Exhibit No.:	______________
Issue(s):	Financing Issues
Witness/Type of Exhibit:	Murray/Surrebuttal
Sponsoring Party:	Public Counsel
Case No.:	GR-2022-0122

SURREBUTTAL TESTIMONY

OF

DAVID MURRAY

Submitted on Behalf of the Office of the Public Counsel

SUMMIT NATURAL GAS OF MISSOURI, INC

FILE NO. GR-2022-0122

** **
Denotes Confidential Information that has been redacted

*** ***
Denotes Highly Confidential Information that has been redacted

June 22, 2022

PUBLIC

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of	)	
Missouri, Inc.'s Purchased Gas	)	Case No. GR-2022-0122
Adjustment Tariff Filing	)	Tariff No. JG-2022-0146

AFFIDAVIT OF DAVID MURRAY

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

David Murray, of lawful age and being first duly sworn, deposes and states:

1. My name is David Murray. I am a Utility Regulatory Manager for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

David Murray
Utility Regulatory Manager

Subscribed and sworn to me this 22nd day of June 2022.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI
TIFFANY HILDEBRAND
My Commission Expires
August 8, 2023
Cole County
Commission #15637121

Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2023.

SURREBUTTAL TESTIMONY

OF

DAVID MURRAY

SUMMIT NATURAL GAS OF MISSOURI, INC.

CASE NO. GR-2022-0122

1 **Q. Please state your name and business address.**

2 A. My name is David Murray and my business address is P.O. Box 2230, Jefferson City,
3 Missouri 65102.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by the Missouri Office of the Public Counsel ("OPC") as a Utility
6 Regulatory Manager.

7 **Q. On whose behalf are you testifying?**

8 A. I am testifying on behalf of the OPC.

9 **Q. Did you sponsor rebuttal testimony in this case?**

10 A. Yes.

11 **Q. What are you addressing in your surrebuttal testimony?**

12 A. I am addressing certain aspects of Staff witness Randall T. Jennings' and Summit Natural Gas
13 of Missouri ("SNGMO" or the "Company") witness Craig Root's testimonies.

14 Mr. Jennings' testimony suggests that SNGMO's and its affiliate's financing activities may
15 support applying an updated composite (inclusive of all capital components other than short-
16 term debt) weighted average cost of capital ("WACC") to determine the appropriate financing
17 charges/carrying costs for financing SNGMO's extraordinary natural gas purchases during
18 Winter Storm Uri ("Storm Uri"). Although Mr. Jennings explicitly opposes using SNGMO's
19 authorized rate of return ("ROR") from 2014 (authorized by the Commission in Case No. GR-
20 2014-0086 based on evidence submitted regarding SNGMO's WACC), his testimony implies

1 that if SNGMO's authorized ROR were updated to reflect current capital costs, it may be
2 appropriate.[1]

3 Mr. Root indicates that the Commission should allow a pre-tax ROR for carrying charges
4 because doing so fairly compensates both debt investors and equity investors. Mr. Root also
5 believes this is consistent with "rate setting based on the capital employed to continue
6 operations."[2]

7 **Q. Do you agree with using the historical authorized ROR or any potential updated**
8 **composite ROR to determine fair and reasonable carrying costs for Storm Uri costs?**

9 A. No.

10 **Q. Why?**

11 A. While I appreciate the Infrastructure Investments Fund's, managed by JP Morgan, injection
12 of equity through its investment vehicle, IIF US Holdings 2 LP (hereinafter referred to
13 generally and collectively as "IIF"), to provide liquidity to fund the extraordinary gas costs
14 related to Storm Uri, at least in this circumstance, the type of capital used to fund the purchase
15 of natural gas should not be determinative of a reasonable financing charge requested from
16 ratepayers. If this logic were followed to the extreme, then because IIF initially contributed
17 100% equity to fund SNGMO's liquidity needs, SNGMO should recover a return on equity
18 ("ROE") on 100% of the funds until this equity is at least partially refinanced with debt.

19 Mr. Jennings suggests allowing an authorized ROR may be appropriate if SNGMO files a
20 general rate case, which presumably would include updated ROR recommendations.
21 SNGMO should not be allowed to recover carrying costs based on a past authorized ROR or
22 an updated estimate of SNGMO's cost of capital.

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[1] Jennings Rebuttal, p. 2, l. 21 – p. 3, l. 4.
[2] Root Rebuttal, p. 2, l. 22 – p. 3, l. 1.

