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Affiliate Transactions

Schallenberg/Rebuttal

Public Counsel

GO-2012-0322

REBUTTAL TESTIMONY

OF

ROBERT E. SCHALLENBERG

Submitted on Behalf of the Office of the Public Counsel

SUMMIT NATURAL GAS OF MISSOURI, INC.

FILE NO. GO-2012-0322

August 5, 2019

REBUTTAL TESTIMONY
OF
ROBERT E. SCHALLENBERG
SUMMIT NATURAL GAS OF MISSOURI, INC.
CASE NO. GO-2012-0322

1 **Q. What is your name?**

2 A. Robert E. Schallenberg.

3 **Q. What is your business address?**

4 A. Post Office Box 2230, Jefferson City, Missouri, 65102.16

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

6 A. I am the Director of Policy at the Office of the Public Counsel (“OPC” or “Public
7 Counsel”).

8 **Q. What is your educational background, what professional credentials do you hold,
9 and, briefly, what is your work experience related to utility regulation?**

10 A. I am a 1976 graduate of the University of Missouri at Kansas City with a Bachelor of
11 Science degree and major emphasis in Accounting. In November 1976, I successfully
12 completed the Uniform Certified Public Accountant (“CPA”) examination and
13 subsequently received the CPA certificate. In 1989, I received my CPA license in
14 Missouri. I began my employment with the Missouri Public Service Commission
15 (MoPSC) as a Public Utility Accountant in November 1976. I remained on the Staff of the
16 MoPSC until May 1978, when I accepted the position of Senior Regulatory Auditor the
17 Kansas Corporation Commission (KCC). I held a senior auditor position-s with the KCC,
18 through October, 1978. At that time I returned to the MoPSC staff. I held various auditor
19 and management positions with the MoPSC staff until May, 2018 when I accepted my
20 current position with OPC. See Attachment **RES-D-1** for more detail on my work
21 experience.

22 **Q. What utility is the subject of this case?**

1 A. Summit Natural Gas of Missouri, Inc. (“SNGMO”)

2 **Q. What is SNGMO seeking in this case?**

3 A. SNGMO is seeking that the Missouri Public Service Commission (“MoPSC”) approve its
4 proposed Cost Allocation Manual (CAM).

5 **Q. Why?**

6 A. That approval is required by the MoPSC’s affiliate transaction rules (“Rule”) for gas
7 utilities 4 CSR 240-40.015(3)(D). See attachment **RES-R-2** for a copy of the Commission
8 Rule referenced in this case.

9 **Q. What is your recommendation to the MoPSC?**

10 A. Because the CAM that SNGMO has presented for Commission approval is deficient for
11 the reasons I explain later, I recommend that the MoPSC not approve the CAM SNGMO
12 has filed in this case.

13 **Q. What is a CAM?**

14 A. It is a document in which the utility explains in detail how it will comply with the applicable
15 MoPSC Affiliate Transactions Rule.

16 **Q. What expertise do you have regarding the MoPSC’s affiliate transaction rules?**

17 A. I helped draft the MoPSC’s original affiliate transactions rules, which applied to Missouri
18 telecommunications, electric, steam and natural gas investor-owned public utilities. At the
19 time, the federal Uniform System of Accounts (USOA) (PART 32) rules addressed the
20 accounting for telecommunications utilities’ transactions with their affiliates and their
21 nonregulated activities. The telephone utilities had significant state and federal
22 jurisdictional activities before natural gas utility companies expanded in this way.

23 With Southwestern Bell Telephone Company (“SWBT”) engaging in increasingly
24 numerous transactions with its affiliates this Commission took the initiative and committed
25 to developing affiliate transactions rules to improve administrative efficiency in rate cases

1 before it. The Commission's efforts drew national attention, with economist Alfred Kahn,
2 among others, testifying at the hearings or providing comments.

3 The rules were designed to address issues including the lack of documentation of key
4 information (e.g., time reporting of executive and non-executive personnel, determination
5 and charging of costs, determination of and charging at market value, etc.) for assigning
6 and allocating costs among and between SWBT and its affiliates which made it more
7 difficult for the MoPSC to address and resolve these cost issues in SWBT rate cases. The
8 Federal Communications Commission's (FCC) affiliate transactions rules also influenced
9 the MoPSC's rules and how state utility agencies' employees conducted joint audits as a
10 component of enforcing the FCC's rules and regulations.

