

Exhibit No.:
Issue: CAM Approval
Witness: Amanda C. McMellen
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: GO-2012-0322
Date Testimony Prepared: August 5, 2019

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

AMANDA C. McMELLEN

SUMMIT NATURAL GAS OF MISSOURI, INC.

CASE NO. GO-2012-0322

Jefferson City, Missouri
August 2019

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1 Q. Have you participated in the Staff's review of the Cost Allocation Manual
2 ("CAM") filed in this case for which Summit Natural Gas of Missouri, Inc. ("SNGMO")
3 seeks approval?

4 A. Yes, I have, with the assistance of other members of Staff.

5 Q. What is the purpose of your rebuttal testimony in this proceeding?

6 A. The purpose of my rebuttal testimony is to respond to SNGMO witness
7 Steven E. Birchfield's direct testimony on approval of the CAM.

8 Q. Are other Staff witnesses sponsoring rebuttal testimony for Staff in this
9 proceeding in support of approval of the CAM?

10 A. Yes. Staff witness Jamie S. Myers is filing rebuttal testimony in support of
11 the approval of the CAM as well.

12 **EXECUTIVE SUMMARY**

13 Q. Please summarize your rebuttal testimony in this proceeding?

14 A. In conjunction with Staff witness Myers, I will explain in this testimony why
15 Staff recommends that the Commission approve the CAM, with the language suggestions
16 included in Staff witness Myers testimony that SNGMO has agreed to, submitted in this
17 docket and attached to the direct testimony of SNGMO's witness Mr. Birchfield filed on
18 June 28, 2019, with the Commission.

19 **SNGMO's CAM**

20 Q. What is the purpose of the Commission's Affiliate Transactions Rule relating
21 to gas utilities, Commission Rule 4 CSR 240-40.015 ("ATR")?

22 A. The purpose of the ATR is to prevent regulated utilities from subsidizing their
23 non-regulated operations. The ATR and the effective enforcement of the standards and

1 requirements contained within will provide the public the assurance that their rates are not
2 adversely impacted by the utilities' non-regulated activities.

3 Q. How does the ATR attempt to accomplish this objective?

4 A. Whenever a regulated utility participates in a transaction with any of its
5 affiliated entities, the Commission has put in place, through the ATR: 1) financial standards;
6 2) evidentiary standards; and 3) record keeping requirements with which the utility and its
7 affiliates must comply. The ATR also contemplates regulated utilities using a Commission
8 approved CAM which sets forth cost allocation, market valuation, and internal cost methods.
9 The CAM should also include the criteria, guidelines, and procedures the regulated utility
10 will follow to comply with the ATR.

11 Q. Please explain the general nature of the affiliate transactions that
12 involve SNGMO.

13 A. As explained in the direct testimony of Mr. Birchfield, on page 6, lines 7-12,
14 the majority of the affiliate transactions entered into by SNGMO are with its parent
15 company, Summit Utilities, Inc. ("SUI"), and are considered to be "corporate support"
16 transactions. "Corporate support" transactions are types of services in which a parent
17 company provides common administrative and management services to its affiliates on a
18 centralized basis. Staff agrees with SNGMO's statements that receipt by a utility of these
19 "corporate support" services can be provided at lower costs than if each subsidiary provided
20 services to themselves, or obtained them from a third party. A utility's management has the
21 obligation to provide services to its customers as efficiently and economically as their ability
22 permits. In large corporate systems, this may require the consolidation of utility functions
23 under one roof in order to affect efficiencies and economies of scale.

1 Q. What is SNGMO's proposal for assignment and allocation of SUI costs in its
2 proposed CAM?

3 A. The current methods by which SNGMO proposes to assign corporate service
4 costs are as follows, in order of priority: 1) direct assignment; 2) indirect assignment
5 (also known as indirect allocation); and then 3) general allocation. The direct assignment
6 method assigns costs only to the specific utility that benefits from the cost to the maximum
7 extent possible. SNGMO's proposed indirect assignment method assigns certain costs
8 (i.e., employee benefits) in proportion to the amount of labor costs directly charged to the
9 utility through use of the direct assignment method. Lastly, any remaining parent company
10 costs not assigned or allocated to utility affiliates directly or indirectly will be allocated based
11 on the general allocation method known as the Distringas method ("Distringas").

12 Q. What is a "general allocation?"

13 A. A general allocation is a method of assigning common costs among affiliates
14 of a parent company when there is no direct or indirect link between the incurrence of the
15 costs and the activities of the individual affiliates. A frequent approach used to allocate
16 common costs of this nature is to take the percentage of a parent company's direct and
17 indirect assigned costs for an affiliate compared to the total of such costs, and then apply
18 that percentage to the parent company's total amount of common costs in order to allocate
19 a fair share of common costs to the affiliate in question. Staff refers to that method as the
20 "General Allocation" approach, but there are other ways to assign common costs to affiliates
21 that have also been used by regulated utilities and regulatory commissions.

