

**BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF THE APPLICATION OF)
SUMMIT UTILITIES ARKANSAS, INC. FOR A) DOCKET NO. 23-079-U
GENERAL CHANGE OR MODIFICATION IN)
ITS RATES, CHARGES AND TARIFFS)**

**JOINT MOTION TO APPROVE SETTLEMENT AGREEMENT AND WAIVE
HEARING**

COME NOW Summit Utilities Arkansas, Inc. (“SUA” or the “Company”); the General Staff (“Staff”) of the Arkansas Public Service Commission (“Commission”); the Office of the Arkansas Attorney General (“AG”); Arkansas Gas Consumers, Inc. (“AGC”); and Hospitals and Higher Education Group (“HHEG”), being all of the parties to this proceeding (collectively, the “Parties”), and for their Joint Motion (“Joint Motion”) to Approve a Settlement Agreement and Waive Hearing, state as follows:

1. The Parties have reached agreement on all outstanding issues in this docket. This agreement is set forth in the Settlement Agreement (“Agreement”) attached hereto as Joint Exhibit 1. The Parties support the Agreement as a reasonable resolution of all the issues in this docket and as being in the public interest. The Agreement, among other things, establishes SUA’s non-gas revenue requirement in total, the assignment of the total rate schedule revenue among the rate classes, and the rate design for each class. The Parties request that the Commission approve the Agreement as it is in the public interest.

2. In accordance with the procedural schedule, the following witnesses are submitting testimony in support of the Agreement:

Phillip Gillam, for SUA;

Michael Marchand and Jeff Hilton, for Staff;

Clay Layson, for AG;

Billie LaConte, for AGC; and

Dr. Larry Blank, for HHEG.

3. The Parties request that the evidentiary hearing set to begin at 9:30 a.m. on Tuesday, October 15, 2024, in the Hearing Room, Arkansas Public Service Commission Building, 1000 Center Street, Little Rock, Arkansas be waived.

4. If the Commission elects to hold the hearing, the Parties request that on or before October 10, 2024, all witnesses be excused from appearing at the evidentiary hearing, except those who are filing testimony in support of the Agreement as identified in Paragraph 2 above, and request that AGC witness LaConte and HHEG witness Dr. Blank be allowed to appear remotely.

5. The Parties agree to waive their rights to a hearing and to cross examination of witnesses testifying in support of the Agreement.

WHEREFORE, the Parties respectfully request that the Commission issue an Order (1) cancelling the hearing or excusing all witnesses except those testifying in support of the Agreement if the Commission elects to hold the hearing and allowing AGC witness LaConte and HHEG witness Dr. Blank to appear remotely; (2) issue an order approving the Agreement attached hereto; and (3) granting all other necessary appropriate relief.

Respectfully submitted,

SUMMIT UTILITIES ARKANSAS, INC.

By: Brooke South Parsons
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ARKANSAS GAS CONSUMERS, INC.

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HOSPITALS AND HIGHER EDUCATION GROUP

By: /s/ Randall Bynum

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CERTIFICATE OF SERVICE

I, Brooke South Parsons, do hereby certify that a true and correct copy of the foregoing has been delivered to all Parties of Record by electronic mail via the Electronic Filing System this 7th day of October 2024.

By: Brooke South Parsons
Brooke South Parsons

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JOINT SETTLEMENT AGREEMENT

Summit Utilities Arkansas, Inc. (“SUA” or the “Company”); the General Staff (“Staff”) of the Arkansas Public Service Commission (“Commission”); the Office of the Arkansas Attorney General (“AG”); Arkansas Gas Consumers, Inc. (“AGC”); and Hospitals and Higher Education Group (“HHEG”) (collectively, the “Parties”) agree to the terms set forth in this Joint Settlement Agreement (“Agreement”) subject to Commission approval as provided in Paragraph V.

I. PROCEDURAL SCHEDULE AND RECORD DEVELOPMENT

- A. This Agreement resolves all outstanding issues in this docket.
- B. SUA filed an Application for Approval of a General Change or Modification in its Rates, Charges, and Tariffs (“Application”)¹ on January 25, 2024, along with the Direct Testimony and Exhibits of eleven witnesses.² SUA proposed a specific level of revenue requirement and corresponding rates and made certain other proposals. In response to deficiencies noted by Staff, SUA filed a revised Application,³ along with revised testimony of three witnesses, on February 20, 2024.⁴ After conducting discovery, Staff, the AG, HHEG, and AGC filed Direct Testimony and Exhibits on July 10, 2024. SUA filed Rebuttal Testimony and Exhibits on August 7, 2024. Staff, the AG, HHEG, and AGC filed Surrebuttal Testimony and Exhibits on

¹ Docs. 18 (Redacted) and 40 (Confidential).

² Docs. 19-39.

³ Docs. 60 (Redacted) and 65 (Confidential).

⁴ Docs. 61-63.

September 9, 2024, and SUA filed Sur-Surrebuttal Testimony and Exhibits on September 20, 2024.

- C. The record has been fully developed and a complete discussion of the issues has been undertaken by the Parties, with each Party being a strong advocate for its respective positions as reflected in its pre-filed testimony.
- D. This Agreement accepts the positions set forth in Staff's Surrebuttal case as filed on September 9, 2024, except for the specific revisions to Staff's Surrebuttal case positions as set forth in this Agreement.

II. REVENUE REQUIREMENT

- A. The Parties agree that SUA's Rate Schedule Revenue Requirement is \$261,422,002, which represents an increase of \$87,684,216 over the current Rate Schedule Revenues excluding the revenues currently recovered through riders that will be prospectively included in base rates, as shown in Agreement Attachment No. 1.
- B. The Parties agree that the Rate Schedule Revenue Requirement was developed by adjusting Staff's Surrebuttal case resulting in a total increase in the Rate Schedule Revenue Requirement of \$11,482,298 from Staff's Surrebuttal case. A residential bill for a typical customer using 50 ccf per month will increase by 23.42%, or \$15.43/month, as shown in Agreement Attachment No. 2.
- C. While the Revenue Requirement and cost allocation reflects a negotiated settlement of all Revenue Requirement and cost allocation issues, the following adjustments were made in response to SUA's Sur-Surrebuttal Testimony and additional information provided during settlement discussions:

- a. Decrease the Working Capital Asset portion of rate base by \$9,276,870 based on the use of updated 13-month average balances through June 30, 2024, which reflect a cash balance of \$471,736 and a temporary cash investment balance of \$0.
- b. Decrease Interest Income by \$613,249 to align with the removal of the cash and temporary cash investments.
- c. Agree to \$581,788 in Rate Case Expenses normalized over a period of 4 years, which results in an increase of \$2,581.
- d. Increase Payroll Expense related to Overtime Expenses by \$1,004,319 with a corresponding increase to the Benefits Adjustment of \$174,617.
- e. Increase Customer Accounts Expense by \$316,957 to reflect an amortization period of 4 years related to the deferred COVID-19 asset.
- f. Increase Depreciation Expense due to reversal of Staff's Transportation Depreciation Expense adjustment by \$888,014.
- g. Increase Vegetation Control expenses by \$136,877 due to updating the average expense to include the most recent months of data available.
- h. Increase Income Tax Expense by the net amount of \$523,114 to reflect SUA's Sur-Surrebuttal treatment of the unprotected excess deferred income tax asset related to Cost of Removal and the income tax effect of the settlement adjustments.
- i. Fix the total Debt-to-Equity ("DTE") Ratio for use in the External Capital Structure at 54%/46% with a short-term debt proportion of 6.16%.
- j. Update the common equity cost rate to 9.85%.

- k. Revise the Rate of Return and Weighted Cost of Debt to reflect updated capital balances, including the 13-month averages of Current, Accrued, and Other Liability (“CAOL”) balances for Southern Col Holdco, LLC as of June 30, 2024. These revisions result in a Rate of Return (“ROR”) of 6.17%, a Pre-Tax ROR of 7.51%, and a Weighted Cost of Debt of 2.12% as noted below in Table 1.

Table 1: Weighted Cost of Capital Updated

Component	Amount	Proportion	Rate	Weighted Cost	Pre-Tax Weighted Cost
Long-Term Debt	\$ 655,806,000	42.71%	4.11%	1.76%	1.76%
Short-Term Debt	\$ 84,488,654	5.50%	6.61%	0.36%	0.36%
Common Equity	\$ 630,740,501	41.07%	9.85%	4.05%	5.38%
Customer Deposits	\$ 4,757,994	0.31%	2.93%	0.01%	0.01%
ADIT	\$ -	0.00%	0.00%	0.00%	0.00%
EDIT	\$ 65,217,129	4.25%	0.00%	0.00%	0.00%
CAOL	\$ 94,576,419	6.16%	0.00%	0.00%	0.00%
Totals	\$ 1,535,586,696	100.00%		6.17%	7.51%

- D. The Parties agree to the depreciation rates included in Surrebuttal Exhibit CR-1 and the parameters included in Surrebuttal Exhibit CR-2 of Staff witness Claude Robertson.

III. COST ALLOCATION AND RATES

- A. The Parties agree to accept, for purposes of settlement, the recommended Rate Schedule Revenue Requirements set forth on line 47 of the Settlement Class Cost of Service (“COS”) Summary (“Summary”), attached hereto as Agreement Attachment No. 1, for designing compliance rates in this case. This is based on the COS allocation as recommended by Staff witness Mark Burdette with the following modification: the Parties agree to accept the Design Day Demands as set forth in

the Direct Testimony of HHEG witness Dr. Larry Blank. The mitigation is consistent with the recommendation of Staff witness Robert H. Swaim and results in the residential rate class being set at 117.35% of the system average increase, an increase of 59.225%; the Large Commercial Service (“LCS”) rate class being set at 60.32% of the system average increase, an increase of 30.445%; the Small Commercial Service (“SCS”) rate class SCS-1 being set at 51.56% of the system average increase, an increase of 26.022%; and SCS-2 and SCS-3 being set at zero, or no increase.

- B. The Parties also agree to accept, for purposes of this Agreement, an adjustment which increases the Residential Customer Charge by \$6.51, resulting in a total Customer Charge of \$17.51 per month.
- C. The Parties do not endorse, agree upon, or recommend any specific class allocation methodology. For the purposes of this settlement only, the Parties accept the mitigation offered by Staff’s Surrebuttal case as modified herein.

IV. RIDERS AND TARIFFS

- A. The Parties agree to accept all riders and tariffs presented by SUA in its Application filed on January 25, 2024, with the exception of the following additional modifications and understandings:
 - a. Within the System Safety Enhancement Rider (“SSER”), the following language will be changed from the Tariffs filed by the Company in Schedule H-10 on January 25, 2024, in the following manner and as presented in Agreement Attachment No. 3:
 - i. All references to reliability projects will be removed.

- ii. Continuation of cumulative O&M expense reduction will be increased to reflect inflationary increases of \$139,378 per year.
- iii. Incentive compensation will be excluded, as consistent with this rate case.
- iv. The Company will make its first SSER filing once plant additions have exceeded the total *pro forma* additions included in the rate case, as well as each functional category included in the rate base.
- v. The Company agrees to remove reference to future Pipeline and Hazardous Materials Safety Administration (“PHMSA”) and Arkansas Gas Code requirements.
- vi. The Company agrees to include only investments associated with Act 310 of 1981 which were previously approved by the Commission.
- vii. The Company agrees to restore language in Part 2.2.2 which states that it will file its SSER adjustment on the first day of each month and that the rates will not go into effect until the first day of the following month. The tariff shall also state that any party to this case may dispute any portion of the adjustment by filing an objection, and any disputed amount will not go into effect until resolved.
- viii. The Company will continue to identify the program, rule, or regulation requiring the investment for qualifying projects under Parts 2.1.1 and 2.1.2 of the SSER.
- ix. The Company agrees to file an annual SSER report by March 31 of each year, beginning in 2025.

- b. The Parties agree to update the Billing Determinant Rate Adjustment Rider (“BDA”) and Weather Normalization Adjustment (“WNA”) to reflect the Degree Day Factors (“DDF”) recommended by Staff witness Robert H. Swaim in his Surrebuttal Testimony.

