

Exhibit No.:
Issue: PGA Carrying Cost
Witness: David M. Sommerer
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: GR-2022-0122
Date Testimony Prepared: June 22, 2022

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

PROCUREMENT ANALYSIS DEPARTMENT

SURREBUTTAL TESTIMONY

OF

DAVID M. SOMMERER

SUMMIT NATURAL GAS OF MISSOURI, INC.

CASE NO. GR-2022-0122

Jefferson City, Missouri
June 2022

1 *of gas costs*. (Emphasis added). Somewhere in the discussion, it has been lost that the
2 PGA provisions are entirely limited to the recovery of “gas costs”. The pre-tax rate of return the
3 Company is proposing includes a profit element and income taxes associated with those profits.
4 The Company is essentially asking for profits and related income taxes to be recovered in the
5 Missouri PGA, something that is highly problematical.

6 Q. Please explain.

7 A. The PGA in Missouri is based upon tariffs that generally concern the recovery of
8 gas costs and, for traditional PGA carrying costs, the closely related application of a nonprofit-
9 based income tax free carrying cost rate that is designed to apply to both over/under recoveries of
10 those same gas costs. Although I am not an attorney, my technical understanding of the Missouri
11 court decisions relevant to the PGA support the conclusion that the PGA is limited to the recovery
12 of “gas costs”. It is now clear that the Company is categorizing the uncollected gas costs related
13 to Storm Uri as a type of investment, similar to an investment in plant. In my view, this is not
14 consistent with the PGA clause. It is a slippery slope that expands the scope of the PGA clause,
15 and if taken further may well put the PGA concept itself in jeopardy. It has almost become an
16 axiom when questions arise about the PGA clause, that there are no profits recovered in the clause,
17 and that it is a direct pass-through of gas costs only, and does not include general rate-case cost of
18 service items such as income taxes. I have attached Schedule DMS-s1 which are excerpts of the
19 Company’s response to Staff data requests nos. 137 and 138. The Company was unable to locate
20 any provision within the PGA clause that authorized the recovery of return or income taxes.

21 Q. Does Office of the Public Counsel (OPC) witness David Murray appear to
22 recognize this in his rebuttal testimony?

1 A. Yes. On page 2 of Mr. Murray’s rebuttal testimony, lines 9-10, he states:
2 “*However, SNGMO should not be allowed a profit for funding such costs, as Mr. Root’s*
3 *recommended use of an authorized ROR contemplates.*”

4 Q. Do you have comments regarding Mr. Root’s summary of the Summit Arkansas
5 Storm Uri carrying cost cases (page 3, lines 18-23, and page 4, lines 1- 4, of Mr. Root’s
6 rebuttal testimony)?

7 A. Yes. My understanding of the recent orders in the Arkansas cases is that the
8 recovery period for one of the Summit Arkansas LDCs (Arkansas Oklahoma Gas Corporation or
9 AOG) is 20 years. This is simply not comparable to the SNGMO proposal of 5 years in Missouri.
10 With regard to the other Summit Arkansas LDC (CenterPoint Energy Arkansas Gas Company),
11 the recovery period was for 5 years. However, my understanding is that on a percentage basis, the
12 CenterPoint Energy system was impacted to a far lesser extent than SNGMO.

13 Q. Are there other distinguishing characteristics that you understand from the
14 Arkansas case?

15 A Yes, AOG has sued BP in the United States District Court, Western District of
16 Arkansas. The associated legal fees appear to be subject to pass-through on the basis that any
17 favorable outcomes (for AOG) from the court case would also be passed-through. If successful,
18 the amount of money coming back to AOG customers would significantly mitigate the Storm Uri
19 gas costs.

20 Q. Did Mr. Root provide an update of Summit’s Oklahoma jurisdiction in his
21 rebuttal testimony?

1 A No. However, it appears that the Oklahoma Corporation Commission is only
2 authorizing debt-related carrying costs for the Summit LDCs under its jurisdiction, at least initially.
3 Carrying costs continue to be under review in Oklahoma as part of securitization cases filed there.

4 Q. Do you have a comment regarding Mr. Root's discussion of the prudence of
5 Winter Storm Uri on page 6, lines 13-22 of his surrebuttal testimony?