11 Similarly, the FERC invited various state agencies' employees to participate when
12 conducting compliance audits. I personally participated in several joint audits of SWBT
13 and General Telephone Company, as well as a FERC joint audit of Saint Joseph Light and
14 Power Company. As competition increased in the telephone industry, new entrants raised
15 concerns that the incumbent telephone utilities were subsidizing their competitive services
16 by how they assigned costs to the services that their competitors required from them to
17 compete. I became very familiar with SWBT's implementation of its affiliate transactions
18 protections, as well as those of General Telephone Company.

19 **Q. Did the MoPSC's concerns with detrimental impacts of affiliate transactions go**
20 **beyond the telephone/telecommunications industry?**

21 A. Yes. Among other things, electric and gas utilities were increasingly restructuring to a
22 holding company-based organization, with the holding company activities completely
23 unregulated. As Missouri regulated utility's continually shifted to using non-regulated
24 affiliates, the MoPSC was forced to concentrate more attention on affiliate transactions in
25 the rate cases before it. The Commission's affiliate transactions rules grew out of regulated
26 entities' increased use of non-regulated entities to provide services, which were able to
27 escape regulatory review, while their non-regulated entities also reduced competition for
28 outside businesses that could provide those same services.

1 **Q. How did Missouri's MoPSC-regulated public utilities react to the MoPSC's adoption**
2 **of affiliate transactions rules?**

3 A. They reacted in one of two (2) completely different ways. Some utilities adopted the rules
4 when they became effective on February 29, 2000. Others opposed the rules, filing lawsuits
5 and pursuing appeals, which resulted in injunctions and, ultimately, a Missouri Supreme
6 Court opinion. The utilities who appealed the affiliate transactions rules to the Missouri
7 Supreme Court included electric, gas and steam utilities. A copy of this decision is included
8 in attachment RES-R 3 for ease of reference. The Supreme Court decision affirmed the
9 rules making them fully effective in 2003.

10 **Q. Did the Missouri Supreme Court opine on the MoPSC's affiliate transactions rules in**
11 **any other circumstance?**

12 A. Yes. The OPC appealed a MoPSC Atmos Energy Corporation rate decision that included
13 an affiliate transaction matter, which the Missouri Supreme Court ultimately decided. That
14 opinion is also included in attachment RES-R 3 as well. In this second opinion the Missouri
15 Supreme Court held that, unlike transactions with non-affiliates, transactions with affiliates
16 are not presumed to be prudent, i.e., in a general rate case the utility must prove that these
17 transactions are prudent. The Court on page 9 of 14 of that opinion notes:

18 The ... risk inherent in affiliate transactions arises because agreements
19 between a public utility and its affiliates are not made at arm's length or on
20 an open market. They are between corporations, one of which is controlled
21 by the other. As such they are subject to suspicion and therefore present
22 dangerous potentialities.

23 *Office of the Pub. Counsel v. Mo. PSC*, 409 S.W.3d 371 (Mo. 2013).

24 The rules were designed to prevent Missouri regulated gas utilities from participating in
25 transactions that would shift costs from their for-profit non-regulated affiliates to their
26 regulated operations, increasing costs to captive customers.

27 For example, a company in a competitive business would be unlikely to purchase goods or
28 services from another entity when the company can do that work itself at lower cost. The
29 Rule actually prohibits these transactions unless the utility can show that it is in the best

1 interest of its customers not to comply with the Rule or that good cause exists to engage in
2 these type of transactions. 4 CSR 240-40.015 (10)(A)1 and 2.

3 On the other hand, a competitive business would not voluntarily sell goods or services at a
4 price lower than its costs to produce the good or service or the price it can sell to a
5 nonaffiliated entity. Missouri regulated utilities are prohibited by the rule to participate in
6 transactions of this nature with their affiliates. 4 CSR 240-40.015 (2) (D).