V. RIGHTS OF THE PARTIES

- A. This Agreement is made upon the explicit understanding that it constitutes a negotiated settlement which is in the public interest. Nothing herein shall constitute an admission of any claim, defense, rule, or interpretation of law, allegation of fact, principle or method of ratemaking, or cost-of-service determination or rate design, or terms or conditions of service, or the application of any rule, or interpretation of law, that may underlie, or be perceived to underlie, this Agreement.
- B. This Agreement is expressly contingent upon its approval by the Commission without modification. The various provisions of this Agreement are interdependent and inseverable. The Parties shall cooperate fully in seeking the Commission’s acceptance and approval of this Agreement. The Parties shall not support any alternative proposal or settlement agreement while this Agreement is pending before the Commission.
- C. Except as to matters specifically agreed to be done or to occur in the future, no party shall be precluded from taking any position on the merits of any issue in any subsequent proceeding in any forum. This Agreement shall not be used or argued as establishing precedent for any methodology or rate treatment in a future proceeding or represented to be a Party’s acquiescence to any opposing position presented in this proceeding.

- D. In the event the Commission does not accept, adopt, and approve this Agreement in its entirety and without modification, the Parties agree that this Agreement shall be void and of no effect. In that event, however, the Parties agree that: (1) no party shall be bound by any of the provisions or agreements herein contained; (2) all Parties shall be deemed to have reserved all their respective rights and remedies in this proceeding; and (3) no Party shall introduce this Agreement or any related writing, discussions, negotiations, or other communications of any type in any proceeding.
- E. This Agreement does not alter prior regulatory commitments of SUA except as provided herein.

Respectfully submitted,

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By: Brooke South Parsons
Brooke South Parsons

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- viii. The Company will continue to identify the program, rule, or regulation requiring the investment for qualifying projects under Parts 2.1.1 and 2.1.2 of the SSER.
- ix. The Company agrees to file an annual SSER report by March 31 of each year, beginning in 2025.

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- B. This Agreement is expressly contingent upon its approval by the Commission without modification. The various provisions of this Agreement are interdependent and inseverable. The Parties shall cooperate fully in seeking the Commission’s acceptance and approval of this Agreement. The Parties shall not support any alternative proposal or settlement agreement while this Agreement is pending before the Commission.
- C. Except as to matters specifically agreed to be done or to occur in the future, no party shall be precluded from taking any position on the merits of any issue in any subsequent proceeding in any forum. This Agreement shall not be used or argued as establishing precedent for any methodology or rate treatment in a future proceeding or represented to be a Party’s acquiescence to any opposing position presented in this proceeding.

- D. In the event the Commission does not accept, adopt, and approve this Agreement in its entirety and without modification, the Parties agree that this Agreement shall be void and of no effect. In that event, however, the Parties agree that: (1) no party shall be bound by any of the provisions or agreements herein contained; (2) all Parties shall be deemed to have reserved all their respective rights and remedies in this proceeding; and (3) no Party shall introduce this Agreement or any related writing, discussions, negotiations, or other communications of any type in any proceeding.
- E. This Agreement does not alter prior regulatory commitments of SUA except as provided herein.

Respectfully submitted,

SUMMIT UTILITIES ARKANSAS, INC.

By: Brooke South Parsons
Brooke South Parsons
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**GENERAL STAFF OF THE ARKANSAS
PUBLIC SERVICE COMMISSION**

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TIM GRIFFIN, Attorney General

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ARKANSAS GAS CONSUMERS, INC.

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HOSPITALS AND HIGHER EDUCATION GROUP

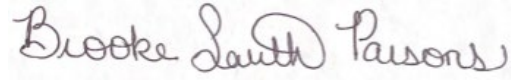
By: /s/ Randall Bynum
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CERTIFICATE OF SERVICE

I, Brooke South Parsons, do hereby certify that a true and correct copy of the foregoing has been delivered to all Parties of Record by electronic mail via the Electronic Filing System this 7th day of October 2024.

By:



Brooke South Parsons

Summit Utilities Arkansas
Docket No. 23-079-U
Settlement Cost of Service Study

Line	Description	Total	Residential	SCS-1	SCS-2	SCS-3	LCS-1
1	RATE BASE						
2	GROSS PLANT IN SERVICE	1,814,941,433	1,416,121,747	315,587,108	3,650,426	94,218	79,487,933
3	ACCUMULATED DERPRECIATION	686,245,802	544,198,640	114,144,314	1,498,777	41,728	26,362,342
4	NET PLANT	1,128,695,631	871,923,107	201,442,794	2,151,649	52,491	53,125,591
5	WORKING CAPITAL ASSETS	76,751,149	48,948,743	21,128,141	304,890	14,646	6,354,729
6	TOTAL RATE BASE	1,205,446,780	920,871,849	222,570,935	2,456,539	67,136	59,480,320
7	NON-FUEL OPERATING REVENUES						
8	RETAIL PRESENT RATE SCHEDULE REVENUES	173,737,787	127,027,804	35,775,053	572,868	38,535	10,323,528
9	OTHER OPERATING REVENUES	5,681,345	5,174,082	492,542	8,793	762	5,167
10	TOTAL OPERATING REVENUE	179,419,131	132,201,885	36,267,595	581,660	39,296	10,328,695
11	EXPENSES						
12	OPERATION & MAINTENANCE EXPENSE						
13	DISTRIBUTION	44,502,343	33,585,513	7,670,831	81,523	1,950	3,162,527
14	CUSTOMER ACCOUNTS	12,814,398	11,816,269	960,227	14,336	998	22,569
15	CUSTOMER SERVICES AND INFORMATIONAL	486,204	431,821	53,385	761	8	229
16	SALES	182,549	162,130	20,044	286	3	86
17	ADMINISTRATION AND GENERAL	35,528,232	28,105,739	5,424,921	62,178	2,079	1,933,314
18	TOTAL OPERATION & MAINTENANCE EXPENSE	93,513,726	74,101,472	14,129,408	159,084	5,038	5,118,724
19	DEPRECIATION EXPENSE	-	-	-	-	-	-
20	TAXES OTHER THAN INCOME TAXES	14,248,217	11,006,512	2,543,573	27,157	661	670,314
21	AMORTIZATION EXPENSE	68,739,906	53,101,927	12,268,284	131,040	3,197	3,235,459
22	TOTAL OPERATING EXPENSES	176,501,849	138,209,910	28,941,265	317,281	8,896	9,024,497
23	INCOME TAXES	(5,494,972)	(6,207,237)	641,414	51,852	7,071	11,928
24	TOTAL EXPENSES	171,006,877	132,002,673	29,582,678	369,133	15,967	9,036,425
25	OPERATING INCOME	8,412,254	199,212	6,684,916	212,527	23,329	1,292,270
26	Earned Rate of Return	0.698%	0.022%	3.003%	8.651%	34.749%	2.173%

Line	Description	Total	Residential	SCS-1	SCS-2	SCS-3	LCS-1
27	Cost of Service Revenue Requirement						
28	Required Rate of Return	6.170%	6.170%	6.170%	6.170%	6.170%	6.170%
29	Required Operating Income	74,376,066	56,817,793	13,732,627	151,568	4,142	3,669,936
30	Operating Income Deficiency	65,963,812	56,618,581	7,047,710	(60,959)	(19,187)	2,377,666
31	Revenue Conversion Factor	1.32928	1.33055	1.32090	1.32155	1.32250	1.32366
32	Revenue Deficiency	87,684,216	75,333,627	9,309,300	(80,560)	(25,374)	3,147,224
33	Rate Schedule Revenue Requirement	261,422,002	202,361,430	45,084,352	492,308	13,160	13,470,752
34	Present Base Rate Sch. Revenue (L8)	173,737,787	127,027,804	35,775,053	572,868	38,535	10,323,528
35	% Increase on Present Base Rate Sch. Rev. (L32/L34)	50.469%	59.305%	26.022%	-14.063%	-65.848%	30.486%
36	Fuel Revenues @ Present Rates	238,301,086	153,655,093	82,410,837	1,664,715	20,415	550,027
37	Other Rider Revenue @ Present Rates - Rolled-in Riders (SI Rider)	11,052,386	8,753,559	1,879,841	22,758	225	396,003
38	Other Rider Rev. @ Present Rates - non-Rolled-in Riders (EECR)	17,744,383	11,897,308	3,185,466	45,168	449	2,615,993
39	Other Revenues (customer activity related) (L9)	5,681,345	5,174,082	492,542	8,793	762	5,167
40	Present Base Rate Sch. Rev. + Rolled-in Rider Rev. (L34+L37)	184,790,173	135,781,362	37,654,894	595,626	38,760	10,719,531
41	% Increase - Pres. Base Rate Sch. Rev. + Rolled-in Rider (L32/L40)	47.451%	55.482%	24.723%	-13.525%	-65.466%	29.360%
42	Total Rev. Requirement (L33+L36+L38+L39)	523,148,817	373,087,912	131,173,196	2,210,984	34,786	16,641,939
43	% Increase in Total Revenue [L32/(L42-L32)]	20.136%	25.301%	7.639%	-3.516%	-42.178%	23.322%
44	Total Current Rev. Inc. Rolled-in Rider Rev. (L34+L36+L37+L38+L39)	446,516,987	306,507,844	123,743,738	2,314,302	60,385	13,890,718
45	Revenue Deficiency/(Surplus) (L32)	87,684,216	75,333,627	9,309,300	(80,560)	(25,374)	3,147,224
46	% Increase in Total Revenue (L45/L44)	19.637%	24.578%	7.523%	-3.481%	-42.021%	22.657%
47	Rate Sch. Rev. Req. After Mitigation	261,422,002	202,259,744	45,084,352	572,868	38,535	13,466,504
48	Rev. Deficiency/(Surplus) After Mitigation	87,684,216	75,231,940	9,309,300	-	-	3,142,976
49	% Increase on Base Revenue after Mitigation (L48/L34)	50.469%	59.225%	26.022%	0.000%	0.000%	30.445%

Current Residential Bill			CCFs						
			25	50	75	100	150	200	250
	Customer Charge	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
First Block	15	0.46369	6.96	6.96	6.96	6.96	6.96	6.96	6.96
Next Block	Over 15	0.37410	3.74	13.09	22.45	31.8	50.5	69.21	87.91
	CCR	(\$4.37)	(\$4.37)	(\$4.37)	(\$4.37)	(\$4.37)	(\$4.37)	(\$4.37)	(\$4.37)
	GSR	0.6986	17.47	34.93	52.40	69.86	104.79	139.72	174.65
	SSER	0.05409	1.35	2.70	4.06	5.41	8.11	10.82	13.52
	EECR	0.03130	0.78	1.57	2.35	3.13	4.70	6.26	7.83
			\$ 36.93	\$ 65.88	\$ 94.85	\$ 123.79	\$ 181.69	\$ 239.60	\$ 297.50

Rate Increase % 59.225%

Future Residential Bill			CCFs						
			25	50	75	100	150	200	250
	Customer Charge	17.51	17.51	17.51	17.51	17.51	17.51	17.51	17.51
First Block	15	0.73831	11.07	11.07	11.07	11.07	11.07	11.07	11.07
Next Block	Over 15	0.59566	5.96	20.85	35.74	50.63	80.41	110.2	139.98
	CCR	(\$4.37)	(\$4.37)	(\$4.37)	(\$4.37)	(\$4.37)	(\$4.37)	(\$4.37)	(\$4.37)
	GSR	0.6986	17.47	34.93	52.40	69.86	104.79	139.72	174.65
	SSER	0	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	EECR	0.02646	0.66	1.32	1.98	2.65	3.97	5.29	6.62
			\$ 48.30	\$ 81.31	\$ 114.33	\$ 147.35	\$ 213.38	\$ 279.42	\$ 345.46

Percentage Increase - Total Bill 30.79% 23.42% 20.54% 19.03% 17.44% 16.62% 16.12%

ARKANSAS PUBLIC SERVICE COMMISSION

	Original <u>First Revised</u>	Sheet No. <u>4-2.1/6</u>
Replacing:	<u>Original</u>	Sheet No. <u>4-2.1/6</u>
	<u>Summit Utilities Arkansas, Inc.</u> (Name of Company)	
Kind of Service:	<u>Natural Gas</u>	Class of Service: <u>All</u>
PART IV – Rider Schedule No. 2		
Title: SYSTEM SAFETY ENHANCEMENT RIDER (SSER)		

