

Issue: CAM  
Witness: Steven E. Birchfield  
Type of Exhibit: Surrebuttal Testimony  
Sponsoring Party: Summit Natural Gas  
of Missouri, Inc.  
Case No. GO-2012-0322  
Date: August 26, 2019

**Before the Public Service Commission  
of the State of Missouri**

**Surrebuttal Testimony**

**Of**

**Steven E. Birchfield**

**August 26, 2019**

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OF  
STEVEN E. BIRCHFIELD  
SUMMIT NATURAL GAS OF MISSOURI, INC.  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. GO-2012-0322

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SURREBUTTAL TESTIMONY  
OF  
STEVEN E. BIRCHFIELD  
SUMMIT NATURAL GAS OF MISSOURI, INC.  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. GO-2012-0322

1   **I.    INTRODUCTION**

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

3   A.    My name is Steven E. Birchfield and my business address is 7810 Shaffer  
4       Parkway, Suite 120, Littleton, Colorado 80127.

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

6   A.    I am employed by Summit Utilities, Inc. ("Summit") as Executive Vice President  
7       and Chief Financial Officer.

8   **Q.    ARE YOU THE SAME STEVEN E. BIRCHFIELD THAT PREVIOUSLY**  
9       **SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING?**

10  A.    Yes, I am.

11  **Q.    ON WHOSE BEHALF ARE YOU TESTIFYING?**

12  A.    I am testifying on behalf of Summit Natural Gas of Missouri, Inc. ("SNGMO" or  
13       "Company").

14  **II.   PURPOSE**

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

16  A.    I will respond to the rebuttal testimony of Missouri Public Service Commission  
17       ("Commission") Staff ("Staff") witnesses Jamie S. Myers and Amanda C.

1 McMellen and Office of the Public Counsel (“OPC”) witness Robert E.  
2 Schallenberg.

3 **III. BACKGROUND**

4 **Q. WOULD YOU SUMMARIZE YOUR DIRECT TESTIMONY?**

5 A. Yes. In my Direct Testimony, I presented SNGMO’s Cost Allocation Manual  
6 (“CAM”) for possible approval by the Commission pursuant to Commission Rule  
7 4 CSR 240-40.015.

8 **Q. WHAT WAS THE STAFF’S RESPONSE TO THE PROPOSED CAM?**

9 A. Staff witness Myers states that the Staff “recommends the Commission approve  
10 SNGMO’s CAM with two modifications” (Myers Reb., p. 5).

11 **Q. WHAT WAS THE OPC’S POSITION AS TO THE PROPOSED CAM?**

12 A. OPC alleges that the proposed CAM is deficient and recommends that the  
13 Commission not approve that CAM (Schallenberg Reb., p. 2). I will respond to  
14 these allegations below.

15 **IV. STAFF REBUTTAL**

16 **Q. YOU STATED ABOVE THAT STAFF RECOMMENDED APPROVAL OF THE**  
17 **CAM WITH TWO MODIFICATIONS. WHAT WERE THE MODIFICATIONS**  
18 **PROPOSED BY STAFF?**

19 A. The two modifications proposed by Staff include: 1) language concerning  
20 Marketing Affiliates that Staff would like to see added to TAB H of the CAM  
21 (Myers Reb., p. 6); and, 2) a sentence on page 3, TAB A, of the CAM concerning  
22 variance that the Staff proposes to delete (Myers Reb., p. 6-7).

23 **Q. DOES SNGMO AGREE WITH THE MODIFICATIONS PROPOSED BY STAFF?**

1 A. Yes. Those modifications are acceptable to the Company.

2 **Q. DID YOU REVIEW SCHEDULE ACM-R2 SPONSORED BY STAFF WITNESS**  
3 **MCMELLEN?**

4 A. Yes.

5 **Q. WHAT DOES SCHEDULE ACM-R2 SHOW?**

6 A. Schedule ACM-r2 utilizes information provided by SNGMO to show costs directly  
7 assigned, indirectly assigned, generally allocated (using DISTRIGAS), and the  
8 results of a general allocator utilized by Staff. The information was supplied by  
9 SNGMO in response to Staff DR 0017.1, and is for years 2015-2017.