1 Q. Please explain Distrigas.

2 A. Distrigas is one general allocation method used to allocate parent company
3 common costs to affiliates. This method is based on the average of the following three
4 factors: 1) Direct Labor; 2) Capital Investment; and 3) Net Operating Revenue, for each
5 affiliate. This approach is discussed in Mr. Birchfield's direct testimony starting on page 9,
6 line 1 through page 10, line 2. Mr. Birchfield's testimony reflects that SUI has used
7 Distrigas to allocate common costs to its affiliates for some time.

8 Q. Has Staff analyzed the financial impact of use of Distrigas compared to use of
9 the General Allocation method on SNGMO?

10 A. Yes, as shown in Schedule ACM-r2 attached to this testimony.

11 Q. Please explain Schedule ACM-r2.

12 A. Staff reviewed SNGMO's response to Staff Data Request 0017.1, which is a
13 breakdown of directly assigned, indirectly assigned, and generally allocated (using Distrigas)
14 costs assigned to all SUI affiliates for each of the calendar years 2015 through 2017. Staff
15 calculated what the generally allocated costs would be using a general allocator instead of
16 using Distrigas. To develop this allocator, Staff calculated the percentage of the
17 direct/indirect costs assigned to SNGMO to the total direct/indirect costs assigned to all
18 affiliates. For instance in 2017, an amount of \$2,639,280 was directly assigned to SNGMO
19 (referred to as MOS in Schedule ACM-r2) out of a total of \$8,226,656 in direct costs
20 assigned to all affiliates, or 32.08%. Staff then applied that percentage to the total costs that
21 were generally allocated to all affiliates; for 2017 Staff multiplied the total costs to be
22 generally allocated, \$8,484,411, by 32.08%. This calculation results in \$2,721,973 that
23 would have been allocated to Missouri using this general method vs. \$2,251,043 that was

1 allocated to Missouri using the Distringas method. The results of this analysis showed that the
2 results of the Distringas general allocation approach were generally comparable to the
3 amounts that would have resulted from use of the General Allocation approach, and at times
4 (especially with more current results) that the amount of cost allocated to SUI affiliates using
5 the Distringas method was actually less than what would have been allocated using Staff's
6 general allocation method.

7 Q. Does Staff agree with the proposed use of Distringas to allocate parent
8 company common costs to SNGMO?

9 A. Based upon SUI's past reliance over time on the Distringas method, and the
10 comparative results shown in Schedule ACM-r2, Staff agrees that continued use of Distringas
11 to allocate common costs is reasonable at this time.

12 Q. Does SUI evaluate the policies, procedures and methods used to allocate
13 shared services?

14 A. Yes. As stated in Mr. Birchfield's testimony on page 10, lines 18 through 19,
15 "Summit routinely evaluates its systems, processes and methods for providing services and
16 seeks ways to improve its services and lower the associated costs."

17 Q. What information did Staff rely upon to recommend approval of the
18 SNGMO CAM?

19 A. Throughout this case, Staff has participated in many meetings, conference
20 calls and submitted data requests to receive the most current information from SNGMO
21 regarding affiliated transactions and the proposed CAM. There have been several revisions
22 made to the CAM draft by SNGMO in response to Staff questions and comments.

1 Q. Does Staff believe that SNGMO's CAM as proposed in this case will
2 minimize the risk of SNGMO subsidizing its non-regulated operations?

3 A. Yes. Staff does believe that SNGMO's proposed CAM includes the required
4 policies, procedures and internal controls that are necessary to minimize the potential for
5 SNGMO to subsidize non-regulated operations and ensure compliance with the
6 Commission's ATR for gas utilities. Staff recommends that the Commission approve
7 SNGMO's CAM as attached to Mr. Birchfield's direct testimony with the language
8 suggestions included in Staff witness Myers testimony that SNGMO has agreed to.

9 Q. Will approval of the SNGMO CAM in this proceeding bind the Commission
10 in any way in future rate proceedings in terms of ratemaking for SNGMO affiliate
11 transactions?

12 A. No. This proceeding is not intended to comprise a prudency review of any
13 individual affiliate transactions that SNGMO may have engaged in. Staff intends to conduct
14 a review of SNGMO's affiliate transactions in its next general rate case, including a review
15 of SNGMO's compliance with the gas utility ATR and this CAM, if approved by the
16 Commission.