7 **Q. Is there an exception that allows a regulated utility to engage in such transactions?**

8 A. Yes. The Rule prohibits this type of transaction unless the utility can show that it is in the
9 best interest of its customers not to comply with the Rule or that good cause exists to engage
10 in these types of transactions. The utility can participate in affiliate transactions “when in
11 its knowledge and belief, compliance with the standards would not be in the best interests
12 of its regulated customers and it complies with the procedures required by subparagraphs
13 (10) (A)2. A. and (10) (A)2. B of this rule.”

14 There is another type of variance the utility can apply to participate in a non-compliant
15 affiliate transaction. The utility can seek a variance from compliance of rule’s requirements
16 by requesting and receiving Commission approval upon a showing of “good cause” that
17 utility should act in a manner contrary to the rules requirements. The utility remains
18 obligated to comply with the rules’ requirements until the utility receives the Commission
19 approval of its variance request. In other words, the utility is prohibited from participating
20 in these non-compliant affiliate transaction until the Commission specifically approves it
21 to do so.

22 **Q. Based on your experience, what is your understanding of the fundamental objective**
23 **of the MoPSC’s affiliate transactions rules?**

24 A.

25 My understanding is that the MoPSC’s goal with these rules is to protect the MoPSC-
26 regulated utility’s customers from subsidizing unregulated affiliates, and to prohibit the
27 utility from giving preferential treatment to that utility’s affiliates over independent third
28 parties.

1 **Q. How do the rules do that?**

2 A. Rule 4 CSR 240-40.015(2) Standards (E) in Schedule RES-R-2 is the affiliate transactions
3 rule for natural gas utilities. The requirements in that rule are the same as those found in
4 the MoPSC's affiliate transactions rules for other types of utilities (i.e. electric and Steam).
5 Those requirements include that the utility's transactions with its affiliates be at the lesser
6 of market or fully distributed cost to the utility. They require that the utility have a CAM
7 which sets forth cost allocation, market valuation and internal cost methods that will be
8 used when a regulated gas utility purchases goods and services from an affiliate. (See 4
9 CSR 240-40.015 (3) (D)). That CAM is to be approved by the MoPSC. MoPSC-regulated
10 utilities are required to enforce the provisions in their MoPSC-approved CAMs when
11 transacting with their affiliates. The rules also require that MoPSC-regulated utilities file
12 annual reports (CAM reports) with the Commission where they state in detail the criteria,
13 guidelines, and procedures they are using to comply with the rule. For natural gas utilities
14 that requirement is found in rule 4 CSR 240-40.015(2) Standards (E) which is included in
15 attachment RES-R-2. **Q. Why is SNGMO asking the Commission to approve its**
16 **CAM?**

17 A. It is required by the Commission's gas utility affiliate transaction rules.(See 4 CSR 240-
18 40.015(3)(D) in attachment **RES-R-3**, a copy of the Commission's Affiliate Transaction
19 rules that apply to Missouri's natural gas utilities and require use of a Commission
20 approved CAM. 4 CSR 240-40.015 (2003).

21 **Q. What must a CAM include before the MoPSC should approve it?**

22 A. It must include sufficient cost allocation, market valuation, and internal cost methods to
23 assure that the utility is not subsidizing or preferring its affiliates over independent third
24 parties. The CAM can use MoPSC-approved benchmarking practices that can constitute
25 compliance with the market value requirements of the "Evidentiary Standards for Affiliated
26 Transactions." 4 CSR 240-40.015 (3) (D).

27 While not specifically required by the MoPSC's rules, I recommend that a MoPSC-
28 approved CAM should be organized so that it is divided into sections that can be traced to
29 the sections of the Rule for ease of use and review. A CAM formatted based on the Rule's

1 purpose, and on the order of the Rule's individual requirements, allows a better
2 understanding of how the CAM addresses each of the Rule's requirements. (See 4 CSR
3 240-40.015).

4 **Q. Should the MoPSC approve SNGMO's CAM as filed?**

5 A. No. In my opinion SNGMO's proposed CAM does not include the criteria, guidelines, and
6 procedures that, if followed, would result in compliance with the MoPSC's affiliate
7 transactions rule for regulated natural gas utilities.

8 **Q. Why not?**

9 A. First, SNGMO is using a method of cost assignment known as Distringas, which takes all
10 costs that Summit Utilities (i.e. parent) cannot charge directly or indirectly, and assigns
11 those costs across its regulated natural gas utilities using a jurisdictional allocator, without
12 regard to the goods and services SNGMO actually receives or needs. SNGMO's ultimate
13 holding company, Summit Utilities does not retain any of these charges. .