10 **Q. IS THE INFORMATION SHOWN IN SCHEDULE ACM-R2 CONSISTENT WITH**  
11 **THE COMPANY'S RECORDS AND YOUR UNDERSTANDING OF THE**  
12 **GENERAL ALLOCATOR?**

13 A. Yes, it is.

14 **Q. WHY WAS 2018 NOT INCLUDED IN THE INFORMATION SUPPLIED BY**  
15 **SNGMO?**

16 A. At the time SNGMNO answered that DR (October 9, 2018), the 2018 information  
17 was not yet available.

18 **Q. IS THE 2018 INFORMATION NOW AVAILABLE?**

19 A. Yes.

20 **Q. HAVE YOU BEEN ABLE TO ADD THAT INFORMATION TO THE SCHEDULE**  
21 **ACM-R2 PROVIDED BY STAFF WITNESS MCMELLEN?**

22 A. Yes. Attached as Schedule SEB-R1 is a chart that includes the Schedule ACM-  
23 r2 information and the same information for 2018.

1 **Q. STAFF WITNESS MCMELLEN SUGGESTS THAT THE RESULTS OF HER**  
2 **ANALYSIS “SHOWED THAT THE RESULTS OF THE DISTRIGAS GENERAL**  
3 **ALLOCATION APPROACH WERE GENERALLY COMPARABLE TO THE**  
4 **AMOUNTS THAT WOULD HAVE RESULTED FROM USE OF THE GENERAL**  
5 **ALLOCATION APPROACH, AND AT TIMES (ESPECIALLY WITH MORE**  
6 **CURRENT RESULTS) THAT THE AMOUNT OF COST ALLOCATED TO SUI**  
7 **AFFILIATES USING THE DISTRIGAS METHOD WAS ACTUALLY LESS**  
8 **THAN WHAT WOULD HAVE BEEN ALLOCATED USING STAFF’S GENERAL**  
9 **ALLOCATION METHOD” (MCMELLEN REB., P. 6). DOES THE 2018**  
10 **INFORMATION FURTHER SUPPORT THIS SUGGESTION?**

11 **A.** Given differences between the Distrigas methodology versus a general allocation  
12 approach, there will be some years when the Distrigas methodology allocates  
13 more than the general allocation method and some years when it would allocate  
14 less. In 2017, an allocation using the general allocation approach would have  
15 resulted in more cost allocated to SNGMO than the Distrigas method. Whereas,  
16 in 2015, 2016 and 2018, the Distrigas method resulted in more cost being  
17 allocated to SNGMO than a general allocation method would have.

18 **Q. MS. MCMELLEN ALSO STATES THAT APPROVAL OF THE SNGMO CAM IN**  
19 **THIS PROCEEDING DOES NOT COMPRISE A PRUDENCY REVIEW IN**  
20 **REGARD TO THE UNDERLYING AFFILIATE TRANSACTIONS AND WILL**  
21 **NOT BIND THE COMMISSION AS TO FUTURE RATE CASE TREATMENT OF**  
22 **AFFILIATE TRANSACTIONS (MCMELLEN REB., P. 7). DO YOU AGREE**  
23 **WITH THAT POSITION?**

1 A. Yes. SNGMO recognizes that compliance with Commission Rule 4 CSR 240-  
2 40.015 and recovery of affiliate transaction costs in rate cases invoke related, but  
3 different, questions for the Commission.

