

Exhibit No.: \_\_\_\_\_

Issue: Carrying Costs

Witness: Craig Root

Exhibit Type: Rebuttal

Sponsoring Party: Summit Natural Gas of Missouri, Inc.

Case No.: GR-2022-0122

Date: June 8, 2022

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. GR-2022-0122**

**REBUTTAL TESTIMONY**

**OF**

**CRAIG ROOT**

**ON BEHALF OF**

**SUMMIT NATURAL GAS OF MISSOURI, INC.**

**Jefferson City, Missouri**

**June 8, 2022**

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1 I. INTRODUCTION

2 **Q. Please state your name and present title.**

3 A. My name is Craig Root. I am the Vice President and Corporate Treasurer for  
4 Summit Utilities, Inc., the ultimate parent company of Summit Natural Gas of  
5 Missouri, Inc. (“SNGMO” or the “Company”). My business address is 10825 E.  
6 Geddes Avenue, Suite 410, Centennial, CO 80012. I am testifying on behalf of  
7 SNGMO.

8 **Q. Are you the same Craig Root who filed direct testimony in this docket?**

9 A. Yes.

10 II. PURPOSE OF REBUTTAL TESTIMONY

11 **Q. Please discuss the purpose of your Rebuttal Testimony.**

12 A. The purpose of my testimony is to address the Direct Testimony of Missouri Public  
13 Service Commission (“Commission”) Staff witness David M. Sommerer regarding  
14 the Company’s request related to carrying costs associated with Winter Storm Uri.

15 **Q. Please summarize the recommendation set forth by Mr. Sommerer that you  
16 address in your testimony.**

17 A. Mr. Sommerer recommends application of the prime rate minus 2% for under-  
18 recovered Winter Storm Uri costs.

19 **Q. Does Mr. Sommerer provide support for his recommendation?**

20 A. Mr. Sommerer bases his recommendation on the following factors:

- 21
- Other Missouri LDCs have not pursued the higher carrying costs rates;

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- 1           • SNGMO has not shown its sources of short-term debt capabilities throughout  
2           its various corporate organizations, and its structure may impact the availability  
3           of low-cost working capital; and,  
4           • It is not directly apparent that SNGMO acted in a prudent manner with regard  
5           to mitigating cost from Storm Uri.

6           After a brief summary of the Company's request, I will address each of Mr.  
7           Sommerer's points in my rebuttal testimony.

8           **III. SNGMO'S REQUEST FOR PRE-TAX RATE OF RETURN**

9           **Q. Did you explain in your direct testimony why the Company requested its pre-**  
10           **tax rate of return for the under-recovered Winter Storm Uri costs?**

11          A. Yes. I explained that SNGMO initially obtained an equity infusion to cover the  
12           extraordinary gas supply costs incurred on behalf of customers. As stated in my  
13           direct testimony, SNGMO is currently in the process of refinancing approximately  
14           half of this equity injection with debt, as part of Case No. GF-2022-2016, which  
15           was recently approved by the Commission. I also explained why SNGMO cannot  
16           rely solely on debt financing because it would result in a material deterioration of  
17           Summit Holdings' implied credit rating and an increase in its WACC due to higher  
18           debt costs through rates and higher equity costs as shareholders increased their  
19           required rate of return due to increased risk. Accordingly, relying on a debt  
20           carrying cost is not reasonable and unfairly limits the Company's ability to earn a  
21           fair return and recover its costs.

22           Recovering the pre-tax rate of return more accurately reflects the  
23           Company's cost to fairly compensate both debtholders and equity holders and is

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1 consistent with rate setting based on the capital employed to continue operations.  
2 And while the tariffed rate of prime minus 2% may be appropriate for the usual  
3 under-recovered costs that are ultimately recovered from customers over a term  
4 of less than a year, in a situation such as this in which the Company is asked to  
5 delay its recovery of costs over more than five years, using a pre-tax rate of return  
6 appropriately reflects the fact that cash and debt is fungible and that the Company  
7 must use its entire balance sheet, including debt and equity, to finance long-term  
8 obligations.

9 **IV. CARRYING COST RATES OF OTHER MISSOURI LDCS**

10 **Q. Do you agree with Mr. Sommerer that the failure of two other Missouri LDCs**  
11 **to request a similar carrying charge rate is determinative to this proceeding?**

12 A. No, I do not. I am not familiar with the financial circumstances of other Missouri  
13 LDCs and cannot speculate as to the financing needs of those companies.  
14 However, as fully supported in my direct testimony, the facts and circumstances  
15 that apply to SNGMO warrant recovery of the proposed carrying charge, and the  
16 fact that other LDCs did not request such a charge does not address the facts of  
17 SNGMO's case.

18 **Q. Staff witness Sommerer indicates that SNGMO affiliates in Arkansas were**  
19 **addressing the Storm Uri carrying cost issue (Dir., p.5). Has Arkansas issued**  
20 **a decision in those matters?**

21 A. Yes. On June 6, 2022, the Arkansas Public Service Commission ("ARPSC") issued  
22 Order No. 8 in Docket 07-046-U approving Arkansas Oklahoma Gas Corporation's  
23 ("AOG") request for carrying costs based on AOG's WACC of 7.5% with a recovery

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1 period of twenty years. In addition, on June 6, 2022, the ARPSC issued Order No.  
2 9 in Docket 07-044-U approving CenterPoint Energy Arkansas Gas Company  
3 (“CEA/SUA”) request for carrying costs based on CEA/SUA’s WACC of 5.73% with  
4 a recovery period of five years.