14 Second, SNGMO does not use a competitive bidding process to test the reasonableness of
15 Summit Utilities' charges for the goods and services it provides to SNGMO. 4 CSR 240-
16 40.015 (3) (A). See Attachment RES-R-4 response to Staff Data Request 8.

17 Third, SNGMO does not test its purchases from or sales to its affiliate, Summit Holdings,
18 for compliance with the financial standards requirements of rule 4 CSR 240-40.015(3).

19 **Q. What do you recommend that the MoPSC do?**

20 A. The Commission should not approve SNGMO's Cost Allocation Manual (CAM) contained
21 in Mr. Birchfield's Schedule SEB-1. This CAM fails to satisfy the Rule's requirements that
22 the CAM "shall include ...the criteria, guidelines, and procedures it will follow to be in
23 compliance with the rule" (4 CSR 240-4.015 (2) and (3)). Schedule SEB-1 contains
24 provisions that, if followed, would be non-compliant with the rule or, provisions that
25 SNGMO does not actually follow. The requirements of the CAM attached to Mr.
26 Birchfield's testimony at SEB-1 are counter to the fundamental purpose of the MoPSC's
27 affiliate transactions rules. SNGMO's proposed CAM would allow SNGMO to subsidize
28 Summit Utilities and does not provide the public assurance that SNGMO's rates are not

adversely impacted by SNGMO's activities with its nonregulated affiliates. (See 4 CSR 240-40.015 (Purpose)).

Q. Has SNGMO ever sought for MoPSC relief from compliance with the MoPSC's affiliate transactions rules?

A. No, not before it filed this case. Approval of the CAM in Schedule SEB-1 would indirectly provide SNGMO would rule compliance relief.

Q. Has SNGMO engaged in affiliate transactions inconsistent with the requirements of the MoPSC's affiliate transactions rule for natural gas utilities?

A. It appears so. Attachment RES-R-4 is SNGMO's response to Staff data request 0024. There SNGMO identifies four (4) activities for which SNGMO admits it needs variances, but does not have MoPSC authority to vary from the rule.

Q. Has SNGMO sought any relief from compliance with the MoPSC's affiliate transactions rules in its CAM proposal?

A. No. SNGMO's SEB-1 CAM does not recognize it has any noncompliant elements. Thus, SNGMO does not attempt to show "good cause" to justify non-compliance with any of the Rules.

Q. What is your understanding of the standard that applies to requests for variances from the affiliate transaction rules?

A. According to Commission rules regarding Practice and Procedure before the Commission, 4 CSR 240-2.060(4) Applications, the requesting utility must show "good cause" for granting the relief from any of the Rules requirements.

Q. Are you aware of any explanation of this "good cause" standard?

A. Yes. In its May 17, 2007 Report and Order in ER-2007-0007, *In the Matter of the Tariffs of Aquila, Inc., d/b/a Aquila Networks -- MPS and Aquila Networks -- L&P Increasing Electric Rates for the Services Provided to Customers in the Aquila Networks -- MPS and Aquila Networks -- L&P Service Areas*, the MoPSC characterized "good cause" for relief from its rules as follows:

Although the term "good cause" is frequently used in the law, the rule 10 [(4 CSR 240-3.161(16))] does not define it. Therefore, it is appropriate to resort to the dictionary to determine its ordinary meaning. "Good cause "generally means a substantial reason amounting in law to a legal excuse for failing to perform an act required by law," or to put it more concisely, a "[l]egally sufficient ground or reason."

Although *Aquila* was an electric case, the Commission's electric utility affiliate transaction rules are virtually the same as its gas utility affiliate transaction rules.

Similarly, "good cause" has also been judicially defined as a "substantial reason or cause which would cause or justify the ordinary person to neglect one of his [legal] duties." Of course, not just any cause or excuse will do. To constitute good cause, the reason or legal excuse given "must be real not imaginary, substantial not trifling, and reasonable not whimsical." and some legitimate factual showing is required, not just the mere conclusion of a party or his attorney."