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1 **Q. Why is a composite ROR unreasonable?**

2 A. The PGA/ACA process was established to allow for a direct pass-through of gas commodity
3 costs to customers. ACA applications adjust estimated gas costs to actual gas costs which
4 assures natural gas utility customers are charged for the natural gas local distribution
5 company's ("LDC") actual cost of gas. This eliminates the risk to the Company of not
6 recovering the cost of natural gas, which eliminates variability in the return to the LDC's
7 shareholders. Pursuant to the PGA/ACA process, the cost of purchasing the natural gas
8 commodity is passed directly through to the customer on a dollar for dollar basis.

9 **Q. Mr. Jennings testifies that it would not be prudent for SNGMO to finance the gas costs**
10 **with all debt because it may cause SNGMO and/or its affiliates to become less credit**
11 **worthy. Do you think this justifies charging ratepayers a higher rate to finance the**
12 **purchase of gas?**

13 A. No.

14 **Q. Why does Mr. Jennings have concerns about SNGMO or Summit LDC Holdings, LLC**
15 **("Midco")[3] potentially issuing all debt to finance the carrying of the extraordinary gas**
16 **costs?**

17 A. Mr. Jennings, similar to Mr. Root, claims that using only debt to finance these extraordinary
18 gas costs may cause SNGMO's and/or Midco's costs of capital to increase due to increased
19 financial risk.[4]

20 **Q. What is the basis for Mr. Root's and Mr. Jennings' view that Midco's cost of capital will**
21 **increase?**

22 A. Each witness's evaluations of current and pro forma Midco credit metrics. The key credit
23 metric, which is directly incorporated into the pricing of Midco's credit facility, is the funds
24 from operation ("FFO") to debt capital ratio (FFO/debt). Attached to my testimony as

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[3] My testimony refers to Summit LDC Holdings, LLC as "Midco," which is the company referred to as "Summit Holdings" in other parties' testimonies.
[4] Jennings Rebuttal, p. 5, ll. 16-21.

1 Schedule DM-S-1 is the Midco May 8, 2019 Credit Agreement. Schedule 4 of this Agreement
2 shows Midco's pricing schedule based on FFO/debt ratios achieved by Midco. As can be
3 seen in this document, the cost charged on the credit facility changes by 25 basis point (0.25%)
4 increments based on different ranges of FFO/debt ratios.

5 **Q. What level of pricing is Midco currently paying?**

6 A. A margin of *** ___ *** basis points over LIBOR, which is based on Level III Pricing in
7 Schedule 4 of Midco's credit agreement.

8 **Q. Did Mr. Root provide supporting calculations for his pro forma estimates of Midco's**
9 **FFO/debt ratios?**

10 A. Yes. Mr. Root provided his supporting calculations in response to Staff Data Request No.
11 128.

12 **Q. How did Mr. Root calculate Midco's pro forma FFO/debt ratio when responding to**
13 **Staff's Data Request No. 128?**

14 A. Mr. Root's pro forma FFO/debt ratios assume Midco's debt amount increases by
15 approximately $131.5 million with no pro forma increase to the 2021 FFO. After adding the
16 approximate $131.5 million of debt, Mr. Root's pro forma estimate of Midco's total debt is
17 approximately ** ____________ ** Mr. Root's pro forma estimates use Midco's 2021 actual
18 FFO of ** ____ **

19 **Q. Do his calculations provide misleading and unreliable representations related to**
20 **Midco's expected FFO/debt ratios if Midco refinanced IIF's equity infusion with debt**
21 **financing?**

22 A. Yes. First, the Oklahoma Corporation Commission ("OCC") has already authorized Midco's
23 Oklahoma LDC systems (owned through Midco's operating subsidiary, Arkansas Oklahoma
24 Gas Corporation ("AOG")) to securitize approximately $22 million of the $131 million of
25 excess gas cost for all of Midco's operating subsidiaries at the time. This reduces Midco's
26 refinancing needs to $109 million. Second Mr. Root's pro forma FFO/debt ratios do not