PSC File Mark Only

2. SYSTEM SAFETY ENHANCEMENT RIDER (RIDER SSER)

2.1. The primary purpose of the System Safety Enhancement Rider (“SSER”) is to support the expedited recovery of the projects listed in Part 2.1.1 (“Qualifying Projects”). Qualifying Projects shall not have been included in the Company’s most recent rate determination and shall include

2.1.1 Projects to comply with Code of Federal Regulations Title 49 (Transportation), Part 192 (Transportation of Natural and Other Gas by Pipeline Minimum Federal Safety Standards), Parts O and P, and corresponding provisions of the Arkansas Gas Pipeline Code (“Code”), including:

2.1.1.1 Projects in accordance with the Company’s Transmission Integrity Management Program (“TIMP”); and

2.1.1.2 Projects in accordance with the Company’s Distribution Integrity Management Program (“DIMP”).

2.1.2 Other projects to comply with rules and regulations of the U.S. Department of Transportation’s Pipeline and Hazardous Materials Safety Administration (PHMSA”), ~~including any future requirements~~, and corresponding provisions of the Code;

2.1.3 Facility relocation projects, exclusive of all costs that have been, are being, or will be reimbursed otherwise, that are required due to construction or improvement of a highway, road, street, public way or other public work by or on behalf of the United States, the State of Arkansas, a political subdivision of the State of Arkansas or another entity having the power of eminent domain;

2.1.4 Projects eligible for recovery under Act 310 of 1981, as amended (Ark. Code Ann. § 23-4-501(a)(1) ~~which were previously approved by the Commission~~; and,

2.1.5 ~~The Rider shall not include reliability capital or operations and maintenance expenses. Reliability Improvement Projects~~

2.2 To accomplish this purpose, the SSER provides: (1) ~~a pre-tax~~ rate of return on the net monthly investment (gross plant less accumulated depreciation), net of any retirements in Qualifying Projects that were not included in the Company’s most recent rate

ARKANSAS PUBLIC SERVICE COMMISSION

	Original <u>First Revised</u>	Sheet No. <u>4-2.2/6</u>
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	<u>Summit Utilities Arkansas, Inc.</u> (Name of Company)	
Kind of Service:	<u>Natural Gas</u>	Class of Service: <u>All</u>
PART IV – Rider Schedule No. 2		
Title: SYSTEM SAFETY ENHANCEMENT RIDER (SSER)		

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~~determination; and (2) a return of associated depreciation expense for the investment which was not included in the Company’s most recent rate determination for Qualifying Projects, net of any retirements; and (3) annualized historical property tax expense in the year the expense is paid. in new Mains and Associated Services, where such investment was made to replace Mains and Associated Services, by applying the approved~~

~~pre-tax rate of return to the net investment in new Mains and new Associated Services, and (2) a return of the investment made in new Mains and Associated Services to replace Mains and Associated Services, by applying the approved depreciation rates to the investment in new Mains and Associated Services.~~ The SSER is not an exact recovery rider, and therefore, no “true-up” mechanism is required.

- 2.2.1. Qualifying Projects shall include projects that are in-service and all materials, labor, other costs, and adjustments related thereto.
- 2.2.2. ~~Each~~ On the first day of each month, the Company shall calculate its ~~SSER~~ Revenue Requirement in the manner prescribed by Parts 2.3 and 2.4 of this Rider and shall file an adjustment and the supporting documentation identified in Part 2.2.3 of this Rider with the Commission. ~~by the last business day of the month immediately preceding the month the rate will become effective. Any party to the Company’s most recent rate determination docket may dispute any portion of the adjustment by filing an objection in the Company’s most recent rate determination docket.~~ The portion of the adjustment that is not in dispute shall become effective for bills rendered on or after the first day of the first month following the filing and shall be recovered from customers through the Company's Base Rate Adjustment as defined in Step 3 of Part 2.4 of this SSER. Any disputed amount will not go into effect ~~subject as filed to refund.~~
- 2.2.3. Simultaneously with the filing of each adjustment, the Company will file the following information, if applicable, that: (1) identifies the date plant costs are closed to plant and first included in SSER; (2) identifies for each project included in the filing the number of feet of new Mains (installed by month per books and the number of feet of retired mains per books; (3) identifies for each project included in the filing the number of Associated Services installed by month per books and number of Associated Services retired by month per books; ~~and~~ (4) identifies other gas infrastructure assets installed/retired by month per books in accordance with Part 2.1.; and (5) for investments associated with Parts 2.1.1 and 2.1.2, identifies the program, rule or regulation requiring the investment.

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	Original <u>First Revised</u>	Sheet No. <u>4-2.3/6</u>
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	<u>Summit Utilities Arkansas, Inc.</u> (Name of Company)	
Kind of Service:	<u>Natural Gas</u>	Class of Service: <u>All</u>
PART IV – Rider Schedule No. 2		
Title: SYSTEM SAFETY ENHANCEMENT RIDER (SSER)		

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- 2.2.4. The SSER establishes monthly Base Rate Adjustments for natural gas services provided under the Company’s rate schedules specified in Part 2.~~86~~. Such Base Rate Adjustments shall be recovered from customers in accordance with Step 3 of Part 2.4.
- 2.2.5. The Commission shall hear and resolve any amounts that are in dispute with regard to the application of the SSER. The Company shall accept Commission rulings as final for purposes of the SSER.
- 2.3. The SSER is to provide recovery of the Rider SSER Revenue Requirement which shall only include:
 - 2.3.1. Investment in– Qualifying Projects times the appropriate depreciation rate(s) approved in the Company’s most recent rate determination The depreciation rates will be applied consistently with the calculation of depreciation expense for book accounting purposes.
 - 2.3.2. Net investment (gross plant less accumulated depreciation) times the authorized pre-tax rate of return of approved in the Company’s most recent rate determination.
 - 2.3.3. Annual property tax expense associated with the Gross Plant in Service to be included in the year paid.
 - 2.3.4 SSER shall exclude incentive compensation consistent with Docket No. 23-079-U.
 - 2.3.5 The Rider SSER revenue requirement is net of savings \$139,378 per year and is cumulative, such that 2026 will be \$278,756.
- 2.4. CALCULATION OF THE RIDER SSER REVENUE REQUIREMENT
The Rate Adjustments for each class shall be calculated as follows:
 - Step 1: Rider SSER Revenue Requirement. The Rider SSER Revenue Requirement shall be calculated as set forth on Attachment 1.
 - Step 2. Revenue Requirement by Class. The SSER Revenue Requirement determined under Step 1 shall be allocated to customer classes based on the allocation approved in the Company’s most recent rate determination.

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~~Original~~ Sheet No. 4-2.4/6
Summit Utilities Arkansas, Inc.
 (Name of Company)
 Kind of Service: Natural Gas Class of Service: All

PART IV – Rider Schedule No. 2

Title: SYSTEM SAFETY ENHANCEMENT RIDER (SSER)

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Step 3. Base Rate Adjustments. The Base Rate Adjustment for each customer class will be a per Ccf or per MMBtu rate that is determined by dividing the Rider SSER Revenue Requirement by Customer Class determined in Step 2 by the annual volumes used to design rates in the Company’s most recent rate determination. For SCS transportation customers, the SSER Base Rate Adjustment will be converted to a MMBtu rate using a factor of 1.0~~332998~~.

<u>Customer Class</u>	<u>Volumes – Ccf</u>	<u>Volumes – MMBtu</u>
Residential Service (RS-1)	19 85,160 <u>664,504</u>	
Small Commercial Service (SCS-1)	16 758,517 <u>844,958</u>	
Small Commercial Service (SCS-2)	3,418 728,253 <u>172</u>	
Small Commercial Service (SCS-3)	13 35,132 <u>905</u>	
Large Commercial Service (LCS-1)		276,339 469,023 <u>333</u>

2.5 ~~FUTURE~~ RATE CASE APPLICATIONS

2.5.1. In the event the Company files a general rate application, all qualifying replacements upon which a return was recovered pursuant to this SSER shall be included in rate base net of depreciation in calculating the revenue requirement. The inclusion of any costs via this Rider SSER shall not be deemed a finding that the costs are necessary and appropriate or in the public interest. The prudence of such costs shall be addressed in the Company’s next general rate case proceeding.

2.5.2 Rider SSER shall remain in effect until the effective date of new rates following the Company filing a general rate case application.

2.5.3 The Company will make its first SSER filing once plant additions have exceeded the total pro forma additions included in rate base, as well as each functional category included in rate base.

2.6. ANNUAL REPORTING

2.6.1 The Company shall file the annual SSER report by June 1st-March 31st of each year. This filing shall include details of the projects set forth in Section 2.1, completed in the prior calendar year beginning in 2025. Specifically, the Company will provide a

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	<u>Summit Utilities Arkansas, Inc.</u> (Name of Company)	
Kind of Service:	<u>Natural Gas</u>	Class of Service: <u>All</u>
PART IV – Rider Schedule No. 2		
Title: SYSTEM SAFETY ENHANCEMENT RIDER (SSER)		

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summary of the prior calendar year filings, and a discussion of the current calendar expected activities related to main replacements, at-risk meter relocations, TIMP, DIMP, PHMSA requirements, facility relocations and Act 310 eligible projects.

2.7 **COMPLIANCE AUDITS**

~~2.67~~.1. Each monthly filing under Rider SSER will be subject to a compliance audit for a period of five (5) years after the date of the filing (the “compliance audit period”). If the Company does not timely provide the supporting documents identified herein, the five year compliance audit period restriction will be extended for a period of time equal to the period of any such delay. Any pre-implementation review of monthly filings for mechanical correctness does not constitute a compliance audit. Interim inquiries, questions, informal conversations, and other communications do not constitute a compliance audit. Staff will advise the Company in writing when it begins a compliance audit and will identify to the Company the Rider SSER filings that will be subject to such an audit. At the conclusion of its compliance audit, Staff will report its findings to the Company and will file the results with the Commission. All charges under Rider SSER not conforming to the specific tariff language shall be subject to refund.

2.78. **APPLICABLE RATE SCHEDULES**

- Residential Firm Sales Service (RS-1)
- Small Commercial Firm Sales Service (SCS-1)
- Small Commercial Firm Sales Service—Off Peak (SCS-2)
- Small Commercial Firm Sales Service—NGV (SCS-3)
- Large Commercial Firm Service (LCS-1)
- Unmetered Gas Light Firm Sales Service (GL-1)

ARKANSAS PUBLIC SERVICE COMMISSION

~~Original~~ First Revised

Sheet No. 4-2.6/6

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Sheet No. 4-2.6/6

Summit Utilities Arkansas, Inc.
(Name of Company)

Kind of Service: Natural Gas

Class of Service: All

PART IV – Rider Schedule No. 2

Title: SYSTEM SAFETY ENHANCEMENT RIDER (SSER)

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ATTACHMENT 1

SUMMIT UTILITIES ARKANSAS
SYSTEM SAFETY ENHANCEMENT RIDER ("SSER")
RATES EFFECTIVE MONTH 00, 20XX

Line Number (A)	Description (B)	Reference (C)	Amount (E)
1	Adjusted Gross Plant (Gross Plant less Retirements and Incentive Compensation)		\$ -
2	Accumulated Depreciation (Net of Retirements and Incentive Compensation)		
3	Net Plant	(Line 1 - Line 2)	-
4	Required Operating Income	(Line 3 * Approved Pre-Tax Rate of Return)	-
5	Depreciation Expense	(Line 1 * Approved Depreciation Rates)	-
6	Incremental Historical Property Tax Expense	(Adjusted Gross Plant from Previous Year * Approved Property Tax Rate)	-
7	Total Expenses	(Line 5 + Line 6)	-
8	Cumulative O&M Reduction	(\$139,378 * No. of Years)	
9	SSER Rider Revenue Requirement	(Line 4 + Line 7- Line 8)	\$ -

Note: Approved Property Tax Rate shall be determined by dividing Property Tax actually paid by total GPIS from previous year.