17 Q. Does this conclude your rebuttal testimony?

18 A. Yes, it does.

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) Case No. GO-2012-0322
of its Cost Allocation Manual)

AFFIDAVIT OF AMANDA C. McMELLEN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

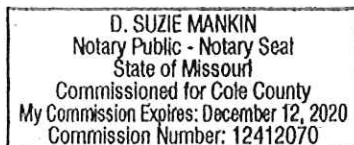
COMES NOW AMANDA C. McMELLEN and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Rebuttal Testimony*; and that the same is true and correct according to her best knowledge and belief.

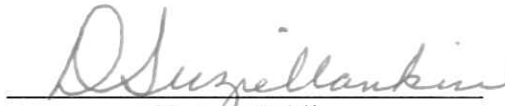
Further the Affiant sayeth not.


AMANDA C. McMELLEN

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 2nd day of August 2019.




Notary Public

Amanda C. McMellen
Utility Regulatory Auditor V

EDUCATION

Bachelors of Science
DeVry Institute of Technology, Kansas City, MO-June 1998

PROFESSIONAL EXPERIENCE

Missouri Public Service Commission
Utility Regulatory Auditor V
February 2013 – Present
Utility Regulatory Auditor IV
November 2006 – February 2013
Utility Regulatory Auditor III
June 2002 – November 2006
Utility Regulatory Auditor II
June 2000 – June 2002
Utility Regulatory Auditor I
June 1999 – June 2000

I am a Utility Regulatory Auditor for the Missouri Public Service Commission (Commission). I graduated from the DeVry Institute of Technology in June 1998 with a Bachelor of Science degree in Accounting. Before coming to work at the Commission, I worked as an accounts receivable clerk. I commenced employment with the Commission Staff in June 1999. As a Utility Regulatory Auditor, I am responsible for assisting in the audits and examinations of the books and records of utility companies operating within the state of Missouri.

Amanda C. McMellen

SUMMARY OF RATE CASE TESTIMONY FILED

| <u>COMPANY</u> | <u>CASE NO.</u> | <u>ISSUES</u> |
|--|-----------------|--|
| Osage Water Company | SR-2000-556 | Plant in Service Depreciation Reserve Depreciation Expense Operation & Maintenance Expense |
| Osage Water Company | WR-2000-557 | Plant in Service Depreciation Reserve Depreciation Expense Operation & Maintenance Expense |
| Empire District Electric Company | ER-2001-299 | Plant in Service Depreciation Reserve Depreciation Expense Cash Working Capital Other Working Capital Rate Case Expense PSC Assessment Advertising Dues, Donations & Contributions |
| UtiliCorp United, Inc./ d/b/a Missouri Public Service | ER-2001-672 | Insurance Injuries and Damages Property Taxes Lobbying Outside Services Maintenance SJLP Related Expenses |
| BPS Telephone Company | TC-2002-1076 | Accounting Schedules Separation Factors Plant in Service Depreciation Reserve Revenues Payroll Payroll Related Benefits Other Expenses |

Amanda C. McMellen

SUMMARY OF RATE CASE TESTIMONY FILED

| <u>COMPANY</u> | <u>CASE NO.</u> | <u>ISSUES</u> |
|--|-----------------|--|
| Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P | ER-2004-0034 | Revenue Annualizations Uncollectibles |
| Fidelity Telephone Company | IR-2004-0272 | Revenue Revenue Related Expenses |
| Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P | ER-2005-0436 | Revenue Annualizations Uncollectibles |
| Empire District Electric Company | ER-2006-0315 | Payroll Payroll Taxes 401(k) Plan Health Care Costs Incentive Compensation Depreciation Expense Amortization Expense Customer Demand Program Deferred State Income Taxes Income Taxes |
| Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P | ER-2007-0004 | Revenue Annualizations Uncollectibles Maintenance Expenses Turbine Overhaul Maintenance |
| Empire District Electric Company | ER-2008-0093 | Revenues Bad Debts Employee Benefits Tree Trimming Storm Costs Customer Programs Amortizations Current Income Taxes Deferred Income taxes Jurisdictional Allocations Corporate Allocations |