4 **V. OPC REBUTTAL**

5 **Q. YOU MENTIONED PREVIOUSLY THAT OPC WITNESS SCHALLENGERBERG**  
6 **ALLEGES THAT THE PROPOSED CAM IS DEFICIENT AND RECOMMENDS**  
7 **THAT THE COMMISSION NOT APPROVE THAT CAM. DOES OPC**  
8 **RECOMMEND ANY SPECIFIC MODIFICATIONS TO THE CAM TO ADDRESS**  
9 **THESE ALLEGED DEFICIENCIES?**

10 A. They do not.

11 **Q. AMONG OTHER THINGS, OPC WITNESS SCHALLENGERBERG PROVIDES HIS**  
12 **MEMORY OF THE PURPOSE OF THE AFFILIATE TRANSACTION RULES**  
13 **(SCHALLENGERBERG REB., P. 2-3). HE DESCRIBES AN EMPHASIS ON THE**  
14 **TELECOMMUNICATIONS INDUSTRY. DO THE ACTIVITIES OF SUMMIT**  
15 **(SNGMO'S PARENT) LOOK ANYTHING LIKE THOSE OF THE**  
16 **TELECOMMUNICATIONS INDUSTRY THAT MR. SCHALLENGERBERG**  
17 **DESCRIBES?**

18 A. No, they do not. Summit has been able to maintain and provide records  
19 documenting its affiliate transactions and assigning and allocating its costs to and  
20 between its subsidiaries.

21 **Q. OPC WITNESS SCHALLENGERBERG FURTHER STATES AS FOLLOWS:**

22 **THE COMMISSION'S AFFILIATE TRANSACTIONS RULES**  
23 **GREW OUT OF REGULATED ENTITIES' INCREASED USE OF**  
24 **NON-REGULATED ENTITIES TO PROVIDE SERVICES, WHICH**  
25 **WERE ABLE TO ESCAPE REGULATORY REVIEW, WHILE**

1           THEIR NON-REGULATED ENTITIES ALSO REDUCED  
2           COMPETITION FOR OUTSIDE BUSINESSES THAT COULD  
3           PROVIDE THOSE SAME SERVICES.  
4

5           DOES SUMMIT UTILIZE NON-REGULATED ENTITIES TO PROVIDE  
6           SERVICES?

7    A.    As described in my Direct Testimony, Summit provides services to SNGMO,  
8           such as accounting and financial reporting, finance and treasury, legal, risk  
9           management, human resources, information technology, regulatory, customer  
10          service, procurement, engineering, and business development. Generally, the  
11          types of services described by the affiliate transaction rules as “corporate  
12          support.”

13   Q.    OPC WITNESS SCHALLENGER STATES THAT THE COMMISSION’S  
14          GOAL IS TO PROTECT CUSTOMERS FROM SUBSIDIZATION OF  
15          UNREGULATED AFFILIATES AND TO PROHIBIT THE UTILITY FROM  
16          GIVING PREFERENTIAL TREATMENT TO THAT UTILITY’S AFFILIATES  
17          (SCHALLENGER REB., P. 5). HE ALSO STATES THAT THE CAM MUST  
18          “ASSURE THAT THE UTILITY IS NOT SUBSIDIZING OR PREFERRING ITS  
19          AFFILIATES OVER INDEPENDENT THIRD PARTIES” (SCHALLENGER  
20          REB., P. 6). DO YOU AGREE WITH THESE STATEMENTS?

21   A.    Not as to preferential treatment of corporate support activities. Commission Rule  
22          4 CSR 24-40.015(2)(B) states that “Except as necessary to provide corporate  
23          support functions, the regulated gas corporation shall conduct its business in  
24          such a way as not to provide any preferential service . . .” (emphasis added).  
25          Corporate support functions are treated differently.



1 **Q. OPC WITNESS SCHALLENBERG INDICATES THAT THE COMPANY’S USE**  
2 **OF DISTRIGAS FOR COST ALLOCATION DOES NOT COMPLY WITH THE**  
3 **AFFILIATE TRANSACTION RULES. WHAT IS DISTRIGAS?**

4 A. As described in my Direct Testimony, after costs have been directly assigned to  
5 subsidiaries to the extent possible, the Distrigas formula is used to allocate  
6 remaining shared costs among affiliated entities. It calculates the allocations  
7 based on the ratio of direct labor, capital investment and net operating revenue of  
8 each affiliate to the total direct labor, capital investment and net operating  
9 revenues of all the affiliates. Summit’s general and administrative expenses  
10 allocated through the Distrigas formula include items such as corporate  
11 insurance, rent, software expenses, utilities and other general expenses.