ARKANSAS PUBLIC SERVICE COMMISSION

~~Original~~ First Revised

Sheet No. 4-2.7/6

Replacing: Original

Sheet No. 4-2.7/6

Summit Utilities Arkansas, Inc.
(Name of Company)

Kind of Service: Natural Gas Class of Service: All

PART IV – Rider Schedule No. 2

Title: SYSTEM SAFETY ENHANCEMENT RIDER (SSER)

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**SUMMIT UTILITIES ARKANSAS
SYSTEM SAFETY ENHANCEMENT RIDER ("SSER")
RATES EFFECTIVE MONTH 00, 20XX**

Line Number (A)	Description (B)	Reference (C)	(D)	Amount (E)
1	Adjusted Gross Plant (Gross Plant less Retirements)		\$	-
2	Accumulated Depreciation (Net of Retirements)			
3	Net Plant	(Line 1 - Line 2)		-
4	Required Operating Income	(Line 3 * Approved Pre-Tax Rate of Return)		-
5	Depreciation Expense	(Line 1 * Approved Depreciation Rates)		-
6	Incremental Property Tax Expense	(Line 3 * Approved Property Tax Rate)		-
7	Total Expenses	(Line 5 + Line 6)		-
8	SSER Rider Revenue Requirement	(Line 4 + Line 7)	\$	-

ARKANSAS PUBLIC SERVICE COMMISSION

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Replacing: First Revised Sheet No. 4-2.1/6
Original Sheet No. 4-2.1/6
Summit Utilities Arkansas, Inc.
 (Name of Company)
 Kind of Service: Natural Gas Class of Service: All

PART IV – Rider Schedule No. 2

Title: SYSTEM SAFETY ENHANCEMENT RIDER (SSER)

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2. SYSTEM SAFETY ENHANCEMENT RIDER (RIDER SSER)

2.1. The primary purpose of the System Safety Enhancement Rider (“SSER”) is to support the expedited recovery of the projects listed in Part 2.1.1 (“Qualifying Projects”). Qualifying Projects shall not have been included in the Company’s most recent rate determination and shall include

2.1.1 Projects to comply with Code of Federal Regulations Title 49 (Transportation), Part 192 (Transportation of Natural and Other Gas by Pipeline Minimum Federal Safety Standards), Parts O and P, and corresponding provisions of the Arkansas Gas Pipeline Code (“Code”), including:

2.1.1.1 Projects in accordance with the Company’s Transmission Integrity Management Program (“TIMP”); and

2.1.1.2 Projects in accordance with the Company’s Distribution Integrity Management Program (“DIMP”).

2.1.2 Other projects to comply with rules and regulations of the U.S. Department of Transportation’s Pipeline and Hazardous Materials Safety Administration (PHMSA”), and corresponding provisions of the Code;

2.1.3 Facility relocation projects, exclusive of all costs that have been, are being, or will be reimbursed otherwise, that are required due to construction or improvement of a highway, road, street, public way or other public work by or on behalf of the United States, the State of Arkansas, a political subdivision of the State of Arkansas or another entity having the power of eminent domain;

2.1.4 Projects eligible for recovery under Act 310 of 1981, as amended (Ark. Code Ann. § 23-4-501(a)(1) which were previously approved by the Commission; and,

2.1.5 The Rider shall not include reliability capital or operations and maintenance expenses.

2.2 To accomplish this purpose, the SSER provides: (1) a pre-tax rate of return on the net monthly investment (gross plant less accumulated depreciation), net of any retirements in Qualifying Projects that were not included in the Company’s most recent rate

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First Revised Sheet No. 4-2.2/6
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Summit Utilities Arkansas, Inc.
 (Name of Company)
 Kind of Service: Natural Gas Class of Service: All

PART IV – Rider Schedule No. 2

Title: SYSTEM SAFETY ENHANCEMENT RIDER (SSER)

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determination; and (2) a return of associated depreciation expense for the investment which was not included in the Company’s most recent rate determination for Qualifying Projects, net of any retirements; and (3) annualized historical property tax expense in the year the expense is paid. The SSER is not an exact recovery rider, and therefore, no “true-up” mechanism is required.

- 2.2.1. Qualifying Projects shall include projects that are in-service and all materials, labor, other costs, and adjustments related thereto.
- 2.2.2. On the first day of each month, the Company shall calculate its SSER Revenue Requirement in the manner prescribed by Parts 2.3 and 2.4 of this Rider and shall file an adjustment and the supporting documentation identified in Part 2.2.3 of this Rider with the Commission. Any party to the Company’s most recent rate determination docket may dispute any portion of the adjustment by filing an objection in the Company’s most recent rate determination docket. The portion of the adjustment that is not in dispute shall become effective for bills rendered on or after the first day of the first month following the filing and shall be recovered from customers through the Company's Base Rate Adjustment as defined in Step 3 of Part 2.4 of this SSER. Any disputed amount will not go into effect as filed.
- 2.2.3. Simultaneously with the filing of each adjustment, the Company will file the following information, if applicable, that: (1) identifies the date plant costs are closed to plant and first included in SSER; (2) identifies for each project included in the filing the number of feet of new Mains (installed by month per books and the number of feet of retired mains per books; (3) identifies for each project included in the filing the number of Associated Services installed by month per books and number of Associated Services retired by month per books; (4) identifies other gas infrastructure assets installed/retired by month per books in accordance with Part 2.1; and (5) for investments associated with Parts 2.1.1 and 2.1.2, identifies the program, rule or regulation requiring the investment.
- 2.2.4. The SSER establishes monthly Base Rate Adjustments for natural gas services provided under the Company’s rate schedules specified in Part 2.8. Such Base Rate Adjustments shall be recovered from customers in accordance with Step 3 of Part 2.4.

ARKANSAS PUBLIC SERVICE COMMISSION

Replacing: First Revised Sheet No. 4-2.3/6
Original Sheet No. 4-2.3/6
Summit Utilities Arkansas, Inc.
 (Name of Company)
 Kind of Service: Natural Gas Class of Service: All

PART IV – Rider Schedule No. 2

Title: SYSTEM SAFETY ENHANCEMENT RIDER (SSER)

PSC File Mark Only

- 2.2.5. The Commission shall hear and resolve any amounts that are in dispute with regard to the application of the SSER. The Company shall accept Commission rulings as final for purposes of the SSER.
- 2.3. The SSER is to provide recovery of the Rider SSER Revenue Requirement which shall only include:
 - 2.3.1. Investment in Qualifying Projects times the appropriate depreciation rate(s) approved in the Company’s most recent rate determination The depreciation rates will be applied consistently with the calculation of depreciation expense for book accounting purposes.
 - 2.3.2. Net investment (gross plant less accumulated depreciation) times the authorized pre-tax rate of return of approved in the Company’s most recent rate determination.
 - 2.3.3. Annual property tax expense associated with the Gross Plant in Service to be included in the year paid.
 - 2.3.4. SSER shall exclude incentive compensation consistent with Docket No. 23-079-U.
 - 2.3.5. The Rider SSER revenue requirement is net of savings \$139,378 per year and is cumulative, such that 2026 will be \$278,756.
- 2.4. CALCULATION OF THE RIDER SSER REVENUE REQUIREMENT
 The Rate Adjustments for each class shall be calculated as follows:
 - Step 1: Rider SSER Revenue Requirement. The Rider SSER Revenue Requirement shall be calculated as set forth on Attachment 1.
 - Step 2. Revenue Requirement by Class. The SSER Revenue Requirement determined under Step 1 shall be allocated to customer classes based on the allocation approved in the Company’s most recent rate determination.
 - Step 3. Base Rate Adjustments. The Base Rate Adjustment for each customer class will be a per Ccf or per MMBtu rate that is determined by dividing the Rider SSER Revenue Requirement by Customer Class determined in Step 2 by the annual volumes used to design rates in the Company’s most recent rate determination. For SCS transportation customers, the SSER Base Rate Adjustment will be converted to a MMBtu rate using a factor of 1.033.

ARKANSAS PUBLIC SERVICE COMMISSION

First Revised Sheet No. 4-2.4/6
 Replacing: Original Sheet No. 4-2.4/6
Summit Utilities Arkansas, Inc.
 (Name of Company)
 Kind of Service: Natural Gas Class of Service: All
 PART IV – Rider Schedule No. 2
Title: SYSTEM SAFETY ENHANCEMENT RIDER (SSER)

PSC File Mark Only

<u>Customer Class</u>	<u>Volumes – Ccf</u>	<u>Volumes – MMBtu</u>
Residential Service (RS-1)	198,160,504	
Small Commercial Service (SCS-1)	167,517,958	
Small Commercial Service (SCS-2)	3,418,253	
Small Commercial Service (SCS-3)	133,132	
Large Commercial Service (LCS-1)		27,3394,023

2.5 RATE CASE APPLICATIONS

2.5.1. In the event the Company files a general rate application, all qualifying replacements upon which a return was recovered pursuant to this SSER shall be included in rate base net of depreciation in calculating the revenue requirement. The inclusion of any costs via this Rider SSER shall not be deemed a finding that the costs are necessary and appropriate or in the public interest. The prudence of such costs shall be addressed in the Company’s next general rate case proceeding.

2.5.2 Rider SSER shall remain in effect until the effective date of new rates following the Company filing a general rate case application.

2.5.3 The Company will make its first SSER filing once plant additions have exceeded the total *pro forma* additions included in rate base, as well as each functional category included in rate base.

2.6 ANNUAL REPORTING

2.6.1 The Company shall file the annual SSER report by March 31st of each year. This filing shall include details of the projects set forth in Section 2.1, completed in the prior calendar year. Specifically, the Company will provide a summary of the prior calendar year filings, and a discussion of the current calendar expected activities related to main replacements, at-risk meter relocations, TIMP, DIMP, PHMSA requirements, facility relocations and Act 310 eligible projects.

2.7 COMPLIANCE AUDITS

2.7.1. Each monthly filing under Rider SSER will be subject to a compliance audit for a period of five (5) years after the date of the filing (the “compliance audit period”).

ARKANSAS PUBLIC SERVICE COMMISSION

	<u>First Revised</u>	Sheet No. <u>4-2.5/6</u>
Replacing:	<u>Original</u>	Sheet No. <u>4-2.5/6</u>
	<u>Summit Utilities Arkansas, Inc.</u> (Name of Company)	
Kind of Service:	<u>Natural Gas</u>	Class of Service: <u>All</u>
PART IV – Rider Schedule No. 2		
Title: SYSTEM SAFETY ENHANCEMENT RIDER (SSER)		

PSC File Mark Only

If the Company does not timely provide the supporting documents identified herein, the five year compliance audit period restriction will be extended for a period of time equal to the period of any such delay. Any pre-implementation review of monthly filings for mechanical correctness does not constitute a compliance audit. Interim inquiries, questions, informal conversations, and other communications do not constitute a compliance audit. Staff will advise the Company in writing when it begins a compliance audit and will identify to the Company the Rider SSER filings that will be subject to such an audit. At the conclusion of its compliance audit, Staff will report its findings to the Company and will file the results with the Commission. All charges under Rider SSER not conforming to the specific tariff language shall be subject to refund.