5 **V. SOURCES OF SHORT-TERM DEBT CAPABILITIES AND AVAILABILITY OF**  
6 **LOW-COST WORKING CAPITAL**

7 **Q. What does Mr. Sommerer contend regarding short-term debt capabilities?**

8 A. Without further explanation, Mr. Sommerer states “SNGMO has not shown its  
9 sources of short-term debt capabilities through its various corporate  
10 organizations.” Debt financing for SNGMO was approved by the Commission in  
11 File No. GO-2022-0216.

12 **Q. Please discuss SNGMO’s sources of short-term debt.**

13 A. The only short-term debt agreement relevant to SNGMO is the Credit Agreement  
14 dated May 8, 2019, between Summit LDC Holdings, LLC (“Summit Holdings”), the  
15 parent company of SNGMO, and various lenders. This Credit Agreement provides  
16 for a revolving credit facility in the amount of \$50 million.

17 **Q. Is it appropriate to fund the under-recovered Winter Storm Uri costs using**  
18 **short-term debt?**

19 A. No. As of the end of February 2021, there was \$48 million drawn on the facility,  
20 leaving only \$2 million of availability. There was not sufficient liquidity to cover the  
21 \$30.7 million of unexpected winter storm costs in Missouri using only debt. As  
22 stated in my direct testimony, Summit Holdings is required to maintain debt  
23 covenants with lenders that restrict its ability to assume additional debt and relying

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1           only on debt financing would cause Summit Holdings' credit worthiness to  
2           deteriorate due to the additional leverage.

3   **Q.   Mr. Sommerer also states he has concerns that SNGMO's ownership**  
4   **structure limits the availability of low-cost working capital. How do you**  
5   **respond?**

6   A.   Being owned by a private equity fund does not detract from SNGMO's access to  
7   short-term debt instruments. The main limiting factors to SNGMO's access to debt  
8   capital are its financial covenants, timing, the requirement to receive regulatory  
9   approval for new debt and the long-term impact on SNGMO's financial stability by  
10   over-leveraging the Company.

11           To the contrary, SNGMO's ownership structure enhances its ability to  
12   access capital quickly, especially compared to publicly held utilities, as  
13   demonstrated by the Summit's owner's willingness to inject \$136 million into  
14   Summit Holdings on short notice to fund winter storm costs incurred by SNGMO,  
15   Colorado Natural Gas, and Arkansas Oklahoma Gas Corporation.

16   **Q.   Mr. Sommerer states that because Summit Utilities, Inc. is owned by a private**  
17   **equity fund that there is little information known regarding the Company's**  
18   **access to short-term debt instruments. Do you agree with this statement?**

19   A.   No. Staff issued DR115 on April 22, 2022, requesting a copy of all short-term debt  
20   agreements related to SNGMO, and the Company provided a response on May  
21   12, 2022, in advance of Mr. Sommerer's testimony. In addition, financing for  
22   SNGMO was approved by the Commission in File No. GO-2022-0216, so it either  
23   knew or should have known about SNGMO's access to short-term debt

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1 instruments at the time of Mr. Sommerer's testimony. If Staff needs additional  
2 information about the Company's access to short-term debt instruments, the  
3 Company stands ready to supply that information, whether via discovery or in  
4 testimony format as provided herein.

5 Ultimately, however, it is the Company's position that the long-term nature  
6 of the recovery of winter storm costs warrants the use of SNGMO's entire balance  
7 sheet, including both debt and equity, to finance these costs, similar to any other  
8 long-term capital costs, to maintain the capital structure that was found reasonable  
9 by the Commission in Case No. GR-2014-0086, so using a WACC of 9.47%  
10 associated with that capital structure is also appropriate under these unique  
11 circumstances.

12 **VI. PRUDENCY OF WINTER STORM URI COSTS**

13 **Q. Mr. Sommerer contends that since prudence regarding gas purchasing**  
14 **practices regarding Winter Storm Uri will be addressed in December 2022,**  
15 **recovery of higher carrying costs should be deferred until the matter of**  
16 **prudence is decided by this Commission. How do you respond?**

17 A. I disagree. The Commission directed Staff and SNGMO to resolve the carrying  
18 cost issue first. We see no reason to delay a decision on carrying costs pending  
19 a prudence review. Instead, the carrying charge rate determined in this proceeding  
20 should be applied to the Winter Storm Uri gas costs that are determined to be  
21 prudent. Further, any issues related to prudence can be true-up later as PGA rates  
22 are, by nature, interim and subject to refund.

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**VII. CONCLUSION**

**Q. What is your recommendation to the Commission?**

A. I disagree that the carrying charges requested by other LDCs should be considered in this case. SNGMO has provided information concerning its access to short-term debt and has demonstrated why such debt cannot be used to pay for the under-recovered Winter Storm Uri costs. Finally, the Commission directed the parties to determine the appropriate carrying charge in this proceeding, and no delay pending a decision on prudence is necessary.

I continue to recommend that the Commission approve the Company's request to apply SNGMO's last Commission-approved pre-tax rate of return in the amount of 9.47%, as ordered in case No. GR-2014-0086. This approach will allow Summit Holdings to maintain its credit worthiness and capital structure, and it is a more accurate measure of the actual financing cost over the five-year term.

**Q. Does this conclude your rebuttal testimony?**

A. Yes.

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**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 Purchase Gas Adjustment   )  
"PGA" Clause   )  
  
GR-2022-0122

**AFFIDAVIT**

STATE OF MINNESOTA                             )  
   )  
COUNTY SCOTT                                 ) ss

1. My name is Craig Root. I am employed by Summit Utilities, Inc. as Vice President and Corporate Treasurer.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Summit Natural Gas of Missouri, Inc., which has 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.

Under penalty of perjury, I declare that the foregoing is true and correct to the best of my knowledge and belief.

DocuSigned by:  
*Craig Root*  
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Craig Root