12 **Q. ONE OF MR. SCHALLENBERG’S CRITICISM’S OF DISTRIGAS IS THAT IT**  
13 **“TAKES ALL COSTS THAT SUMMIT UTILITIES (I.E. PARENT) CANNOT**  
14 **CHARGE DIRECTLY OR INDIRECTLY, AND ASSIGNS THOSE COSTS**  
15 **ACROSS ITS REGULATED NATURAL GAS UTILITIES USING A**  
16 **JURISDICTIONAL ALLOCATOR, WITHOUT REGARD TO THE GOODS AND**  
17 **SERVICES SNGMO ACTUALLY RECEIVES OR NEEDS,” AND THAT**  
18 **“SUMMIT UTILITIES DOES NOT RETAIN ANY OF THESE CHARGES”**  
19 **(SCHALLENBERG REB., P. 7, 11, 12). IS IT TRUE THAT SUMMIT DOES NOT**  
20 **RETAIN ANY OF THE CHARGES?**

21 A. No. Summit retains the costs that are not attributable specifically to its regulated  
22 natural gas utilities including specific costs like long-term incentive compensation,  
23 audit fees for producing Summit consolidated returns, business development

1 expenses, corporate governance, and other charges. For instance, in 2018,  
2 Summit retained \$6.0 million of operating expenses, representing 22% of the total  
3 Summit expenses.

4 **Q. IS IT TRUE THAT DISTRIGAS MAKES THIS ASSIGNMENT “WITHOUT**  
5 **REGARD TO THE GOODS AND SERVICES SNGMO ACTUALLY RECEIVES**  
6 **OR NEEDS”?**

7 A. No. For those charges that are not directly or indirectly charged to SNGMO,  
8 Distrigas is a reasonable proxy for the goods and services being provided to each  
9 respective utility since the types of services being provided are closely linked to  
10 the size and complexity of the utility. The Distrigas allocation methodology uses  
11 payroll, net revenue, and capital investment as a proxy for the portion of services  
12 being utilized by the respective utility.

13 **Q. OPC WITNESS SCHALLENGER POINTS OUT THAT IN RESPONSE TO A**  
14 **STAFF DATA REQUEST ISSUED IN JUNE OF 2018, SNGMO INDICATED**  
15 **THAT CERTAIN TRANSACTIONS WOULD NEED A VARIANCE AND THAT**  
16 **NO SUCH VARIANCES HAVE BEEN REQUESTED (SCHALLENGER REB.,**  
17 **P. 8). WHY IS NO PROVISION FOR VARIANCE FROM THE RULE MADE IN**  
18 **THE PROPOSED CAM?**

19 A. SNGMO has continued to review the affiliate transaction rule and the Company's  
20 transactions as this process and the discussions with Staff and OPC have  
21 progressed. The result of this is that at the current time, SNGMO does not  
22 believe any variance is necessary. This is consistent with the testimony of Staff

1 witness Myers who states that “Staff agrees that SNGMO does not need a  
2 variance for the particular services mentioned in the CAM . . .” (Myers Reb., p. 7).

3 **Q. MR. SCHALLENBERG POINTS OUT THAT SNGMO IS NOT SEEKING**  
4 **COMPETITIVE BIDS FOR ITS CORPORATE SUPPORT SERVICES AND**  
5 **SUGGESTS THAT THE COMPANY MUST SEEK A VARIANCE AND**  
6 **DEMONSTRATE “GOOD CAUSE” IN ORDER TO SO OPERATE**  
7 **(SCHALLENBERG REB., P. 10). DO YOU AGREE WITH HIS ASSERTION?**

8 A. I am not an attorney. However, I would note that Commission Rule 4 CSR 240-  
9 40.015(3)(A), which concerns “Evidentiary Standards,” does not require  
10 competitive bidding in all situations. The rule states:

11 When a regulated gas corporation purchases information, assets,  
12 goods or services from an affiliated entity, the regulated gas  
13 corporation shall either obtain competitive bids for such information,  
14 assets, goods or services or demonstrate why competitive bids  
15 were neither necessary nor appropriate.  
16

17 (emphasis added) This is not a situation where SNGMO is varying from the rule.