- 2.8. APPLICABLE RATE SCHEDULES
 - Residential Firm Sales Service (RS-1)
 - Small Commercial Firm Sales Service (SCS-1)
 - Small Commercial Firm Sales Service—Off Peak (SCS-2)
 - Small Commercial Firm Sales Service—NGV (SCS-3)
 - Large Commercial Firm Service (LCS-1)
 - Unmetered Gas Light Firm Sales Service (GL-1)

ARKANSAS PUBLIC SERVICE COMMISSION

First Revised Sheet No. 4-2.6/6
 Replacing: Original Sheet No. 4-2.6/6
Summit Utilities Arkansas, Inc.
 (Name of Company)
 Kind of Service: Natural Gas Class of Service: All

PART IV – Rider Schedule No. 2

Title: SYSTEM SAFETY ENHANCEMENT RIDER (SSER)

PSC File Mark Only

ATTACHMENT 1

SUMMIT UTILITIES ARKANSAS
 SYSTEM SAFETY ENHANCEMENT RIDER ("SSER")
 RATES EFFECTIVE MONTH 00, 20XX

Line Number (A)	Description (B)	Reference (C)	(D)	Amount (E)
1	Adjusted Gross Plant (Gross Plant less Retirements and Incentive Compensation)			\$ -
2	Accumulated Depreciation (Net of Retirements and Incentive Compensation)			
3	Net Plant	(Line 1 - Line 2)		-
4	Required Operating Income	(Line 3 * Approved Pre-Tax Rate of Return)		-
5	Depreciation Expense	(Line 1 * Approved Depreciation Rates)		-
6	Incremental Historical Property Tax Expense	(Adjusted Gross Plant from Previous Year * Approved Property Tax Rate)		-
7	Total Expenses	(Line 5 + Line 6)		-
8	Cumulative O&M Reduction	(\$139,378 * No. of Years)		
9	SSER Rider Revenue Requirement	(Line 4 + Line 7 - Line 8)		\$ -

Note: Approved Property Tax Rate shall be determined by dividing Property Tax actually paid by total GPIS from previous year.

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF)
SUMMIT UTILITIES ARKANSAS, INC.)
FOR A GENERAL CHANGE OR) DOCKET NO. 23-079-U
MODIFICATION IN ITS RATES, CHARGES)
AND TARIFFS)

AGREEMENT TESTIMONY

OF

MICHAEL MARCHAND
EXECUTIVE DIRECTOR/
INTERIM DIRECTOR OF FINANCIAL ANALYSIS

ON BEHALF OF THE GENERAL STAFF
OF THE ARKANSAS PUBLIC SERVICE COMMISSION

OCTOBER 7, 2024

SUMMIT UTILITIES ARKANSAS, INC.

DOCKET NO. 23-079-U

AGREEMENT TESTIMONY OF MICHAEL MARCHAND

1

INTRODUCTION

2 **Q. What is your name and business address?**

3 A. My name is Michael Marchand. My business address is Arkansas Public Service
4 Commission, 1000 Center Street, Little Rock, Arkansas 72201.

5 **PURPOSE OF TESTIMONY**

6 **Q. What is the purpose of your Agreement Testimony?**

7 The purpose of my Agreement Testimony is to support the cost of capital including
8 the overall rate of return (“ROR”), capital structure, and return on equity (“ROE”)
9 included in the Joint Settlement Agreement (“Agreement”). The parties to the
10 Agreement include Summit Utilities Arkansas, Inc. (“SUA” or the “Company”); the
11 General Staff (“Staff”) of the Arkansas Public Service Commission (“Commission”);
12 the Office of the Arkansas Attorney General (“AG”); Arkansas Gas Consumers,
13 Inc. (“AGC”); and Hospitals and Higher Education Group (“HHEG”) (collectively,
14 the “Parties”). The Agreement has as its foundation Staff’s Surrebuttal
15 recommendations¹ and includes only those revisions specified in the Agreement.
16 The parties have reached agreement on all issues raised in Docket No. 23-079-U.
17 Therefore, my testimony addresses the terms of the Agreement regarding the cost
18 of capital for SUA.

19 **Q. Did you participate in Agreement negotiations among the parties?**

20 A. Yes.

¹ Docs.153-165.

1 **AGREEMENT COST OF CAPITAL**

2 **Q. What is the updated ROR included in the Agreement?**

3 A. The Agreement reflects an updated ROR² of 6.17% and weighted cost of debt
 4 (“WCD”) of 2.12%.³ The Parties stipulate that the cost of capital balances in the
 5 Agreement optimally balance the interests of ratepayers and investors.

6 **Q. What ROE has been utilized in the Agreement?**

7 A. The parties agree that a 9.85% ROE for SUA is reasonable in this proceeding. I
 8 have summarized the ROE model results of the parties in Table 2 below:

Table 1: ROE Summary

Position	ROE		Recommendation	Source
	Low	High		
SUA	10.08%	12.53%	11.00%	Doc. 137, pg. 2 of 36
AG	9.59%	10.24%	9.59%	Doc. 149, pg. 37
AGC	8.21%	10.93%	9.61%	Doc. 146, pg. 5
Staff	8.20%	10.52%	9.75%	Doc. 160, pgs. 5 - 6
Agreement	NA	NA	9.85%	Agreement Attachment

9 The Parties agree a 9.85% ROE is a reasonable cost of equity estimate for SUA.

10 **Q. Did the parties agree to utilize an imputed debt-to-equity ratio in the**
 11 **Agreement ROR based on the risk comparable proxy group used to**
 12 **determine the ROE?**

13 A. Yes. The parties agree to utilize an imputed debt-to-equity ratio of 54% debt
 14 (inclusive of 6.16% short-term debt) to 46% equity based on Staff’s risk

² Updated Cost of Service Study and Minimum Filing Requirements, Doc. 166, Part Number 4, Schedule E-1.2 Holdco, PDF pp. 7-10. For settlement purposes, the WACC balances were updated to the most recently available data in the record through June 30, 2024.

³ Agreement, Table 1, p. 4.

SUMMIT UTILITIES ARKANSAS, INC.
 DOCKET NO. 23-079-U
 AGREEMENT TESTIMONY OF MICHAEL MARCHAND

1 comparable proxy group used to determine the ROE for SUA for determining the
 2 proportions of external capital to be used in the Agreement ROR calculation. I
 3 have summarized the debt-to-equity positions in Table 2, below:

Table 2: Summary of Debt-to-Equity Ratios

Position	Proportions			Source
	Long Term Debt	Short Term Debt	Equity	
SUA	45.12%	0.00%	54.88%	Doc. 166, Part 3, .pdf pg. 2
AG	46.00%	8.00%	46.00%	Doc. 148, page 4
AGC	NA	NA	44.00%	Doc. 146, page 3
HHEG	51.82%	NA	48.18%	Doc. 147, page 4
Staff	48.84%	6.16%	45.00%	Doc. 160, page 6
Agreement	47.84%	6.16%	46.00%	Agreement

4 **Q. What factors did the parties consider in arriving at the Agreement debt-to-**
 5 **equity ratio?**

6 A. Staff’s concern was to ensure congruence between the approved debt-to-equity
 7 ratio and the approved ROE by deriving both from the risk comparable sample, as
 8 discussed in Staff’s testimony.⁴ The debt-to-equity ratio utilized in the Agreement
 9 ROR starts with Staff’s recommended debt-to-equity ratio and makes an upward
 10 adjustment to the equity proportion of one percent (with a commensurate
 11 adjustment to debt). In addition to addressing concerns voiced by Company
 12 witness Root, the Agreement equity ratio acknowledges the trend of increasing
 13 equity ratios in the proxy group from the third quarter of 2023 to the first quarter of
 14 2024 as illustrated in Staff’s Direct Exhibit DD – 7.⁵ The Agreement debt-to-equity

⁴ See Direct Testimony of Staff Witness Dan Daves, CRRA, Doc. 108, pp. 30-32.

⁵ See Direct Exhibits of Staff Witness Dan Daves, CRRA, Direct Exhibit DD – 7, Doc. 109, p. 8. The average equity proportion for the proxy group has increased the last three quarters (viz., 44.46% for Q3 2023, 45.35% for Q4 2024, and 45.60% for Q1 2024).

DOCKET NO. 23-079-U

AGREEMENT TESTIMONY OF MICHAEL MARCHAND

1 ratio (1) preserves congruence between the debt-to-equity ratio and ROE in that
2 both are derived from the risk comparable sample and (2) provides a possible
3 perceived credit supportive acknowledgement in the Agreement.

4 **Q. Were any changes made to capital component balances as the result of new**
5 **or updated information provided by the Company during settlement**
6 **discussions?**

7 A. Yes. The capital component balances in the Agreement ROR are based on
8 balances as of June 30, 2024.⁶ These balances were filed in the Company's
9 Updated Cost of Service Study on September 20, 2024.⁷

10 **Q. Other than ROE, were any changes made to the cost rates applied to the**
11 **updated capital balances in arriving at the Agreement ROR?**

12 A. No.

13 **Q. By making these adjustments to the capital component balances and cost**
14 **rates, what is the overall ROR adopted by the parties for use in setting the**
15 **revenue requirement in this docket?**

16 A. The overall ROR is 6.17% after-tax and 7.51% pre-tax. The resulting weighted
17 cost of debt is 2.12%. The adjusted Weighted Cost of Capital is presented on page
18 4 of the Agreement as Table 1.

19 **Q. Please summarize your recommendation.**

20 A. The Agreement is based on the recommendations set forth in Staff's Surrebuttal
21 Testimony, as adjusted for each of the additional items described herein. The

⁶ Agreement, p. 4.

⁷ Updated Cost of Service Study, Doc. 166.

SUMMIT UTILITIES ARKANSAS, INC.

DOCKET NO. 23-079-U

AGREEMENT TESTIMONY OF MICHAEL MARCHAND

- 1 Agreement satisfactorily resolves all issues between the Parties. I support the
- 2 Agreement as reasonable and in the public interest and therefore, recommend that
- 3 the Commission approve the Agreement without modification.
- 4 **Q. Does this conclude your Agreement Testimony?**
- 5 A. Yes, it does.

CERTIFICATE OF SERVICE

I, Joshua A. Baxter, hereby certify that a copy of the foregoing has been served on all parties of record via the Arkansas Public Service Commission's Electronic Filing System on October 7, 2024.

By: **/s/ JOSHUA A. BAXTER**
Joshua A. Baxter

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF)
SUMMIT UTILITIES ARKANSAS, INC.)
FOR A GENERAL CHANGE OR) DOCKET NO. 23-079-U
MODIFICATION IN ITS RATES, CHARGES)
AND TARIFFS)

AGREEMENT TESTIMONY

OF

JEFF HILTON
DIRECTOR
GAS AND WATER UTILITIES SECTION

ON BEHALF OF THE GENERAL STAFF OF THE
ARKANSAS PUBLIC SERVICE COMMISSION

OCTOBER 7, 2024

SUMMIT UTILITIES ARKANSAS, INC.
DOCKET NO. 23-079-U
AGREEMENT TESTIMONY OF JEFF HILTON

1 **INTRODUCTION**

2 **Q. Please state your name and business address?**

3 A. My name is Jeff Hilton. My business address is Arkansas Public Service
4 Commission , 1000 Center Street, Little Rock, Arkansas 72201.

5 **Q. Are you the same Jeff Hilton who filed Direct and Surrebuttal Testimony and**
6 **Exhibits on behalf of the General Staff of the Arkansas Public Service**
7 **Commission in this Docket on July 10, 2024, and September 9, 2024?**

8 A. Yes.

9 **Q. What was your role in this case?**

10 A. I am the Director of the Gas and Water section and served as the Project Manager
11 for this docket.

12 **PURPOSE OF TESTIMONY**

13 **Q. What is the purpose of your testimony in this proceeding?**

14 A. The purpose of my testimony is to support the Joint Motion to Approve Settlement
15 Agreement (“Motion”) and the Joint Settlement Agreement (“Agreement”).
16 Pursuant to the Agreement filed by Summit Utilities Arkansas, Inc. (“SUA” or the
17 “Company”); the General Staff (“Staff”) of the Arkansas Public Service Commission
18 (“Commission”); the Office of the Arkansas Attorney General (“AG”); Arkansas Gas
19 Consumers, Inc. (“AGC”); and Hospitals and Higher Education Group (“HHEG”)
20 (collectively, the “Parties”) on October 7, 2024. The Parties have reached
21 agreement on all matters arising under SUA’s filing at issue in Docket No. 23-074-
22 U. My testimony supports as reasonable the adjustments made to Staff’s

DOCKET NO. 23-079-U

AGREEMENT TESTIMONY OF JEFF HILTON

1 Surrebuttal Rate Schedule Revenue Requirement, as discussed in Section II of
2 the Agreement; Cost Allocation and Rate Design Issues, as discussed in Section
3 III of the Agreement; and Riders and Tariffs Issues, as discussed in Section IV of
4 the Agreement. Staff witness Michael Marchand will discuss the Weighted Cost
5 of Capital in his Agreement Testimony.

