UTILITY, INC.**

6 A. MGU operates under the parent company, Summit Utilities, Inc., which has
7 corporate offices in Littleton, Colorado. Summit Utilities, Inc. is a privately held
8 company with the principal business of natural gas distribution. Summit operates
9 four subsidiaries in two states: Colorado Natural Gas Inc.; Missouri Gas Utility,
10 Inc.; Summit Utilities Management Services, LLC (“SUMS”), a non-regulated
11 consulting company specializing in gas distribution; and Wolf Creek Energy, LLC,
12 a natural gas reseller located in Colorado.

13 Missouri Gas Utility, Inc., was established in 2005, and has since
14 expanded to provide gas transportation and distribution services to areas of rural
15 Missouri, including Harrison, Daviess, Caldwell, Pettis and Benton counties.
16 MGU operates a Northern and Southern division, serving approximately 2,800
17 customers.

18 MGU under Summit Utilities Inc., performs all utility operations in-house,
19 including engineering and construction, field operations and maintenance,
20 accounting, customer service, human resources and regulatory.

21 **Q. PLEASE DESCRIBE THE RELATIONSHIP BETWEEN MGU AND SMNG.**

22 A. MGU and SMNG share common ownership. IIF CNG Investment LLC first
23 invested in Summit Utilities, Inc., and by extension, in its subsidiaries including

1 MGU in 2007. In 2010, IIF purchased all remaining shares of Summit and
2 became 100% owner. In 2008, IIF SMNG Investment LLC bought a majority
3 interest in Sendero SMGC GP Acquisition Company, LLC and Sendero SMGC
4 Limited Acquisition Company, LLC, which together formed a partnership that
5 owned SMNG. In 2011, IIF SMNG Investment II LLC purchased all the remaining
6 partnership interest. IIF CNG Investment LLC, IIF SMNG Investment LLC, and
7 IIF SMNG Investment II LLC are under common ownership (“IIF”). Additionally,
8 in 2010, SMNG contracted with Summit Utilities Management Services, LLC to
9 construct the Branson system. As I mentioned above, SUMS is a subsidiary of
10 Summit, and a sister company of MGU.

11 **III. MERGER DETAILS**

12 **Q. WHAT WILL THE CONSOLIDATED COMPANY LOOK LIKE FOLLOWING** 13 **THE PROPOSED TRANSACTION?**

14 A. After the transaction, SMNG will be merged into MGU. The transaction will result
15 in MGU becoming a stronger regional utility. After the transaction is completed,
16 MGU will have a footprint that spans from the northwestern part of Missouri,
17 including Gallatin and Hamilton, to south-central Missouri, including Branson and
18 Lebanon, serving nearly 13,000 customers.

19 **Q. WHO WILL MANAGE THE SURVIVING ENTITY?**

20 Summit’s executive management, management and Board of Directors will
21 remain the same. Dave Moody, current Chief Executive Officer of SMNG, will
22 become the Chief Operating Officer of the consolidated MGU. The current

1 General Partner of SMNG, which was occupied primarily by the investor, will be
2 dissolved.

3 **Q. DOES MGU PREDICT ANY SYNERGIES BETWEEN MGU AND SMNG?**

4 A. Yes. MGU and SMNG both provide gas service to small rural towns in Missouri.
5 MGU is well equipped with the knowledge and skills to operate SMNG in such a
6 manner that the customers will not feel a significant change from the approval of
7 this merger. MGU has identified synergies in corporate operations, field
8 operations, customer service, engineering, accounting, human resources and
9 regulatory functions. SMNG's natural gas system and existing customers will
10 benefit from the support staff and expertise that MGU will provide.

11 **Q. WHAT IMPACT WILL THE CONSOLIDATION HAVE ON CUSTOMERS AND
12 COMMUNITIES SERVED BY SMNG AND MGU?**

13 A. If they notice a change, we hope that it will be positive. MGU has an excellent
14 track record of providing safe, reliable, affordable natural gas service to its
15 customers and communities. In addition, MGU has a strong working relationship
16 with the Commission. Both companies are striving towards a consolidated MGU
17 that combines best practices and resources that will achieve a higher level of
18 reliability and customer satisfaction while reducing costs through efficiencies,
19 economies of scale, and a larger market for gas supply.

20 **Q. DO YOU HAVE ANY CONCLUDING COMMENTS REGARDING THE
21 PROPOSED TRANSACTION?**

22 A. Yes I do. SMNG and MGU have focused our businesses on providing natural
23 gas distribution and transportation service to retail customers and both

1 operations are dedicated to providing safe and reliable service to our customers.
2 The merger of SMNG and MGU for which we are seeking Commission approval
3 will bring proven operational expertise and financial capabilities of MGU to bear
4 for the benefit of SMNG's customers. As described in more detail by additional
5 witnesses identified below, the approval of this Joint Application is in the best
6 interests of SMNG's customers and we respectfully request that the Commission
7 grant this Application at its earliest opportunity.

8 **Q. WILL THERE BE ADDITIONAL WITNESSES PROVIDING TESTIMONY IN**
9 **THIS CASE?**

10 A. Yes, there will be three additional witnesses providing testimony in this Docket:

11 a) David N. Moody, Chief Executive Officer of Southern Missouri Natural
12 Gas, will provide background on SMNG's gas operations, as well as synergies
13 between the companies and an overview of the consolidated operations.

14 b) Timothy R. Johnston, Executive Vice President and Chief Operating
15 Officer of Missouri Gas Utilities, Inc., will describe MGU's gas operations and
16 provide economic support for this transaction.

17 c) Michelle A. Moorman, Manager of Regulatory Affairs for MGU, will
18 address the regulatory issues related to both SMNG and MGU including tariffs,
19 rates, regulatory treatment of assets, and discuss parallel filings that impact this
20 case.

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

22 A. Yes.