

MEMORANDUM

TO: Missouri Public Service Commission
Official Case File, File No. GA-2018-0220

FROM: Amanda C. McMellen, Utility Regulatory Auditor, Auditing Department
Byron M. Murray, Regulatory Economist, Tariff and Rate Design Unit

/s/ David M. Sommerer 05/22/18 /s/ Mark Johnson 05/22/18
Case Coordinator / Date Staff Counsel's Office / Date

SUBJECT: Staff Recommendation On Summit Natural Gas of Missouri, Inc.'s Application
for a Certificate of Convenience and Necessity

DATE: May 22, 2018

On February 8, 2018, Summit Natural Gas of Missouri, Inc. ("SNGMO" or "Company"), filed an APPLICATION (Application) with the Missouri Public Service Commission (Commission). The Application requests that the Commission grant SNGMO a certificate of convenience and necessity (CCN) authorizing it to construct, install, own, operate, maintain, and otherwise control and manage a natural gas distribution system to provide gas service in Daviess County, Missouri, as a further expansion of its existing certificated area.

On February 9, 2018, the Commission issued a NOTICE AND ORDER DIRECTING FILING (Order). The order stated that any motion to intervene was due no later than March 12, 2018, and directed Staff to file its recommendation no later than March 26, 2018. No parties intervened. On March 26, 2018, the Commission issued an ORDER EXTENDING TIME TO FILE RECOMMENDATION, extending the due date for Staff's recommendation to no later than May 22, 2018.

SNGMO is requesting a CCN in thirteen (13) sections of Daviess County. SNGMO states that it holds all necessary franchises and permits from municipalities, counties, or other authorities that are required for SNGMO to serve the areas or will obtain them prior to construction.

In evaluating applications for certificates of convenience and necessity, the Commission has frequently considered five factors first described in a Commission decision regarding an application for a certificate of convenience and necessity filed by Tartan Energy Company, L.C., d/b/a Southern Missouri Gas Company, Case No. GA-94-127. The Tartan factors, as they have become known, are: "(1) there must be a need for the service; (2) the applicant must be qualified to provide the proposed service; (3) the applicant must have the financial ability to provide the service; (4) the applicant's proposal must be economically feasible; and (5) the service must promote the public interest."

This application involves a project that will connect to the Gallatin District. The Gallatin District includes the communities of Gallatin and Hamilton Missouri and is served by ANR Pipeline Company (ANR), a FERC regulated interstate pipeline. The Company has approximately 1,600 sales customers in the Gallatin District.

A privately owned regulated natural gas utility has been providing service in the Gallatin area since 2005. The Commission approved Missouri Gas Utility's (MGU) acquisition of a previous municipal system in Case No. GO-2005-0120 in December 2004. MGU subsequently changed its name to SNGMO in 2012.

Lake Viking is a resort development that was established in the late 1960s, with initial lot sales beginning in the early 1970s. Lake Viking is approximately 8 miles from the existing Gallatin system, and would require an 8 mile extension off of the Gallatin system, in addition to additional distribution main **. This plan envisions a close **. . **

SNGMO provided a Feasibility Study for extending its system to the Lake Viking community as part of its Application. The total estimated cost of the project is approximately **. which includes a **. To put the estimated cost in perspective, per Staff's revenue requirement filing in Case No. GR-2014-0086, the rate base for the entire Gallatin District was \$7.9 million. The Gallatin Division is the SNGMO area that the Lake Viking project would be folded into. Thus, the estimated project cost is approximately **. of the existing Gallatin area's rate base.

The Feasibility Study filed by SNGMO uses a **. The model suggests that the project has a **. of the modeled time horizon. The model is heavily reliant on the **, which are in turn driven by the assumptions regarding **. . **

The project assumes that **. customers will sign up for natural gas service in year one, and that a total **. In a document entitled **, the Company notes:

** _____

_____**

Staff requested further detail regarding the Company's usage assumptions. While SNGMO provided Staff approximately ** _____, ** the detail regarding the actual propane furnace use was very limited. A potential risk exists that some propane furnace estimates include situations where the applicant's ** _____

_____**

In fact the Company noted in its response to Staff Data Request No. 0007:

** _____

_____**

With such a large rate base addition in the context of a very small rate district, there is heightened risk if the conversion estimates prove overly optimistic. The risk is that the existing customers in the Gallatin District would subsidize the Lake Viking revenue shortfall if the Company does not achieve its predicted natural gas sales.

Staff contends that a far more extensive canvassing of the actual customer heating load is critical before it can recommend approval of this project. ** _____
_____** is not sufficient data to justify approval of this project.