6 **AGREEMENT**

7 **Overview Of Staff's Revisions**

8 **Q. What is Staff's basis for the revisions made to its Surrebuttal Testimony, as**
9 **reflected in the Agreement?**

10 A. The modifications to Staff's Surrebuttal filings are based on the correction of errors,
11 updated data and additional information, and acceptance of Rider and Tariff
12 recommendations addressed by the Parties.

13 **Agreement Section II. Revenue Requirement**

14 **Q. What level of increase is included in the Agreement?**

15 A. The agreed-upon Revenue Requirement is \$267,103,345, and the Rate Schedule
16 Revenue Requirement is \$261,422,002, as shown in Agreement Attachment No.
17 1. This figure is based on a revenue deficiency of \$87,684,216, excluding expiring
18 rider revenue. This amount was determined by making certain adjustments,
19 totaling \$11,482,297, to Staff's Surrebuttal Rate Schedule Revenue Requirement
20 recommendation of \$249,939,704, based on updated data, additional information,
21 or the correction of an error.¹

¹ Surrebuttal Exhibits of Staff Witness Jeff Hilton, Surrebuttal Exhibit JH-1, Doc. 154, line 11.

1 **Q. What rate base adjustments were made to Staff's Surrebuttal case in the**
2 **Agreement?**

3 A. As discussed in Section II.C.a. of the Agreement, the Parties agree to update
4 Working Capital Assets ("WCA") to 13-month ending balances through June 30,
5 2024, consistent with the update to Current, Accrued, and Other Liabilities
6 ("CAOL"). The revised WCA is \$76,751,149, which is a reduction of Staff's
7 Surrebuttal WCA of \$86,028,019.² However, this reduction is largely offset by
8 removing the interest income reclassification amount of \$613,249.

9 **Q. Were there any changes in Staff's Total Revenues?**

10 A. Yes. As reflected in Section II.C.b. and noted above, the interest income of
11 \$613,249 was eliminated as being duplicative of Staff's WCA adjustment.

12 **Q. What expense adjustments were made to Staff's Surrebuttal case in the**
13 **Agreement?**

14 A. As discussed Section II.C.c. of the Agreement, the Parties agree to update SUA's
15 rate case expense to the actual total amount through September 2024 of
16 \$581,788, a reduction from Staff's Surrebuttal recommendation, and to normalize
17 the total expense over 4 years, rather than my 5-year recommendation in my
18 Surrebuttal Testimony.³ The net increase in SUA's expense is \$2,581.

19 As discussed in Section II.C.d. of the Agreement, the Parties agree to
20 increase Payroll and Benefits associated with overtime pay. Staff witness
21 Middleton Ray recommended basing his overtime pay reduction on a 5-year

² Surrebuttal Exhibits of Staff Witness Jeff Hilton, Surrebuttal Exhibit JH-2, Doc. 154, line 5.

³ Surrebuttal Testimony of Staff Witness Jeff Hilton, Doc. 153.

1 average of overtime hours,⁴ which included 3 years of CenterPoint data, whereas
2 the Company proposed using only the SUA data which it asserts is more reflective
3 of SUA's operational practices.⁵ The resulting increase in SUA's payroll expense
4 is \$1,004,319, and the increase to benefits expense is \$174,617.

5 As discussed in Section II.C.e. of the Agreement, the Parties agree to revise
6 the amortization period of total COVID expense to 4-years, from my 5-year
7 recommendation in my Surrebuttal Testimony, the same as rate case expense.
8 The net increase in SUA's expense is \$316,957.

9 As discussed in Section II.C.f. of the Agreement, the Settling Parties agree
10 to increase depreciation expense by \$888,014 based on SUA's Sur-Surrebuttal
11 Testimony, which clarifies the Company's accounting for transportation
12 depreciation expense.⁶ In the Company's Sur-Surrebuttal Testimony, the
13 Company did accept Staff witness Claude Robertson's recommended depreciation
14 rates reflected in his Surrebuttal Exhibits CR-1 and CR-2.⁷

15 As discussed in Section II.C.g. of the Agreement, the Parties agree to
16 increase annual Vegetation Control Expense (IS-24) by \$136,877 to reflect
17 updated data, and the average based on 3 years was modified to 33 months to
18 reflect the available data.

19 As discussed in Section II.C.h. of the Agreement, the Parties agree to
20 increase income tax expense by recovering the cost of removal excess deferred

⁴ Surrebuttal Testimony of Staff Witness Middleton Ray, Doc. 156, pp. 3-4.

⁵ Sur-Surrebuttal Testimony of Company Witness Phillip B. Gillam, Doc. 168, pp. 13-14.

⁶ Sur-Surrebuttal Testimony of Company Witness Phillip B. Gillam, Doc. 168, pp. 23-24.

⁷ Sur-Surrebuttal Testimony of Company Witness Phillip B. Gillam, Doc. 168, pp. 22.

DOCKET NO. 23-079-U

AGREEMENT TESTIMONY OF JEFF HILTON

1 income tax asset (“DTA”) over approximately 13 years, rather than the 46 years
2 proposed by Staff. Staff’s recommendation reflected the same number of years
3 over which the protected excess deferred income tax (“EDIT”) is being returned to
4 ratepayers using the average rate assumption method (“ARAM”). However, the
5 cost of removal DTA is deemed to not be protected, thus allowing the additional
6 collection from ratepayers to be recovered over any length of time. The Company
7 proposed to use a term for the DTA that will offset the refund of the protected EDIT
8 until the DTA is fully recovered. As a result, this change offsets the excess EDIT
9 refund for the next 13 years, increasing income tax expense by \$1,475,976 from
10 Staff’s Surrebuttal amount.

11 **Q. What adjustments were made to Staff’s Surrebuttal zero cost liabilities in the**
12 **Agreement?**

13 A. As discussed in Section II.C.k. of the Agreement, CAOL reflects SUA’s Sur-
14 Surrebuttal amount. The Company’s level included updates through June 30,
15 2024, consistent with the updates to WCA. It also recognizes a correction of
16 dividends payable based on Southern Col Holdco, LLC (“SCHC”), rather than on
17 Summit Utilities, Inc., resulting in a decrease of \$6.9M. The remaining difference
18 is due primarily to the exclusion of a debit balance in total Miscellaneous Current
19 Liabilities of \$38.5M, lease liability of \$12.2M, and Accounts Payable to Associated
20 Companies of \$10.7M, based on the Sur-Surrebuttal discussion of these issues by
21 the Company and for purposes of Settlement. CAOL was decreased by

SUMMIT UTILITIES ARKANSAS, INC.
DOCKET NO. 23-079-U
AGREEMENT TESTIMONY OF JEFF HILTON

1 \$59,921,139, from Staff's Surrebuttal amount of \$154,497,558⁸ to \$94,576,419.

2 No change was made to Accumulated Deferred Income Taxes ("ADIT") of
3 \$0 or the Excess Deferred Income Taxes ("EDIT") of \$65,217,129.

4 **Q. Were depreciation rates modified in the Agreement?**

5 A. No. As discussed in Section II.D. of the Agreement and noted above, SUA had
6 accepted the depreciation rates and parameters recommended in the Surrebuttal
7 Testimony of Claude Robertson, as shown in his Surrebuttal Exhibits CR-1 and
8 CR-2.⁹

9 **Agreement Section III. Cost Allocation and Rate Design**

10 **Q. Did the Parties use Staff's Surrebuttal Cost of Service Study ("COSS") as the**
11 **basis for determining the revenue requirement for each rate class?**

12 A. Yes. As reflected in Agreement Section III.A., SUA's Total Rate Schedule Revenue
13 Requirement of \$261,422,002, as shown in Agreement Attachment No. 1, shall be
14 allocated to the rate classes using Staff's COSS as set forth in the Surrebuttal
15 Testimony of Staff witness Mark Burdette,¹⁰ with the following modification: the
16 Parties agree to accept the Design Day Demands as set forth in the Direct
17 Testimony and workpapers of HHEG witness Dr. Larry Blank.¹¹

18 **Q. Did the Parties embrace the rate mitigation guidelines as described in the**
19 **Surrebuttal Testimony of Staff witness Robert Swaim¹²?**

20 A. Yes. As described in Agreement Section III.A., the Parties embraced the guidelines

⁸ Surrebuttal Testimony of Staff Witness Don Malone, Doc. 155, p. 13, lines 615.

⁹ Surrebuttal Exhibits of Staff Witness Claude Robertson, CDP, Doc. 159, pp. 2-3.

¹⁰ Surrebuttal Testimony of Staff Witness Mark Burdette, Doc. 162.

¹¹ Direct Testimony and Exhibits of HHEG Witness Dr. Larry Blank, Doc. 103.

¹² Surrebuttal Testimony of Staff Witness Robert H. Swaim, CEM, Doc. 161.

1 as set forth in the Surrebuttal Testimony of Staff witness Robert Swaim. During
2 settlement discussions, the Parties agree to assign the revenue surplus
3 attributable to the classes that are limited to having no decrease in current
4 revenues, to those rate classes having an increase greater than the system
5 average in proportion to each class's pre-mitigation revenue deficiency.

6 **Q. Did the Parties agree that rates should be designed consistent with the**
7 **guidelines discussed in the Surrebuttal Testimony of Staff witness Robert H.**
8 **Swaim?**

9 A. Yes. In Agreement Section III.A., the Parties agree that rates should be designed
10 consistent with the guidelines discussed in Staff witness Swaim's Surrebuttal
11 Testimony. Staff witness Swaim recommended that the compliance rates with
12 increases in the customer and volumetric charges for each rate class should be
13 similar in magnitude to the percentage increase for each rate class. The
14 Agreement, in Section III.B., reflects this principle by increasing the monthly
15 customer charge for the Residential rate class by \$6.51, from \$11.00 to \$17.51,
16 mirroring the Residential class's revenue requirement (as mitigated) increase of
17 59.225%.

18 **Agreement Section IV. Riders and Tariffs**

19 **Q. Did the Agreement resolve the issues related to the System Safety**
20 **Enhancement Rider ("SSER")?**

21 A. Yes. In Section IV.A. of the Agreement, the Parties agree to recommend
22 Commission approval of the SSER as filed in the Company's Application with
23 certain modifications.

SUMMIT UTILITIES ARKANSAS, INC.
DOCKET NO. 23-079-U
AGREEMENT TESTIMONY OF JEFF HILTON

1 Consistent with the currently approved tariff and recommendation of the
2 Parties, the Company will exclude reliability projects and Operations &
3 Maintenance (“O&M”) Expense. This will serve to limit annual recovery, while
4 incentivizing safety-related expenditures.

5 Consistent with the currently approved tariff, cumulative savings in O&M
6 expenses associated with the plant investment will be recognized as a reduction
7 to the revenue requirement. The amount in the current tariff will be inflation-
8 adjusted to \$139,378 annually.

9 In addition, the tariff will also reduce its revenue requirement for any GPIS
10 additions and related depreciation and property tax expenses consistent with those
11 incentive compensation amounts which were disallowed in the instant rate case.
12 Specifically, no long-term incentive compensation and 50% of short-term incentive
13 compensation should be excluded.¹³

14 The tariff will also discontinue the monthly SSER filings upon the
15 implementation of base rates as a result of this rate case until its plant additions
16 exceed the total *pro forma* additions in rate base, as well as each functional
17 category included in rate base. Including this language in the Agreement
18 reinforces the concept of not allowing overlapping recovery of plant additions.

19 The tariff will be modified to remove language regarding future requirements
20 of the PHMSA or the Arkansas Gas Pipeline Code.

21 The tariff will only include investments associated with Act 310 of 1981

¹³ Direct Testimony of Staff Witness Middleton Ray, Doc. No. 99, p.5.

1 which were previously approved by the Commission. This additional language will
2 serve to limit disputes regarding which projects will qualify for recovery through the
3 SSER.

4 The tariff will be modified to restore language regarding the timing of filing
5 and effective date and that any disputed amount will not go into effect until the
6 issue is resolved.

7 The tariff will continue to identify the program, rule, or regulation requiring
8 the investment for qualifying projects under Parts 2.1.1 and 2.1.2 of the SSER.