Q. Is there any portion of the testimony and Schedule SEB-1 CAM that does not comply with the Commission's affiliate transactions rule for natural gas utilities and if so, what?

A. Yes. The first item is the competitive bidding requirement as required by 4 CSR 240-40.015(3) (A). I assume that SNGMO's testimony on page 10, lines 6 through 11, is its demonstration of why competitive bids are neither necessary nor appropriate. The demonstration is the statement that competitive bidding would be unduly burdensome for a small utility serving rural customers for each transaction or type of transaction. The demonstration is expanded to include that it is doubtful that requests for bids would receive much response. SNGMO intends to periodically validate fair market price through third party studies.

However, SNGMO's CAM has no description or detail of such studies. In its response to Staff data request 0022 contained in attachment RES-R-4, SNGMO notes that it "does not formally benchmark services provided by the shared services company due to the limited size of the shared services staff and types of services that are provided." There is no requirement or practice that requires competitive bidding to be used solely for each transaction or type of transaction. Competitive bidding has even greater flexibility allowing

1 all the transactions of a certain type to be co-mingled with other transactions from another
2 type of transaction. For example, home and automobile insurance can be combined into
3 one policy.

4 **Q. Do you have an opinion as to whether a demonstration or “good cause” has been**
5 **shown to relieve the SNGMO from obtaining competitive bids?**

6 A. Yes. After reviewing the direct testimony and SNGMO’s proposed CAM, I did not see any
7 demonstration or “good cause” that I believe excuses SNGMO from complying with the
8 Commissions Rule and actually issuing requests for bid. The bidding process could either
9 validate SNGMO’s acceptance of goods or services from Summit Utilities or demonstrate
10 SNGMO could get the same service at lower cost from an independent third-party vendor.
11 I find it difficult to believe that no vendors in the Missouri counties of Benton, Caldwell,
12 Camden, Daviess, Douglas, Greene, Harrison, Howell, Laclede, Miller, Morgan, Pettis,
13 Stone, Taney, Texas, Webster, and Wright that are able and willing to provide some or
14 most of the services Summit Utilities is providing to SNGMO.

15 The Rule’s competitive bidding requirements are an efficient and effective way for
16 SNGMO to determine market price for services it receives from Summit Utilities. Summit
17 Utilities offers a third--party study as an alternative to competitive bidding. A third-party
18 study is not a comparable alternative to the competitive bidding practice. The third party
19 study is not unlikely to produce the same results as competitive bidding. Also, competitive
20 bidding would allow SNGMO to take advantage of better buying opportunities, by
21 determining the value of a good or service in an arms-length transaction *when* SNGMO
22 needs the good or service. Finally, vendors will provide better information when they can
23 benefit from a sale opportunity. Independent third-party studies will gather information
24 from sources with nothing to gain from the quality of the information. So, I see no “good
25 cause” in substituting independent third parties study information for the competitive
26 bidding process. That is one of the reasons I cannot support MoPSC approval of SNGMO’s
27 proposed CAM. Without competitive bidding, when it is buying services from Summit
28 Utilities, SNGMO never knows if it is at a price more costly than SNGMO would pay to
29 an independent, third-party vendor in or near its service territory.

1 **Q. Is it your opinion SNGMO's proposed CAM (Schedule SEB-1) would result in**
2 **SNGMO customers' rates being adversely impacted by its affiliate transactions?**

3 A. Yes. SNGMO's affiliate transactions would likely subsidize Summit Utilities. The Rule
4 defines subsidy and puts in place conditions to prevent these transactions from happening.
5 (4 CSR240-40.015). But Schedule SEB-1 CAM does not define what is or is not a subsidy,
6 or put in place conditions to prevent subsidies.

7 The Rule also defines which transactions are inappropriate, (4 CSR 240-40.015)
8 while SNGMO's proposed CAM contains no specific conditions to prevent the regulated
9 entity, SNGMO, from unacceptably subsidizing Summit Utilities. For example, by
10 replacing the Rule's definition of "fully distributed costs" with the term "Allocation," the
11 proposed CAM incorporates a process not intended by the rule. In the proposed process
12 all parent costs not directly or indirectly charged to SNGMO are allocated only to the
13 regulated utilities on a basis unrelated to whether the utilities use the goods and services
14 being allocated. Summit Utilities' should be allocated an appropriate amount of these costs.
15 Since Summit Utilities (the holding company) is not being charged, the regulated utilities
16 are being charged all costs, resulting in a subsidy to their ultimate parent company, Summit
17 Utilities.