With respect to gas supply and transportation impacts, SNGMO ** _____
_____, ** the existing FERC-regulated interstate pipeline that serves the Gallatin area. ANR does appear to have the design capacity for ** _____
_____. ** However, SNGMO's existing capacity for the Gallatin system is
** _____

_____. ** This adds additional weight to the need to accurately estimate the eventual customer load from Lake Viking. The Company is in the process of **

_____ **

Staff finds that SNGMO is qualified to provide the proposed service, and has the financial ability to provide the service. Staff also finds that there is evidence of a need for the service, since there is currently no provider of natural gas service in the Lake Viking area. However, the economic feasibility of the project is not supported by detailed data. Given the project's high relative cost, and limited information regarding existing heat sources and underlying load potential, Staff cannot conclude that the project is economically feasible at this time. If the project is approved and constructed the potential outcome would be a revenue shortfall that will need to be made up by existing Gallatin District customers. That outcome would result in higher rates unless Staff imputed distribution rate revenues at the level forecasted.

Staff has reviewed this Application and, for the reasons stated above, finds that granting SNGMO's application for a CCN authorizing it to construct, install, own, operate, maintain, and otherwise control and manage a natural gas distribution system to provide gas service in Daviess County, Missouri, is NOT in the public interest at this time.

SUMMARY

The Company's application falls short in two critical areas.

- 1) Summit had the opportunity to conduct a detailed inquiry into: a) how many customers would be willing to sign up for gas service, b) what load is seasonal (summer-only) and, c) what type of usage could be expected (based on whether propane furnaces were the primary heat source (not secondary). In terms of proposed service applications, Summit has acquired ** _____ . ** In addition, the Company's analysis lacked details on the ** _____ . **
- 2) Although Summit has had ** _____

**

When the above concerns over the uncertainty of revenues and the uncertainty ** _____
_____ ** are considered in the context of the size of the project as compared to the
existing Gallatin system, and based on the results of Staff's analysis of all available information,
Staff recommends the Commission issue an order denying SNGMO's Application.

Staff has verified that this company has filed its annual report and is not delinquent on
any assessment.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Summit)	
Natural Gas of Missouri, Inc., for Permission)	File No. GA-2018-0220
and Approval and a Certificate of Convenience)	
and Necessity to Construct, Install, Own,)	
Operate, Maintain, and Otherwise Control and)	
Manage a Natural Gas Distribution System to)	
Provide Gas Service in Daviess County as an)	
Expansion of its Existing Certificated Areas)	

AFFIDAVIT OF AMANDA C. McMELLEN

STATE OF MISSOURI)	
)	ss.
COUNTY OF COLE)	

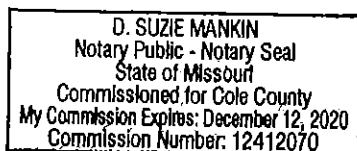
COMES NOW AMANDA C. McMELLEN and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Staff Recommendation in Memorandum form; and that the same is true and correct according to her best knowledge and belief.

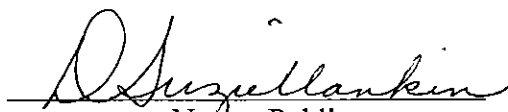
Further the Affiant sayeth not.


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 22nd day of May 2018.




Notary Public

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AFFIDAVIT OF BYRON M. MURRAY

STATE OF MISSOURI)	
)	ss.
COUNTY OF COLE)	

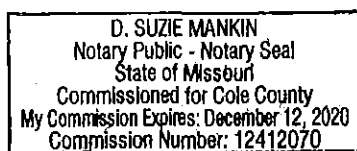
COMES NOW BYRON M. MURRAY and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Staff Recommendation in Memorandum form; and that the same is true and correct according to his best knowledge and belief.

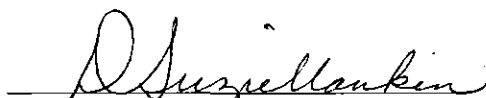
Further the Affiant sayeth not.


BYRON M. MURRAY

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 22nd day of May 2018.




Notary Public

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AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)	
)	ss.
COUNTY OF COLE)	

COMES NOW DAVID M. SOMMERER and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Staff Recommendation in Memorandum form; and that the same is true and correct according to his best knowledge and belief.

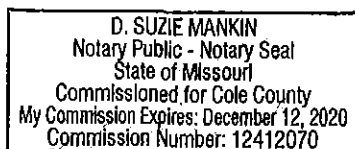
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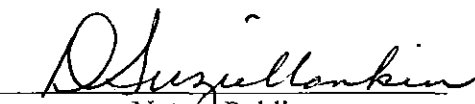


DAVID M. SOMMERER

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 22nd day of May 2018.





Notary Public