9 The tariff will require SUA to file an annual SSER report by March 31 of
10 each year, beginning in 2025.

11 While these refinements to the tariff do not include all of my Surrebuttal
12 recommendations, they do provide ratepayer benefit. In addition, the SSER's
13 scope will be limited in that it will not include reliability projects or operations and
14 maintenance expense and will only recover plant investments after they have been
15 closed to plant and are in service. It does provide for related depreciation expense
16 and property tax when paid, not at the time when the capital investment was closed
17 to plant. The SSER revenue requirement also excludes incentive compensation
18 and is reduced by a level of O&M savings.

19 **Q. Did the Agreement specify any other tariff modifications?**

20 A. Yes. In Section IV.B. of the Agreement, the Parties agree to update the Billing
21 Determinant Rate Adjustment Rider ("BDA") and Weather Normalization
22 Adjustment ("WNA") to reflect the Degree Day Factors ("DDF") recommended by
23 Staff witness Robert H. Swaim in his Surrebuttal Testimony.

1 **Q. What other tariff changes were included in the Agreement?**

2 A. In Section IV.A., the Parties agree to accept all riders and tariffs presented by SUA
3 in its Application filed on January 25, 2024, with certain exceptions, as discussed
4 above.

5 **Q. What other tariff changes were requested in the Company's Application and**
6 **accepted in Section IV.A. of the Agreement?**

7 A. Other than rate changes and minor edits, the BDA was requested, as modified
8 above. Also, addition of Exemption Schedule No. 8, Estimated Usage of Billing;
9 modification of Rate Schedule No. 3 and 3A, Large Commercial Firm Service
10 (LCS-1), pooling service and agency agreement notice requirements; modification
11 of Rate Schedule No. 2 Small Commercial Firm Sales Service (SCS-1), and Rate
12 Schedule No. 3 and 3A, Large Commercial Firm Service (LCS-1) telemetry
13 service, were requested and discussed by Company witness Fred Kirkwood.

14 I have no objections to the inclusion of Section IV of the Agreement;
15 however, I assert that the review of the filed compliance tariffs is needed before
16 considering the tariff language final.

17 **OTHER**

18 **Q. Are there any other issues that you would like to discuss?**

19 A. Yes. SUA requested in its Application to discontinue the filing of future Payment
20 Center Reports. In my Direct Testimony, I agreed but recommended that SUA
21 ensure that its website is clear as to whether a payment center is free or not and
22 that SUA should continue to maintain the supporting data for the report for any

1 future requests. SUA witness Kirkwood agreed in his Rebuttal Testimony.¹⁴

2 **CONCLUSION**

3 **Q. What is your recommendation regarding the Settlement Agreement?**

4 A. The Agreement is based on the recommendations set forth in Staff's Surrebuttal
5 Testimonies, with certain modifications, such as the use of Staff's class cost of
6 service study modified to reflect HHEG's Design Day Demands as the basis for
7 allocating costs to the classes and the use of Staff's methodology for smoothing
8 differences among the classes and lessening customer impact. The SSER is
9 largely consistent with the currently approved tariff, with certain agreed upon
10 modifications, as detailed above. Lastly, my Agreement Testimony discusses the
11 adjustments made to Staff's Rate Schedule Revenue Requirement based upon
12 updates, additional information, or the correction of errors. For these reasons, I
13 recommend the Commission approve the Parties' Agreement as in the public
14 interest.

15 **Q. Does this conclude your Agreement Testimony?**

16 A. Yes, it does.

¹⁴ Rebuttal Testimony of Company Witness Fred Kirkwood, Doc. 130.

CERTIFICATE OF SERVICE

I, Joshua A. Baxter, hereby certify that a copy of the foregoing has been served on all parties of record on October 7, 2024, via the Arkansas Public Service Commission's Electronic Filing System.

By: /s/ JOSHUA A. BAXTER
Joshua A. Baxter

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF)
SUMMIT UTILITIES ARKANSAS, INC. FOR A)
GENERAL CHANGE OR MODIFICATION IN)
ITS RATES, CHARGES AND TARIFFS)

DOCKET NO. 23-079-U

SETTLEMENT TESTIMONY
OF
PHILLIP B. GILLAM
DIRECTOR OF RATES & REGULATORY AFFAIRS
ON BEHALF OF
SUMMIT UTILITIES ARKANSAS, INC.

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Phillip B. Gillam, and I am Director, Rates and Regulatory Affairs. I am testifying on behalf of Summit Utilities Arkansas, Inc. (“SUA,” or the “Company”). My business address is 1400 Centerview Drive, Suite 100, Little Rock, Arkansas 72211.

Q. ARE YOU THE SAME PHILLIP B. GILLAM WHO FILED DIRECT TESTIMONY ON JANUARY 25, 2024, REBUTTAL TESTIMONY ON AUGUST 7, 2024, AND SUR-SURREBUTTAL TESTIMONY ON SEPTEMBER 20, 2024, IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am providing Settlement Testimony in support of the Joint Settlement Agreement (“Agreement”) reached in this docket among SUA, the General Staff (“Staff”) of the Arkansas Public Service Commission (“Commission”), the Office of Attorney General (“AG”), Arkansas Gas Consumers, Inc. (“AGC”), and Hospitals and Higher Education Group (“HHEG”), collectively the “Settling Parties.”

Q. PLEASE PROVIDE A BRIEF SUMMARY OF THE COMPANY’S POSITION LEADING UP TO THE FILING OF THE AGREEMENT.

A. On January 25, 2024, the Company filed its Application, Minimum Filing Requirement (“MFR”) schedules and supporting testimony and exhibits proposing a general rate increase based on an incremental revenue deficiency of \$104,679,427. The Company also proposed, *inter alia*, certain modifications to its System Safety Enhancement Rider

1 (“SSER”) and proposed implementation of a Billing Determinant Adjustment (“BDA”)
2 Rider.

3 As noted in the Application, the primary factor driving the need for this rate filing
4 was the level of capital investment in the system and the resulting increase in depreciation
5 expense, “interim rates” that understated SUA’s revenue requirement at the time they were
6 put into effect, weighted average cost of capital (“WACC”) and its proposed capital
7 structure, and income taxes. This increase is largely attributable to the Company’s aging
8 infrastructure, as well as increasingly more stringent natural gas pipeline safety and
9 integrity regulations. The Company’s filing sought the opportunity to earn a fair return on
10 equity (“ROE”) of 11.0% and demonstrated a revenue deficiency of approximately
11 \$104,679,427 for a total non-gas rate schedule revenue requirement of \$286,660,736. The
12 Company utilized a test year ended December 2023, which was composed of six months
13 of actual data, and six months of forecasted data, as permitted under Ark. Code Ann. § 23-
14 4-406 and adjusted for known and measurable changes for the pro forma year ended
15 December 2024.

16 After its review of the direct cases filed on July 10, 2024 by Staff, the AG, AGC,
17 and HHEG, and based on updated information, the Company modified its original request.
18 More specifically, SUA’s rebuttal testimony showed a revenue deficiency of
19 approximately \$101,194,113, for a revised total non-gas rate schedule revenue requirement
20 of \$289,834,695. This revised revenue requirement maintained the Company’s originally
21 requested ROE of 11.0%.

1 **Q. DID THE COMPANY’S CASE CHANGE THROUGHOUT THIS PROCEEDING?**

2 A. Yes. While the reasons for the Company’s rate case filing remained unchanged, based on
3 consideration of the positions taken by the other parties in their testimony, SUA
4 conditionally accepted certain positions proposed by the parties as an attempt to further
5 narrow the issues and afford the opportunity to reach a consensus agreement among the
6 parties. SUA’s sur-surrebuttal testimony continued to support an ROE of 11.0% with a
7 revised revenue deficiency of \$99,096,462 and a total non-gas rate schedule revenue
8 requirement of \$287,737,044. As described in the footnote to MFR Schedule A-1, the
9 Company continued to seek the lesser of the original Total non-gas revenue requirement
10 of 286,660,736.

11 **Q. PLEASE DESCRIBE THE PROCESS LEADING TO THE NEGOTIATION OF**
12 **THE AGREEMENT.**

13 A. Between September 26 and October 4, 2024, the Settling Parties met to discuss a possible
14 settlement in this docket. The parties communicated during those meetings concerning
15 their respective positions, concerns, and the potential resolution of each party’s issues. At
16 those discussions, each party had the opportunity to present and discuss its position on any
17 issue. The discussions were held in good faith and resulted in the Agreement among the
18 Settling Parties that is being presented to the Commission for approval.

19 **II. SUMMARY OF MAJOR PROVISIONS OF THE AGREEMENT**

20 **Q. PLEASE DESCRIBE THE MAJOR PROVISIONS OF THE AGREEMENT.**

21 A. In the Agreement, the Settling Parties agree to:

22 1. Accept a revenue deficiency of \$87,684,216 for a total non-gas rate schedule
23 revenue requirement of \$261,422,002. This deficiency and revenue requirement

1 were derived by adjusting Staff's surrebuttal testimony as discussed in further detail
2 below;

- 3 2. Accept, for purposes of settlement, the recommended Rate Schedule Revenue
4 Requirements set forth on line 47 of the Settlement Class Cost of Service ("COS")
5 Summary ("Summary"), attached to the Joint Settlement Agreement as Agreement
6 Attachment No. 1, for designing compliance rates in this case. This is based on the
7 COS allocation as recommended by Staff witness Mark Burdette with the following
8 modification: the Settling Parties agree to accept the Design Day Demands as set
9 forth in the Direct Testimony of HHEG witness Dr. Larry Blank;
- 10 3. Adjust Staff's Surrebuttal case resulting in a total increase in the Rate Schedule
11 Revenue Requirement of \$11,482,298 from Staff's Surrebuttal case, resulting in a
12 Residential customer charge of \$17.51 per month;
- 13 4. Fix the total Debt-to-Equity (DTE) Ratio for use in the external capital structure at
14 54%/46% with a short-term debt proportion of 6.16%;
- 15 5. Update the common equity cost rate to 9.85%; and
- 16 6. Accept all riders and tariffs presented by the Company except for a) certain
17 modifications to the SSER Rider as shown in Agreement Attachment 3; and b) the
18 use of Staff's billing determinants in the BDA and WNA Riders.

19 **Q. HOW DID THE SETTLING PARTIES ARRIVE AT THE REVENUE**
20 **DEFICIENCY, COST ALLOCATION, AND RATES CONTAINED IN THE**
21 **AGREEMENT AND IN THE ATTACHMENTS TO THE AGREEMENT?**

1 A. The Settling Parties arrived at the Agreement revenue deficiency, cost allocation and rates
2 by making several adjustments to Staff's surrebuttal revenue deficiency of approximately
3 \$76.2 million, as indicated below and as further discussed in the Agreement:

4 a. Decrease the Working Capital Asset portion of rate base by \$9,276,870 based on
5 the use of updated 13-month average balances through June 30, 2024, which reflect
6 a cash balance of \$471,736 and a temporary cash investment balance of \$0.

7 b. Decrease Interest Income by \$613,249 to align with the removal of the cash and
8 temporary cash investments.

9 c. Agree to \$581,788 in Rate Case Expenses amortized over a period of 4 years, which
10 results in an increase of \$2,581.

11 d. Increase Payroll Expense related to Overtime Expenses by \$1,004,319 with a
12 corresponding increase to the Benefits Adjustment of \$174,617.

13 e. Increase the Covid-19 Expense by \$316,957 to reflect an amortization period of 4
14 years.

15 f. Increase Depreciation Expense due to reversal of Staff's Transportation
16 Depreciation Expense adjustment by \$888,014.

17 g. Increase Vegetation Control expenses by \$136,877.

18 h. Increase Income tax expense by the net amount of \$523,114 to reflect SUA's Sur-
19 Surrebuttal treatment of the unprotected excess deferred income tax asset related to
20 Cost of Removal and the income tax effect of the settlement adjustments.