18 **Q. MR. SCHALLENBERG ALSO CRITICIZES THE PROPOSED CAM BECAUSE**  
19 **HE BELIEVES IT “CONTAINS NO SPECIFIC CONDITIONS TO PREVENT THE**  
20 **REGULATED ENTITY FROM SUBSIDIZING SUMMIT UTILITIES”**  
21 **“RESULTING IN A SUBSIDY” (SCHALLENBERG REB., P. 11). DO YOU**  
22 **AGREE WITH THIS POSITION?**

23 A. No. Mr. Schallenberg acts as if the CAM will displace the Commission’s affiliate  
24 transaction rule. It will not. The rule, which presumably sets forth standards to  
25 prevent improper subsidies, continues to be in place and to apply to SNGMO’s  
26 transactions, even after a CAM is approved. Further, I would disagree with the

1 idea that somehow the pricing of these transactions under any circumstance  
2 could result in an immediate subsidy to the detriment of SNGMO's customers  
3 between general rate cases. SNGMO's base rates were set in its last general  
4 rate case and those rates will remain unchanged, regardless of these allocations,  
5 until they are reset in a future rate case.

6 **Q. THE OPC TESTIMONY ALSO SEEMS TO SUGGEST THAT BY**  
7 **INCORPORATING AN ALLOCATION METHODOLOGY, "THE PROPOSED**  
8 **CAM INCORPORATES A PROCESS NOT INTENDED BY THE RULE"**  
9 **(SCHALLENBERG REB., P. 11). DOES THE RULE CONTEMPLATE**  
10 **ALLOCATION METHODOLOGIES BEING USED?**

11 A. It certainly appears to contemplate allocations. I was able to locate at least three  
12 portions of the rule where it appears to assume that an allocation methodology  
13 will be used:

14 1) Commission Rule 4 CSR 240-40.015(3)(D) directs that the "commission-  
15 approved CAM" must set forth "cost allocation";

16 2) Commission Rule 4 CSR 240-40.015(1)(F), in defining "fully distributed costs,"  
17 recognizes that "Costs are assigned either through a direct or allocated  
18 approach. Costs that cannot be directly assigned or indirectly allocated (e.g.,  
19 general and administrative) must also be included in the FDC calculation through  
20 a general allocation"; and,

21 3) Commission Rule 4 CSR 240-40.015(5)(A)2 requires that the utility maintain  
22 books and records that include "Documentation of the methods used to allocate

1 and/or share costs between affiliated entities, including other jurisdictions and/or  
2 corporate divisions.”

3 **Q. OPC WITNESS SCHALLENGER SUGGESTS THAT THE CAM DOES NOT**  
4 **“PROVIDE ADEQUATE ASSURANCE” THAT SNGMO MAINTAINS ITS**  
5 **BOOKS AND RECORDS SEPARATE FROM ITS AFFILIATES**  
6 **(SCHALLENGER REB., P. 13). HAVE YOU ADDRESSED THIS ISSUE**  
7 **PREVIOUSLY?**

8 A. Yes. I addressed this issue in my Direct Testimony (p. 7). However, beyond  
9 that, I am not sure how a CAM can provide such “assurance.” As a practical  
10 matter, the Company either has such control or it does not.

11 **Q. MR. SCHALLENGER ARGUES THAT SNGMO LACKS CONTROL**  
12 **BECAUSE “SNGMO EMPLOYEES DO NOT MAINTAIN SNGMO’S BOOKS.”**  
13 **IS THAT INDICATIVE OF “CONTROL?”**

14 A. No. First, SNGMO has no employees and no software of its own that are  
15 capable of maintaining books and records. Second, even if it did, there is nothing  
16 that prohibits a company from utilizing others to provide these services.