18 **Q. What does SNGMO need to do to develop an appropriate CAM?**

19 A. SNGMO needs to include more details, including the specific criteria, guidelines, and
20 procedures that SNGMO will follow to comply with the rule. The CAM must set forth cost
21 allocation, market valuation, and internal cost methods. Benchmarking practices can be
22 considered to satisfy the Rule's market value requirements would be unnecessary when
23 competitive bidding is utilized.

24 **Q. Are there other features of SNGMO's proposed use of Distrigas that causes**
25 **OPC to oppose the MoPSC approving it?**

26 A. Yes, SNGMO's insistence on using the Distrigas methodology to allocate costs to SNGMO
27 is counter to the Rule's compliance requirements. The Rule treats an affiliate transaction
28 to be providing or receiving, goods or services, to or from an affiliate, so the Rule is based

1 on the cost value of the goods and services produced. But, in contrast, Distrigas does not
2 assign costs to the utility based on the goods and services each utility actually uses. In other
3 words, Distrigas assigns its costs to similar utilities **regardless** of the amount of goods and
4 services each utility actually uses. SNGMO's responses to Staff data requests 17, 17.1, and
5 18 contained in Attachment RES-R-5 shows the volume costs being charged under the
6 Distrigas methodology in relation to total charges. SNGMO's response to Staff data request
7 16 contained in Attachment RES-R-4 shows the variability in the service costs subject to
8 Distrigas allocation. While SNGMO directly assigns certain goods and services, it does
9 little **indirect** assignment. The indirect assignment is less than Distrigas charges.
10 Minimizing indirect assignment magnifies the amount of costs flowing through the
11 Distrigas process. Expansion of the labor allocator and the inclusion of loading supervision
12 can reduce the Distrigas approach impacts. Skipping these steps means there is just a
13 general allocation through Distrigas of all other goods and services regardless of which
14 entity is using the good or service. The problem with this general allocation is shown in
15 the Rule's definition of fully distributed costs, the Rule's costing methodology:

16 (F) Fully distributed cost (FDC) means a **methodology that examines all**
17 **costs of an enterprise in relation to all the goods and services that are**
18 **produced. FDC requires recognition of all costs incurred directly or**
19 **indirectly used to produce a good or service.** Costs are assigned either
20 through a direct or allocated approach. Costs that cannot be **directly assigned**
21 **or indirectly allocated** (e.g., general and administrative) must also be
22 included in the FDC calculation through a general allocation. 4 CSR 240-
23 40.015 (1) (F). (Emphasis added).

24 The result of this methodology is the determination of the actual cost of each good or
25 service. The Rule requires that all the entity's costs in a given period have to be assigned
26 "to all the goods and services that are produced" in the given period. This requires that the
27 costs charged to the utility are based on its usage of the goods and services produced. In
28 order to achieve this result, costs that cannot be directly or indirectly assigned are instead
29 allocated to the produced goods and services by use of a general allocator. SNGMO is
30 using Distrigas. Distrigas is not designed for product costing. A general allocator based on
31 the ratio of direct and indirect costs charged to each produced good or service to the total

1 of direct and indirect costs charged to all goods and services produced can be used to
2 address this situation.

3 SNGMO's response Staff data request 19 contained in Attachment RES-R-4 indicates that
4 SNGMO has "no formal approval from regulatory authorities to use Distrigas allocation,
5 however, SUI is using the same consistent Distrigas formula in all subsidiaries"

6 **Q. Does SNGMO's proposed CAM provide adequate assurance that SNGMO**
7 **maintains its books, accounts, and records separate from its affiliates as required by**
8 **4 CSR 240-40.015 (4) (A)?**

9 A. No. The criteria, guidelines, and threshold for showing that SNGMO is actually
10 maintaining its books, accounts, and records separate from its affiliates are not being met.
11 One guideline would be that SNGMO's employees can access its books, accounts, and
12 records at a location controlled by SNGMO. This is not the case. As SNGMO's response
13 to Staff data request 0023 (see Attachment RES-R-4) indicates SNGMO employees do
14 not maintain SNGMO's books. Summit employees maintain SNGMO books, accounts,
15 and records separate from those of its affiliates. Thus, in violation of the Rule, only
16 Summit employees have access to SNGMO books, account, and records. ??

