Exhibit No.: _____
Issue: Revenue Requirement; Billing Determinants
Witness: Tyson D. Porter
Exhibit Type: Direct
Sponsoring Party: Summit Natural Gas of Missouri, Inc.
Case No.: GR-2014-0086
Date: January 2, 2014

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2014-0086

DIRECT TESTIMONY

OF

TYSON D. PORTER

ON BEHALF OF

SUMMIT NATURAL GAS OF MISSOURI, INC.

Jefferson City, Missouri
January 2, 2014

TABLE OF CONTENTS

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SUMMIT NATURAL GAS OF MISSOURI, INC.

I. INTRODUCTION

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

A. Tyson Porter, 7810 Shaffer Parkway, Suite 120, Littleton, CO 80127.

Q. **ON WHOSE BEHALF IS YOUR TESTIMONY PRESENTED?**

A. I am testifying on behalf of Summit Natural Gas of Missouri, Inc. ("SNG" or the "Company").

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

A. I am the Regulatory Accountant for Summit Utilities, Inc., the parent company of SNG. My duties as a Regulatory Accountant include preparing cost of service studies and developing accounting exhibits and testimony for use in applications for rate changes for Summit Utilities' subsidiaries. I prepare or assist in the preparation of regularly filed exhibits and reports to various regulatory commissions. I also provide data, answer inquiries and assist representatives of the regulatory commissions in conducting their audits and reviews.

Q. **PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND RELEVANT BUSINESS EXPERIENCE.**

A. After earning dual Bachelor of Science degrees in Business Administration and

Accounting from the University of Kansas in 2006, I started my career as an auditor for EKS&H, a large Colorado-based accounting and business consulting firm. I was accountable for planning and conducting audits on public and private organizations primarily dealing with the energy sector, including gas utilities. In 2010, I left EKS&H to become a consultant to Southern Missouri Gas Company L.P. and Summit Utilities, Inc. On January 1, 2012, Missouri Gas Utility, Inc. a subsidiary of Summit Utilities, Inc., acquired all of the assets of Southern Missouri Gas Company L.P. Following completion of the integration, I accepted a position with Summit Utilities, Inc. as a Regulatory Accountant.

Q. **HAVE YOU TESTIFIED BEFORE OTHER REGULATORY BODIES?**

A. Yes. I have testified before the Colorado Public Utilities Commission.

Q. **IN WHAT CAPACITY?**

A. I have testified as an operation and maintenance expense and property tax witness for Colorado Natural Gas, Inc., an affiliate of SNG.

II. <u>PURPOSE AND SUMMARY OF TESTIMONY</u>

Q. **WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

A. The purpose of my direct testimony and attached schedules is to develop the revenue requirement for the SNG rate case. The revenue requirement determines the level of revenues required to pay operating expenses, to provide for depreciation and taxes, and to permit our investor an opportunity to earn a fair and reasonable return on its investment.

In support of the revenue requirement, I will also provide the foundation for SNG's billing determinants and explain the pro forma adjustments required to calculate the revenue requirement.

III. REVENUE REQUIREMENT

Q. **WHAT TEST YEAR IS THE COMPANY PROPOSING TO ESTABLISH THE REVENUE REQUIREMENT IN THIS PROCEEDING?**

A. The Company is proposing a test year consisting of the twelve months ended September 30, 2013, with various pro forma adjustments.

Q. DOES SNG INTEND TO REQUEST A TRUE-UP TO REFLECT CHANGES FROM THE END OF THE TEST PERIOD?

A. Yes, SNG requests a potential true-up prior to June 30, 2014 for material interest rate fluctuations related to long-term debt and changes in property taxes. The Company proposes that other materials effects to the revenue requirement, both increases, and decreases be included in the true-up.

Q. **HOW WAS RATE BASE DETERMINED?**

A. Test period rate base was determined as shown below.

- September 30, 2013 ending balances for net plant,
- Deferred tax liability, adjusted to reflect SNG activity through September 30,

2013,

- For other rate base items including prepaid expenses and stored gas inventory, a thirteen month average was used.

Q. HOW WERE THE BILLING DETERMINANTS DETERMINED?

A. Weather adjusted sales volumes for each division were calculated using shaped monthly customer counts. The customers existing at the end of the test period, September 30, 2013, were the starting point. In addition, I prepared a retail demand study, the goal of which was to identify the weather adjusted usage by month, by division, by customer class.