Amanda C. McMellen

SUMMARY OF RATE CASE TESTIMONY FILED

| <u>COMPANY</u> | <u>CASE NO.</u> | <u>ISSUES</u> |
|--|-----------------|--|
| Missouri Gas Energy, a Division of Southern Union Company | GR-2009-0355 | Staff Report Cost of Service Revenues-Customer Growth Corporate Allocations Other Rate Base Items Amortization Expense Interest expense on customer Deposits Rents and Leases |
| Missouri-American Water Company | WR-2010-0131 | Staff Report Cost of Service Corporate and District Allocations Lobbying Costs Net Negative Salvage Amortization of Regulatory Assets Belleville Lab Expenses Comprehensive Planning Study Payroll Payroll Taxes |
| Kansas City Power & Light Company | ER-2010-0355 | Staff Report Cost of Service Revenues-Customer Growth In-Field Service Fees Gross Receipts Taxes Forfeited Discounts Other Revenues Credit Card Acceptance Program Bad Debts |
| KCP&L Greater Missouri Operations Company | ER-2010-0356 | Staff Report Cost of Service Revenues-Customer Growth Other Revenues Credit Card Acceptance Program Bad Debts |
| Empire District Electric Company | ER-2011-0004 | Staff Report Cost of Service Plant in Service Depreciation Reserve Depreciation Expense Pensions & OPEBs Customer Programs Amortizations Carrying Costs Revenue Annualizations |

Amanda C. McMellen

SUMMARY OF RATE CASE TESTIMONY FILED

| <u>COMPANY</u> | <u>CASE NO.</u> | <u>ISSUES</u> |
|--|-----------------|---|
| Empire District Electric Company | ER-2012-0345 | Staff Report Cost of Service Plant in Service Depreciation Reserve Depreciation Expense Prepayments Materials and Supplies Customer Demand Programs Amortization of Electric Plant Customer Deposits Customer Advances Carrying Costs Customer Programs Customer Deposit Interest Expense Franchise Taxes Amortizations Banking Fees Lease Expense Pay Station Fees Amortizations |
| Summit Natural Gas Company of Missouri, Inc. | ER-2014-0086 | Corporate Allocations Capitalization Policy MGU Purchase Price SMNG Legacy Asset Valuation Energy Efficiency Programs |
| Empire District Electric Company | ER-2016-0023 | Staff Report Cost of Service Test Year/Update/True-Up Accumulated Deferred Income Taxes SWPA Hydro Reimbursement SPP Revenues and Expenses SPP Transmission Expenses ASM Revenue and Expense Miscellaneous SPP Related Revenues and Expenses Off-System Sales Revenue and Expense Current Income Taxes Deferred Income Taxes Rate Case Expense-Sharing Advertising Dues and Donations SWPA Amortization Tornado AAO Amortization Corporate Expenses Capitalized Depreciation Proposed Acquisition |
| Laclede Gas Company | GR-2017-0215 | Staff Report Cost of Service Revenues Uncollectibles |

Amanda C. McMellen

SUMMARY OF RATE CASE TESTIMONY FILED

| <u>COMPANY</u> | <u>CASE NO.</u> | <u>ISSUES</u> |
|-----------------------|------------------------|--|
| Missouri Gas Energy | GR-2017-0215 | Staff Report Cost of Service Revenues Uncollectibles |

Summit Natural Gas of Missouri, Inc.

Case No. GO-2012-0322

Source: Data Request No. 017.1

Staff Recalculation

| | 2015 | | | | 2016 | | | | 2017 | | | |
|--------|--------------|----------|--------------|---------------------|--------------|----------|--------------|---------------------|--------------|----------|--------------|---------------------|
| | Direct | Indirect | Distrigas | General | Direct | Indirect | Distrigas | General | Direct | Indirect | Distrigas | General |
| CNG | 1,911,271.37 | - | 1,507,933.84 | 1,788,411.74 | 1,911,271.37 | - | 1,507,933.84 | 1,964,675.94 | 2,371,313.13 | - | 1,602,817.17 | 2,445,610.03 |
| MOS | 1,459,603.81 | - | 2,041,757.93 | 1,365,778.11 | 1,838,022.81 | - | 2,048,801.57 | 1,889,380.67 | 2,639,280.01 | - | 2,251,042.64 | 2,721,972.73 |
| MES | 2,860,778.73 | - | 2,278,819.30 | 2,676,883.23 | 1,908,347.86 | - | 2,255,469.75 | 1,961,670.74 | 3,047,374.45 | - | 2,015,456.72 | 3,142,853.40 |
| WCE | - | - | 2,562.01 | - | - | - | 3,522.19 | - | - | - | 3,108.76 | - |
| AOG | - | - | - | - | - | - | - | - | 168,689.32 | - | 2,611,985.49 | 173,974.62 |
| Totals | 6,231,653.91 | - | 5,831,073.08 | 5,831,073.08 | 5,657,642.03 | - | 5,815,727.36 | 5,815,727.36 | 8,226,656.92 | - | 8,484,410.77 | 8,484,410.77 |

CNG = Colorado Natural Gas, Inc.

MOS = Summit Natural Gas of Missouri, Inc.

MES = Summit Natural Gas of Maine, Inc.

WCE = Wolf Creek Energy, LLC

AOG = Arkansas Oklahoma Gas Corporation

Case No. GO-2012-0322

Schedule ACM-r2