17 **Q. Are all shared services beneficial to all entities involved?**

18 A. No. A shared services arrangement can benefit certain participants at the expense of other
19 participants. In this case shared services, which are allocated exclusively to the utilities
20 benefit only the holding company.

21 **Q. Has SNGMO omitted any necessary items from its proposed CAM that are required**
22 **by the MoPSC's rule 4 CSR 240-40.015?**

23 A. Yes. Among other things, the internal controls that SNGMO cites in its proposed CAM to
24 support Rule compliance are not included in SNGMO witness Mr. Birchfield's direct
25 testimony, or the direct testimony of any other SNGMO witness.

1 **Q. Do you have concerns regarding compliance with the Rule's training and personnel**
2 **practices?**

3 A. Yes, the propose CAM implies that an adequate training program is not in place currently
4 to ensure Rule compliance. There are no details regarding the overall plan, current status,
5 deadlines, training content development, trainers, and personnel direction required to
6 ensure Rule compliance. SEB-1 CAM page 27, the last two paragraphs contains broad
7 generalizations without a plan, deadlines, and how content will be developed or
8 specialized.

9 **Q. Is time reporting important to support Rule Compliance?**

10 A. Yes.

11 **Q. Is it adequately addressed in the proposed CAM?**

12 A. No. Summit should have reviewed the SNGMO time reporting process to ensure that it
13 fully complies with the Rule. The process should result in a full use of direct and indirect
14 charges to develop fully-loaded labor rates to minimize any need for use of Distrigas,
15 which, as mentioned above is not an appropriate general allocator. Supervision labor
16 should be charged in a manner consistent with the labor charges the workers being
17 supervised. Labor charges should be developed to be consistent with a nonaffiliated service
18 company so that SNGMO is not being overcharged for labor costs.

19 **Q. Is the purchasing function adequately explained in SNGMO's proposed CAM?**

20 A. No. The required documentation to support purchasing needs to be consistent with
21 Schedule SEB-1 CAM commitments as well as accurate loading of costs to related
22 purchases

23 **Q. What is OPC's position regarding SNGMO sister affiliate transactions?**

24 A. There has been no good cause shown that the rules' prohibition regarding providing an
25 affiliate a financial advantage should be waived.

1 **Q. What is Attachment RES-R-4?**

2 A. This is a copy of the public material that I used to develop my rebuttal testimony.

3 **Q. What are Attachments RES-R-5 and Attachment RES-R-6?**

4 A. These are copies of the confidential material that I used to develop my rebuttal testimony.
5 Attachment RES-R-5 is the black and white confidential material. Attachment RES-R-6 is the
6 color coded confidential material. These schedules contain the financial and employee
7 information to assess the size of the utility structure in question. In its direct testimony on page
8 10. Lines seven (7) through nine (9), SNGMO notes that it “is a smaller utility serving rural
9 customers”. It is not the size of SNGMO that defines determines the materiality of their affiliate
10 transactions. It is the size and impact of the affiliate transactions on customer rates and service
11 quality that determines the materiality of the affiliate transaction.

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

13 A. Yes.

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

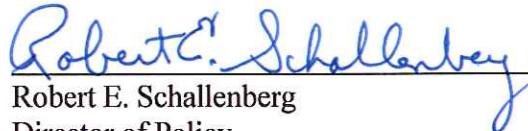
In the Matter of the Application of Summit)
Natural Gas of Missouri, Inc. for Approval) File No. GO-2012-0322
Of Its Cost Allocation Manual)

AFFIDAVIT OF ROBERT E. SCHALLENBERG

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Robert E. Schallenberg, of lawful age and being first duly sworn, deposes and states:

1. My name is Robert E. Schallenberg. I am a Director of Policy for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal 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.


Robert E. Schallenberg
Director of Policy

Subscribed and sworn to me this 5th day of August 2019.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2021
Cole County
Commission #13754037


Jerene A. Buckman
Notary Public

My Commission expires August 23, 2021.