Q. HOW DID YOU ARRIVE AT THE TRANSPORTATION SERVICE BILLING DETERMINANTS?

A. Highly Confidential Schedule TDP-4, Transportation Study, provides the narrative explanation as well as a supporting analysis.

Q. HOW WERE OPERATING COSTS TREATED?

A. Actual operating expenses modified for known and measurable changes were used.

Q. HAVE YOU PREPARED OR HAVE THERE BEEN PREPARED UNDER YOUR DIRECTION AND SUPERVISION A SERIES OF SCHEDULES FOR PRESENTATION TO THE MISSOURI PUBLIC SERVICE COMMISSION ("COMMISSION") IN THIS PROCEEDING?

A. Yes. I am sponsoring Schedule TDP-1 through TDP-5

Q. **WHAT IS THE SUBJECT MATTER OF THESE SCHEDULES?**

A. Schedule TDP-1 through TDP-5 develop the various elements of the revenue requirement for each distinct division of SNG to be considered in arriving at the proper level of rates for the Company based on the test year of the twelve months ended September 30, 2013, with pro forma adjustments and updates for known and measurable changes.

Q. **PLEASE DESCRIBE THE PRIMARY SOURCE DOCUMENTS FOR ALL OF THE EXHIBITS?**

A. I used the Company's year-to-date September 30, 2013, trial balance, adjusted to reflect revenue and expenses for the twelve month period ended September 30, 2013, as the basis for my analysis. The trial balance account balances were then directly assigned to divisions where possible. For accounts that could not be directly assigned to divisions, various allocations were used to assign balances. For the Rogersville division and Branson division, allocations were needed to separate the two. Where possible, I classified account balances assigned to each division into customer-related and demand/commodity-related amounts.

Q. **WILL YOU PLEASE PROVIDE A LIST OF SCHEDULES YOU ARE PRESENTING?**

A. Each Schedule provides the following information:

- Schedule TDP-1 – Revenue Sufficiency Study for all rate divisions of SNG
    - Exhibit 1 - Summary of Pro forma Revenue, Required Revenue,

and Revenue Deficiency by division

- Exhibit 1A – Gallatin Revenue Sufficiency Study
- Exhibit 1B – Warsaw Revenue Sufficiency Study
- Exhibit 1C – Rogersville Revenue Sufficiency Study
- Exhibit 1D – Branson Revenue Sufficiency Study
- Exhibit 2 – Revenue Analysis Summary
- Exhibit 3 – Pro Forma Operating Revenue
- Exhibit 4 – Operation and Maintenance (“O&M”) Expenses
- Exhibit 4.1 – O&M Adjustments
- Exhibit 5 – Pro Forma Depreciation Expense
- Exhibit 6 – Property Taxes
- Exhibit 7 - Missouri Income Taxes

- Schedule TDP-2 – Rate Base
  - Exhibit 1 – Rate Base Summary
  - Exhibit 2 – Gross Plant
  - Exhibit 3 – Reserve for Depreciation
  - Exhibit 4 – Other Rate Base
  - Exhibit 5 – Deferred Taxes
  - Exhibit 6 – Warsaw/LOO Mainline Allocation
  - Exhibit 7 – LOO- Warsaw Acct 376 Allocation

        - Highly Confidential Exhibit 8 – Service Line Investment Elimination
- Schedule TDP-3 – Rate of Return on Rate Base
    - Exhibit 1 – Cost of Capital
    - Exhibit 2 – Cost of Debt
- Highly Confidential Schedule TDP-4 – Transportation Study
    - Highly Confidential Exhibit 1 - Narrative
    - Highly Confidential Exhibit 2 - Reconciliation of Book Transportation Revenue to Adjusted Test Period Revenue
    - Highly Confidential Exhibit 3 – Transportation Revenue and Billing Determinants
    - Highly Confidential Exhibit 4 – Pro Forma Transportation Revenue
- Schedule TDP-5 – Allocation Factors

Q. **PLEASE EXPLAIN SCHEDULE TDP-1.**

A. Schedule TDP-1 is a Revenue Sufficiency Study that solves for the revenue deficiency based on test period determinants. Exhibits 1A through 1D calculate the revenue deficiencies by division as follows:

- Gallatin's deficiency is $444,323 (Schedule TDP-1, Exhibit 1A)
- Warsaw's deficiency is $1,579,561(Schedule TDP-1, Exhibit 1B)
- Rogersville's deficiency is $4,999,735 (Schedule TDP-1, Exhibit 1C)

- Branson's deficiency is $5,769,303 (Schedule TDP-1, Exhibit 1D)

Q. **HOW WAS THE TEST YEAR OPERATING REVENUE CALCULATED?**

A. The operating revenue on Schedule TDP-1, Exhibits 1A through 1D was calculated by taking the test period revenue for each division from the general ledger as summarized in the Revenue Analysis Summary – Schedule TDP-1, Exhibit 2. The revenues were directly assigned to divisions based on general ledger accounting codes. I made several adjustments, all of which were simple transfers of values among revenue categories.

Q. **HOW DID YOU CALCULATE PRO FORMA OPERATING REVENUE?**

A. The pro forma revenues were calculated in Schedule TDP-1, Exhibit 3. The adjustments were derived by calculating the pro forma customer charge revenue and pro forma commodity charge revenue, which were deemed necessary to account for the seasonality of customers and weather normalized customer usage, and subtracting the test year revenue.

Q. **HOW WAS THE PRO FORMA CUSTOMER CHARGE REVENUE CALCULATED?**

A. The customer charge pro forma revenue in Schedule TDP-1, Exhibit 3 was derived by taking the monthly charges as noted in each division's tariff for each customer class and multiplying it by the projected number of annual bills as calculated in customer count shaping analysis.. The customer count shaping files recognize the presence of seasonal attrition by customers who suspend and resume service during the year.

Q. **HOW WAS THE COMMODITY CHARGE PRO FORMA REVENUE CALCULATED?**

A. The commodity charge pro forma revenue in Schedule TDP-1, Exhibit 3 was derived by taking the tariff rates per Ccf charge for each customer class and multiplying it by an annual volume.

Q. **HOW WAS THE ANNUAL VOLUME DERIVED?**

A. The annual volumes were calculated in each division's retail demand study. The retail demand studies calculate a non-weather related usage per customer, or base load, and then proceed to calculate annual usage per heating degree day ("HDD") for each customer class. The annual average usage per HDD is then multiplied by the 30 year normal annual HDD's to adjust for normalized weather. The next step is to distribute the annual weather-sensitive volumes based on monthly normal HDD. Weather sensitive usage is then added to non-weather sensitive usage to derive weather adjusted annual usage per customer.

Q. **HOW WAS TRANSPORTATION PRO FORMA REVENUE DERIVED?**

A. The transportation pro forma revenue was derived from the Transportation Revenue Study (Highly Confidential Schedule TDP-4).

Q. **WERE THERE ANY OTHER ADJUSTMENTS NOT NOTED IN TDP-1, EXHIBIT 3 OR THE HIGHLY CONFIDENTIAL TDP-4?**

A. Yes, the revenues associated with the cost of gas were eliminated for each division in TDP-1, Exhibit 3.

Q. **HOW DID YOU CALCULATE THE OPERATION AND MAINTENANCE EXPENSE AS SHOWN IN SCHEDULE TDP-1?**

A. The test year O&M expense was taken from the Company's general ledger for the twelve months ended September 30, 2013. Due to lack of direct assignment to specific divisions, O&M expense was allocated in the classified trial balance to each division using various allocators outlined in Schedule TDP-5, and summarized in Schedule TDP-1, Exhibit 4.

Q. **PLEASE EXPLAIN SCHEDULE TDP-1, EXHIBIT 4.**

A. Schedule TDP-1, Exhibit 4 summarizes O&M expense for each division and breaks out expenses between customer related and noncustomer related based on allocators noted in the classified trial balance.

Q. **WERE THERE ANY ADJUSTMENTS TO O&M EXPENSE?**

A. Yes, the cost of purchased gas was eliminated in each division. This is required due to the adjustment in the operating income to eliminate purchase gas cost revenues. In Schedule TDP-1, Exhibit 4.1, two additional adjustments were made. The first adjustment, OM-1, was made to eliminate advertising expense in each division totaling $99,349. The second adjustment, OM-2, adds rate case expenses for this proceeding. We have estimated the rate case expenses for this case to be $300,000. Assuming a three year recovery period for those costs, $100,000 of rate case expense has been added and allocated using a rate base allocation factor.