6 A. Yes. I agree with Mr. Root that this phase of the procedural schedule is not intended
7 to address the prudence of Storm Uri costs. However, the ultimate level of extraordinary costs that
8 "carrying costs" are applied may be impacted by prudence recommendations that are scheduled to
9 be made by December 15, 2022. At a very high level, I discussed in my rebuttal testimony a
10 preliminary concern about prudence in the context of addressing the Company's testimony
11 implying that the costs were prudently incurred. For example, Company witness Walt McCarter
12 notes on page 5, lines 5-7 of his direct testimony "...how forecasted supply needs will be
13 **optimally** met" (Emphasis added). He also refers to a "prudent planning effort" on page 5,
14 line 1 of his direct testimony.

15 Q. Does this conclude your surrebuttal testimony?

16 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of)
Missouri, Inc.'s Changes to the Company's) Case No. GR-2022-0122
Purchase Gas Adjustment "PGA" Clause)

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW DAVID M. SOMMERER and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Surrebuttal Testimony of David M. Sommerer*; and that the same is true and correct according to his best knowledge and belief.

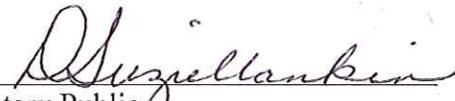
Further the Affiant sayeth not.


DAVID M. SOMMERER

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 21st day of June 2022.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070


Notary Public

Data Request No. 0137
Company Name Summit Natural Gas of Missouri, Inc.-Investor(Gas)
Case/Tracking No. GR-2022-0122
Date Requested 6/13/22
Issue General Information & Miscellaneous - Other General Info & Misc.
Requested From Rachel Smith
Requested By Jamie Myers
Brief Description Income Tax Expense

Description The Company has stated that its proposal is to recover the pre-tax rate of return for the under-recovered Winter Storm Uri costs.

Due Date 6/1/2022

- 1) Please cite the provision in the Company's Purchased Gas Adjustment tariff that authorizes the recovery of income tax expense.
- 2) Please cite the provision in the Company's Purchased Gas Adjustment tariff that includes income tax expense as a "cost of gas".
- 3) Please provide, on an annual basis, the level of income tax recovery the Company is requesting with its pre-tax rate of return proposal.
- 4) Has income tax expense been included in previous ACA years and if so, when and for what amounts?
- 5) Please provide a copy of the supporting Excel spreadsheet with all formulas intact of the income tax recovery for all years of the requested amortization.

RESPONSE:

- 1) **No provision is provided in the tariff.**
- 2) **No provision is provided in the tariff.**
- 3) **Please see attached "SNGMO GR-2022-0122 DR 0137 QUESTION 3."**
- 4) **No, income tax expense has not been included in previous ACA years.**
- 5) **Please see attached "SNGMO GR-2022-0122 DR 0137 QUESTION 5.a" AND; "SNGMO GR-2022-0122 DR 0137 QUESTION 5.b."**

Data Request No. 0138
Company Name Summit Natural Gas of Missouri, Inc.-Investor(Gas)
Case/Tracking No. GR-2022-0122
Date Requested 6/13/22
Issue General Information & Miscellaneous - Other General Info & Misc.
Requested From Rachel Smith
Requested By Jamie Myers
Brief Description Equity Return

Description See attached David Sommerer (David.sommerer@psc.mo.gov)
Due Date 6/18/2022

1. Please cite the provision in the Company's Purchased Gas Adjustment tariff that authorizes the recovery of a return on equity.
2. Please cite the provision in the Company's Purchased Gas Adjustment tariff that includes a return on equity as a "cost of gas".
3. Please provide, on an annual basis, the level of equity return on a total dollar basis, the Company is requesting with its pre-tax rate of return proposal.
4. Has an equity return been included in previous ACA years and if so, when and for what amounts?
5. Please provide a copy of the supporting Excel spreadsheet with all formulas intact of the annual return on equity for all years of the requested amortization.

RESPONSE:

1. **There is not a provision in the tariff**
2. **There is not a provision in the tariff**
3. **Please see attached "SNGMO GR-2022-0122 DR 0138 Question 3."**
4. **No, equity return has not been included in the previous ACA years.**
5. **Please see attached "SNGMO GR-2022-0122 DR 0138 Question 5.a " and; " SNGMO GR-2022-0122 DR 0138 Question 5.b."**