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1 reflect anticipated additional FFO due to the recovery of these costs authorized through means
2 other than through securitization. For instance, the approximate $7 million of extraordinary
3 costs related to Summit Colorado Natural Gas Company will be recovered within two years.
4 This will increase Midco's FFO by $3.5 million over the next couple of years. Similarly,
5 Midco's Arkansas LDC systems (also owned through AOG) have been authorized to recover
6 their approximate $75 million in extraordinary costs over 20 years, which will cause Midco's
7 annual FFO to increase by approximately $3.75 million. Finally, SNGMO's approximate $30
8 million of extraordinary costs are expected to be recovered over 5 years, which will increase
9 Midco's annual FFO by $6 million. Cumulatively, these recoveries will increase Midco's
10 annual FFO by $13.25 million for the next couple of years. However, Midco would be
11 required to pay an additional after-tax interest expense of approximately $2.785 million for a
12 net increase to FFO of $10.465 million. After making the appropriate pro forma increase to
13 FFO and debt, I determined the pro forma FFO/debt ratio to be ** ______________
14 ______________________ **, which is within the Level II pricing range.

15 **Q. Would an FFO/debt ratio of ** ____**

16 A. ____
17 ____
18 ____________________________ **

19 **Q. What service did SNGMO provide its customers by procuring natural gas at**
20 **extraordinarily higher costs during Storm Uri?**

21 A. A financing service.

22 **Q. If customers had been required to finance these extraordinary costs on their own, how**
23 **would they have done so?**

24 A. This would vary greatly based on each customer's own financial circumstance. I am sure
25 some customers may be unable to finance the extraordinary costs, whereas some may have
26 had cash on hand to pay the costs in their entirety.

1 **Q. If SNGMO is simply providing a financing service by carrying the extraordinary costs**
2 **on their books until they recover all of their incurred natural gas commodity costs**
3 **through the PGA/ACA clause, what compensation is fair and reasonable, regardless of**
4 **the type and tenor of capital SNGMO use to fund these costs?**

5 A. Compensation based on the interest rate Midco pays on its revolving credit facility. While I
6 am not sure the status of Midco's refinancing of its current credit arrangements, if Midco or
7 SNGMO were to execute a 5-year term loan to finance the approximate $30 million it will
8 recover from customers over the next five years, the interest rate charged on such financing
9 arrangement would be reasonable.

10 **Q. Have any other jurisdictions looked to the terms of the credit arrangements the**
11 **operating subsidiary relies on for financing to determine a reasonable carrying charge**
12 **for financing the purchase of gas during Storm Uri?**

13 A. Yes. As shown in Mr. Sommerer's Schedule DMS-r1, the OCC authorized the determination
14 of carrying costs based on financing agreements "used to finance the Extreme Purchase Costs
15 and/or Extraordinary Costs."[5]

16 **Q. Has AOG proposed a specific calculation methodology for purposes of determining this**
17 **rate?**

18 A. No. In response to OPC Data Request No. 3007, attached as Schedule DM-S-3, SNGMO
19 indicated that AOG anticipates the calculation of the carrying charge will be addressed in its
20 yet-to-be filed securitization case.

21 **Q. Has the OCC adopted a specific methodology for calculating a rate consistent with**
22 **AOG's credit arrangements?**

23 A. No. In response to OPC Data Request No. 3006, attached as Schedule DM-S-4, SNGMO
24 indicated that the Oklahoma Development Finance Authority, with the assistance of Public

[5] David Sommerer Rebuttal Testimony, Schedule DMS-r1, p. 1.

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1 Utility Division ("PUD") Staff, will provide specifics regarding the calculation of carrying
2 charges in an Issuance Advice Letter.

3 **Q. SNGMO witness Craig Root indicates that the Arkansas Public Service Commission**
4 **("ARPSC") authorized a carrying cost charge based on an overall ROR or WACC.[6] Do**
5 **you recommend the Commission follow the example of ARPSC's in this case?**

6 A. No. While I do not know the mechanics of the gas cost recovery mechanism in Arkansas (or
7 Oklahoma for that matter), it is not reasonable to allow an ROE for financing the purchase of
8 goods/commodities that are simply passed through to customers. Again, there is virtually no
9 uncertainty about the eventual recovery of these costs, it is just a matter of the length of the
10 period of the recovery. Understanding such, there is little risk in recovering these funds, at
11 least based on the PGA/ACA clause mechanisms used in Missouri. Therefore, SNGMO's
12 ratepayers should only be required to compensate SNGMO for a rate consistent with the risk
13 of carrying these costs, which is primarily influenced by the time value of money.

14 **Q. Does this conclude your surrebuttal testimony?**

15 A. Yes.

[6] Craig Root Rebuttal Testimony, p. 3, l. 18 – p. 4, l. 4.

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