Q. **HOW WAS DEPRECIATION EXPENSE DERIVED PER BOOKS AND PRO**

FORMA FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2013?

A. The test year depreciation expense was taken directly from the general ledger for the twelve months ended September 30, 2013. The pro forma depreciation expense was calculated in Schedule TDP-1, Exhibit 5 – Depreciation Expense. In Schedule TDP-1, Exhibit 5, the Company's depreciation rates were applied to adjusted gross plant at September 30, 2013 by division. The difference between the test year depreciation expense and the pro forma depreciation expense resulted in the adjustments in Schedule TDP-1, Exhibits 1A -1D.

Q. **HOW WERE PROPERTY TAXES REPRESENTED IN SCHEDULE TDP-1?**

A. The test year property taxes were taken from the classified trial balance as noted in Schedule TDP-1, Exhibit 6. Pro forma property taxes represent actual 2013 property taxes by rate area as taken from the county assessors' invoices. An adjustment was made to the Warsaw Division to assign a portion of the property taxes in Pettis and Benton Counties to the Lake of the Ozarks Division for the property taxes associated with the shared main line investment as discussed later in Schedule TDP-2, Exhibits 6 and 7.

Q. **HOW WERE INCOME TAXES CALCULATED?**

A. Income taxes were calculated in Schedule TDP-1, Exhibit 7. Schedule TDP-1, Exhibit 7 sets forth a series of calculations to determine the combined state and federal income tax rate. The composite income tax rate was calculated to be 38.39% which was then applied to net income before tax for each division.

Q. **PLEASE EXPLAIN SCHEDULE TDP-2.**

A. Schedule TDP-2, Exhibit 1 – Rate Base Summary calculates the total pro forma rate base as of September 30, 2013, for each division as follows:

- Gallatin's Pro Forma Rate Base - $8,083,376
- Warsaw's Pro Forma Rate Base - $16,228,847
- Rogersville's Pro Forma Rate Base - $75,180,175
- Branson's Pro Forma Rate Base - $46,976,037

Q. **HOW WAS THE GROSS PLANT FOR EACH DIVISION CALCULATED?**

A. Schedule TDP-2, Exhibit 2 shows the original cost of plant by the classifications explained by Company witness Mr. Kent D. Taylor in his direct testimony for each division at September 30, 2013 and any adjustments. The test year numbers were taken from the general ledger.

Q. **PLEASE DESCRIBE THE PRO FORMA ADJUSTMENTS SHOWN ON SCHEDULE TDP-2, EXHIBIT 2.**

A. Adjustments ADJ-1 and ADJ-2 allocate $5,116,409 of shared mainline investment from the Warsaw Division to the Lake of the Ozarks Division. Adjustment ADJ-3 eliminates the investment for a certain customer service line as calculated in Schedule TDP-2, Highly Confidential Exhibit 8. This adjustment was necessary due to the elimination of this customer's transportation revenue as noted in Highly Confidential Schedule TDP-4. All three of these adjustments are also shown in Schedule TDP-1, Exhibit 5.

Q. **WHY SHOULD A PORTION OF THE INVESTMENT IN THE WARSAW MAINLINE BE ALLOCATED TO THE LAKE OF THE OZARKS?**

A. As noted in Ms. Moorman's testimony, the Company expanded into the Lake of the Ozarks territory in 2012. The two divisions share approximately 71,000 feet of six inch steel distribution mains. When the Warsaw Division system was constructed in 2009-2010, all of the costs of the distribution mains were recorded to the Warsaw Division's account 376, thus creating the need to allocate a portion of the shared investment to the Lake of the Ozarks Division.

Q. **HOW WAS THE ADJUSTMENT DETERMINED?**

A. I calculated a total cost per foot for all types of mainline pipe installed (2" High Density Polyethylene ("HDPE"), 4" HDPE, 6" Steel) in Schedule TDP-2 Exhibit 7, using the price of contract labor and materials actually incurred. This total cost per foot was then multiplied by the footages of each type of pipe used. The total mainline project costs were calculated and percentages of the total were derived to identify that portion of the six inch shared mainline steel that should be shared (61% for Pettis County and 28% for Benton County). Those percentages were then multiplied by the general ledger balances at September 30, 2013 for distribution mains, accounts 376 and 378, for the Warsaw Division to come up with the total shared net investment of $5,876,706.