17 **Q. DO YOU BELIEVE THAT SHARED SERVICES IN THIS CASE “BENEFIT**  
18 **ONLY THE HOLDING COMPANY,” AS ALLEGED BY OPC WITNESS**  
19 **SCHALLENGER (SCHALLENGER REB., P. 13)?**

20 A. No. In this case, those shared services are greatly beneficial to SNGMO as it is  
21 permitted to benefit from a wide range of services including, but not limited to,  
22 legal, human resources, information technology, dispatch, regulatory, accounting,  
23 and procurement.

1    **Q.    HAS SNGMO PARTICIPATED IN ANY AFFILIATE TRANSACTIONS**  
2           **RELATED TO THE PURCHASE AND SALE OF GAS OR RELEASE OF**  
3           **PIPELINE CAPACITY?**

4    **A.**    No. SNGMO has not purchased or sold natural gas to an affiliate nor has it  
5           released any of its pipeline capacity to an affiliate.

6    **Q.    DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

7    **A.**    Yes.

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

IN THE MATTER OF THE APPLICATION OF )  
OF SUMMIT NATURAL GAS OF MISSOURI, )  
INC. FOR APPROVAL OF ITS COST )  
ALLOCATION MANUAL )


File No. GO-2012-0322

**AFFIDAVIT OF STEVEN E. BIRCHFIELD**

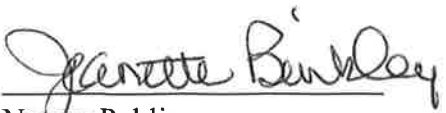
STATE OF COLORADO )  
 ) ss  
COUNTY OF JEFFERSON )

Steven E. Birchfield, of lawful age and being first duly sworn, deposes and states:

1. My name is Steven E. Birchfield. I am the Executive Vice President and Chief Financial Officer of Summit Utilities, Inc.
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 surrebuttal testimony are true and correct to the best of my knowledge and belief.

  
Steven Birchfield  
Executive Vice President and  
Chief Financial Officer

Subscribed and sworn before me to this 26<sup>th</sup> day of August, 2019.

  
Notary Public

My Commission expires: \_\_\_\_\_

1/4/21

JEANETTE BINKLEY  
Notary Public  
State of Colorado  
Notary ID # 20054000346  
My Commission Expires 01-04-2021

	2015			2016			2017			2018		
	Direct	Indirect	Distrigas	Direct	Indirect	Distrigas	Direct	Indirect	Distrigas	Direct	Indirect	Distrigas
CNG	\$ 1,911,271	\$ -	\$ 1,507,934	\$ 1,911,271	\$ -	\$ 1,507,934	\$ 2,371,313	\$ -	\$ 1,602,817	\$ 1,938,476	\$ -	\$ 2,370,829
MOS	\$ 1,459,604	\$ -	\$ 2,041,758	\$ 1,838,023	\$ -	\$ 2,048,802	\$ 2,639,280	\$ -	\$ 2,251,043	\$ 1,488,755	\$ -	\$ 3,332,309
MES	\$ 2,860,779	\$ -	\$ 2,278,819	\$ 1,908,348	\$ -	\$ 2,255,470	\$ 3,047,374	\$ -	\$ 2,015,457	\$ 1,180,212	\$ -	\$ 2,925,263
WCE	\$ -	\$ -	\$ 2,562	\$ -	\$ -	\$ 3,522	\$ -	\$ -	\$ 3,109	\$ -	\$ -	\$ -
AOG	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 168,689	\$ -	\$ 2,611,985	\$ 3,035,845	\$ -	\$ 4,838,106
Totals	\$ 6,231,654	\$ -	\$ 5,831,073	\$ 5,657,642	\$ -	\$ 5,815,727	\$ 8,226,657	\$ -	\$ 8,484,411	\$ 7,643,288	\$ -	\$ 13,466,506