Q. **HOW WAS THE SHARED INVESTMENT ALLOCATED BETWEEN WARSAW AND LAKE OF THE OZARKS DIVISIONS?**

A. In Schedule TDP-2, Exhibit 6, I used the peak day demand allocator to allocate the total shared gross plant of $6,323,308 between Warsaw and the Lake of the Ozarks. The allocator produced an inter-division transfer for gross plant accounts 376 and 378 of $5,116,409.

Q. **HOW WAS RESERVE FOR DEPRECIATION CALCULATED?**

A. Schedule TDP-2, Exhibit 3 shows, per book and pro forma, the reserve for depreciation by classification for the Company's divisions as pulled from the general ledger at September 30, 2013. Adjustments 1 and 2 assign accumulated depreciation for the same shared assets as noted above in Schedule TDP-2 Exhibit 2. The demand allocator in Schedule TDP-2, Exhibit 6 allocates $361,361 of accumulated depreciation from the Warsaw Division to the Lake of the Ozarks Division.

Q. **WERE THERE ANY OTHER ADJUSTMENTS TO RESERVE FOR DEPRECIATION?**

A. Yes, I made an additional adjustment ADJ-3, to remove the accumulated depreciation of $178 related to the customer's service line investment that was calculated in Highly Confidential Schedule TDP-2, Exhibit 8.

Q. **ARE YOUR CHANGES REFLECTED IN SNG'S ACCOUNTING SYSTEM?**

A. No, these adjustments are for rate making purposes only.

Q. **HOW WERE OTHER RATE BASE ITEMS CALCULATED?**

A. Other rate base items as shown in Schedule TDP-2, Exhibit 4 were calculated using thirteen month averages ended September 30, 2013 for prepaid expenses (account 1650), stored gas (account 1173), and materials and supplies inventory (account 1540). For those thirteen month balances that were not directly assigned to divisions, allocations were used in Schedule TDP-

2, Exhibit 8 – Various Allocations, to assign the balances to divisions.

Q. **WHAT OTHER RATE BASE ITEMS WERE INCLUDED IN THE RATE BASE SUMMARY, SCHEDULE TDP-2?**

A. A rate base deduction was made for accumulated deferred income taxes applicable to the Company's operations at September 30, 2013 as shown in Schedule TDP-2, Exhibit 5. The deferred tax liability associated with the difference between book depreciation and tax deprecation of $9,661,985 was netted against a deferred tax asset related to the net operating loss ("NOL") carry forward of $775,313, and assigned to each division as follows:

- Gallatin - $580,870
- Warsaw - $808,440
- Rogersville- $4,728,394
- Branson - $2,768,967

The deferred tax asset associated with the acquisition adjustment of $6,218,105 was eliminated and thus not included in the net deferred tax liability.

Q. **PLEASE EXPLAIN SCHEDULE TDP-3.**

A. SNG's capitalization at September 30, 2013, was used as the basis upon which to develop the cost of capital. SNG's long term debt weighted average interest rate at September 30, 2013 is 3.21% as noted in Schedule TDP-3, Exhibit 1. The cost of common equity is 12.00% and SNG maintains an approximate 43/57 debt-to-equity ratio as noted in Schedule TDP-3, Exhibit 2.

IV. CONCLUSION

Q. **PLEASE SUMMARIZE YOUR TESTIMONY AND CONCLUSION.**

A. My testimony and attached schedules have developed the Company's rate base and revenue requirement. As summarized on Schedule TDP-1, the Company's revenue requirement, including the proposed 8.22% return on rate base, exceeds the pro forma operating revenues at present rates by $12,792,921.

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

A. Yes.

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

AFFIDAVIT OF TYSON D. PORTER

STATE OF COLORADO)
) **ss**
COUNTY OF JEFFERSON)

Tyson D. Porter, being first duly sworn on his oath, states:

1. My name is Tyson D. Porter. I work in Littleton, Colorado and I am employed by Summit Utilities, Inc. as a Regulatory Accountant.

2. Attached hereto and made a part of hereof for all purposes is my Direct Testimony on behalf of Summit Natural Gas of Missouri, Inc. consisting of 18 pages, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

Tyson D. Porter

Subscribed and sworn to before me this 2nd day of January, 2014.

Erin Campbell
Notary Public

My commission expires: 6/7/2016

ERIN CAMPBELL NOTARY PUBLIC STATE OF COLORADO