21 **Q. DOES THE AGREEMENT RESOLVE ALL OF THE ISSUES RAISED IN THIS**
22 **DOCKET?**

23 A. Yes, the Settling Parties have agreed to all issues.

1 **Q. WHAT IS THE RESIDENTIAL CUSTOMER RATE IMPACT OF THE**
2 **SETTLEMENT AGREEMENT?**

3 A. Please see Agreement Attachment No. 2 for the residential customer rate impact.

4 **Q. ARE THE CHANGES INCLUDED IN THE AGREEMENT RELATED TO THE**
5 **COMPANY'S SYSTEM SAFETY ENHANCEMENT RIDER REASONABLE?**

6 A. Yes, they are.

7 **Q. IS THE AGREEMENT A REASONABLE COMPROMISE AND IN THE PUBLIC**
8 **INTEREST?**

9 A. Yes. As with any compromise, the end product does not contain all of the elements sought
10 by any of the Settling Parties. SUA's initial filing was extensively reviewed by the parties,
11 and the Company has had the opportunity to review their positions and present opposing
12 testimony. Every party had the opportunity to fully present its positions on the issues in
13 this docket. In the end, the Settling Parties were able to find common ground and work
14 collaboratively to reach the Agreement, which is a reasonable compromise that is in the
15 public interest. For all of these reasons, the Commission should approve the Agreement
16 without modification.

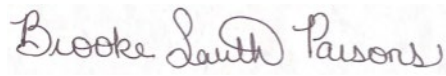
17 **III. CONCLUSION**

18 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

19 A. Yes.

CERTIFICATE OF SERVICE

I, Brooke South Parsons, do hereby certify that a true and correct copy of the foregoing has been delivered to all Parties of Record by electronic mail via the Electronic Filing System this 7th day of October 2024.



Brooke South Parsons

**BEFORE THE ARKANSAS
PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF THE APPLICATION OF)
SUMMIT UTILITIES ARKANSAS, INC. FOR A) DOCKET NO. 23-079-U
GENERAL CHANGE OR MODIFICATION IN)
ITS RATES, CHARGES AND TARIFFS)**

**SETTLEMENT TESTIMONY
OF
CLAY LAYSON**

ON BEHALF OF

**THE OFFICE OF ARKANSAS ATTORNEY GENERAL
TIM GRIFFIN**

October 7, 2024

SUMMIT UTILITIES ARKANSAS, INC.

DOCKET NO. 23-079-U

SETTLEMENT TESTIMONY OF CLAY LAYSON

1 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

2 A. My name is Clay Layson. I am a Senior Assistant Attorney General in the Office
3 of Attorney General Tim Griffin (“Attorney General”). My business address is 323
4 Center Street, Suite 200, Little Rock, Arkansas 72201.

5 **Q. PLEASE DESCRIBE YOUR BACKGROUND AND QUALIFICATIONS.**

6 A. I have been a member of the Attorney General’s Consumer Utilities Rate Advocacy
7 Division (“CURAD”) since September 2020 and have led CURAD since 2022. I
8 previously worked as a Compliance Enforcement Attorney for Southwest Power
9 Pool, as both an assistant division director and attorney for the Arkansas
10 Department of Human Services, and as an attorney in private practice. I have
11 served on the Executive Committee of the National Association of State Utility
12 Consumer Advocates (“NASUCA”) since March 2023. I hold a Bachelor of
13 Science in Industrial Engineering from the University of Arkansas and a Juris
14 Doctor from the University of Arkansas at Little Rock.

15 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARKANSAS
16 PUBLIC SERVICE COMMISSION (“APSC”)?**

17 A. Yes. I have provided testimony in support of settlement agreements in APSC
18 Docket Nos. 16-036-FR, 18-046-FR, 20-063-TF, 21-097-U, and 23-074-U.

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

20 A. I am testifying on behalf of the Attorney General. I will present the Attorney
21 General’s recommendations regarding the Settlement Agreement (“Agreement”)
22 negotiated in this proceeding among Summit Utilities Arkansas, Inc. (“SUA” or

SUMMIT UTILITIES ARKANSAS, INC.
DOCKET NO. 23-079-U
SETTLEMENT TESTIMONY OF CLAY LAYSON

1 “Company”), APSC General Staff, Arkansas Gas Consumers, Inc., Hospitals and
2 Higher Education Group, and the Attorney General (collectively the “Parties”) and
3 filed on October 7, 2024.

4 **Q. WHAT IS THE ROLE OF THE ATTORNEY GENERAL IN THIS**
5 **PROCEEDING?**

6 A. The Attorney General, through CURAD, is charged by statute with representing the
7 interests of Arkansas ratepayers in utility-related matters¹ and advocating for the
8 holding of utility rates to the lowest reasonable level.²

9 **Q. PLEASE SUMMARIZE THE ATTORNEY GENERAL’S OVERALL**
10 **RECOMMENDATION REGARDING THE AGREEMENT.**

11 A. The Attorney General supports the Agreement and considers it to be in the public
12 interest. The Agreement represents a reasonable compromise and satisfactorily
13 addresses the concerns raised by the Attorney General in this proceeding. On that
14 basis, the Attorney General recommends that the Commission approve the
15 Agreement.

16 **Q. PLEASE PROVIDE SOME BACKGROUND REGARDING THE**
17 **AGREEMENT.**

18 A. After SUA filed its application requesting a rate increase in this docket on January
19 25, 2024 (“Application”), the Parties filed multiple rounds of testimony through
20 which each Party developed its positions regarding various issues and responded to

¹ Ark. Code Ann. §§ 23-4-301 *et seq.*

² Ark. Code Ann. § 23-4-305(3).

1 the positions of others. The Parties engaged in extensive discussion and negotiation
2 regarding the Application and the related issues. The Parties have reached a
3 negotiated settlement agreement that resolves all such issues.

4 **Q. ARE YOU FAMILIAR WITH THE TERMS OF THE AGREEMENT?**

5 A. Yes. I actively participated in this proceeding and have carefully reviewed the
6 Agreement.

7 **Q. IS THE AGREEMENT IN THE PUBLIC INTEREST?**

8 A. Yes. While the Parties have all advocated varying positions, all are willing to
9 accept the Agreement as a compromise. The Agreement is within the range of
10 reasonable litigation outcomes of the various positions advocated by the Parties and
11 represents a reasonable result that is in the public interest.

12 **Q. PLEASE SUMMARIZE THE REASONS THAT THE ATTORNEY**
13 **GENERAL BELIEVES THAT THE AGREEMENT IS IN THE PUBLIC**
14 **INTEREST.**

15 A. The Agreement, if approved by the Commission, will result in a significantly
16 reduced rate increase for SUA compared to what SUA originally requested. The
17 Agreement further addresses specific issues raised by the Attorney General in the
18 following ways:

19 1. The Agreement provides that SUA's System Safety Enhancement Rider
20 ("SSER") will not include "Reliability Improvement Projects" as proposed
21 in SUA's Application. The expert testimony filed by the Attorney General

SUMMIT UTILITIES ARKANSAS, INC.

DOCKET NO. 23-079-U

SETTLEMENT TESTIMONY OF CLAY LAYSON

1 in this proceeding strongly opposed the recovery of such costs through the
2 SSER.

3 2. The Agreement provides that the language of the SSER tariff will be
4 modified to state that SUA is to file its SSER adjustment on the first day of
5 the month with updated rates to go into effect at the beginning of the
6 following month. Further, the tariff is to state that any party may dispute
7 any portion of the SSER adjustment by filing an objection. Any disputed
8 amount will not go into effect until the dispute is resolved.

9 3. The Agreement sets SUA's return on equity at 9.85% which is substantially
10 lower than the 11.00% requested in SUA's Application.

11 4. Regarding capital structure, the Agreement accepts the Attorney General's
12 recommendation of 54% debt and 46% equity for purposes of calculating
13 SUA's authorized rate of return. SUA's Application requested a
14 hypothetical capital structure consisting of 44.4% debt and 55.6% equity.

15 5. The Agreement significantly reduces SUA's requested level of incentive
16 compensation costs to be included in rates.

17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

18 A. Yes.

SUMMIT UTILITIES ARKANSAS, INC.

DOCKET NO. 23-079-U

SETTLEMENT TESTIMONY OF CLAY LAYSON

CERTIFICATE OF SERVICE

I certify that on this 7th day of October, 2024, I filed a copy of the foregoing utilizing the Commission's Electronic Filing System, which caused a copy to be served upon all parties of record via electronic mail.

/s/ Dawn Kelliher

Dawn Kelliher

**BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF THE APPLICATION OF)
SUMMIT UTILITIES ARKANSAS, INC., FOR A)
GENERAL CHANGE OR MODIFICATION IN) Docket No. 23-079-U
ITS RATES, CHARGES AND TARIFFS)**

**TESTIMONY
IN SUPPORT OF SETTLEMENT**

OF

LARRY BLANK

ON BEHALF OF THE

HOSPITALS AND HIGHER EDUCATION GROUP

October 7, 2024

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

2 A. My name is Larry Blank and my business address is 6061 Montgomery Road, Midlothian,
3 TX 76065. My email address is LB@tahoeeconomics.com.

4 **Q. ARE YOU THE SAME LARRY BLANK WHO FILED WRITTEN TESTIMONY**
5 **IN THIS DOCKET?**

6 A. Yes.
7

8 **Q. PLEASE STATE THE PURPOSE OF THIS TESTIMONY.**

9 A. I am testifying on behalf of the Hospitals and Higher Education Group (“HHEG”) in
10 support of the joint motion to approve the settlement agreement.

11 **Q. IS HHEG A PARTY TO THIS MOTION AND SETTLEMENT?**

12 A. Yes.

13 **Q. DO YOU BELIEVE THE SETTLEMENT IS IN THE PUBLIC INTEREST?**

14 A. Yes, the settlement resolves key disputed issues in this general rate case in a manner that
15 serves the public interest. The joint motion proposes an efficient process for the Arkansas
16 Public Service Commission (“Commission”) to complete its responsibilities in the time
17 prescribed and enable new rates to go into effect by November 25, 2024.

18 **Q. DOES THE SETTLEMENT AGREEMENT RESOLVE HHEG’S CONCERNS**
19 **ABOUT SUA’S RATE CASE APPLICATION?**

20 A. For the most part, it does. The settlement utilizes a reasonable return on equity and a capital
21 structure that aligns more closely with the capital structure I recommended. The settlement
22 allocates costs among the rate classes in a manner that more closely aligns with my
23 recommendations, as well. Although the settlement permits certain modifications to

On behalf of the Hospitals and Higher Education Group

APSC 23-079-U

1 SUA's system safety rider, it retains certain language that permits parties to dispute
2 adjustments to that rider before they go into effect. In short, the settlement agreement
3 reflects an outcome within the range of reasonable outcomes if this matter had been fully
4 litigated. If approved, it will result in just and reasonable rates.

5 **Q. ARE YOU AVAILABLE TO ANSWER QUESTIONS FROM THE COMMISSION**
6 **IF NECESSARY?**

7 A. Yes, although I respectfully request that the Commission allow me to appear remotely due
8 to my lecturing at an educational workshop in New Mexico that conflicts with the
9 scheduled hearing.

10 **Q. DOES THIS CONCLUDE YOUR SUPPORTING TESTIMONY?**

11 A. Yes.

12

On behalf of the Hospitals and Higher Education Group

APSC 23-079-U

CERTIFICATE OF SERVICE

I, Randall L. Bynum, do hereby certify that a copy of the foregoing document has been served upon each person designated on the official service list compiled by the Secretary in these proceedings by electronic mail via the Commission's Electronic Filing System in accordance with the Commission's Rules of Practice and Procedure.

Dated this 7th day of October 2024.

/s/ Randall L. Bynum

Randall L. Bynum

Counsel for HHEG

**BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION**

IN THE MATTER OF THE APPLICATION OF SUMMIT UTILITIES ARKANSAS, INC., FOR A GENERAL CHANGE OR MODIFICATION IN ITS RATES, CHARGES AND TARIFFS)))	DOCKET NO. 23-079-U
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Testimony in Support of the Settlement Agreement

of

Billie S. LaConte

On Behalf of

ARKANSAS GAS CONSUMERS, INC.

October 7, 2024



**BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION**

IN THE MATTER OF THE APPLICATION OF SUMMIT UTILITIES ARKANSAS, INC., FOR A GENERAL CHANGE OR MODIFICATION IN ITS RATES, CHARGES AND TARIFFS)))	DOCKET NO. 23-079-U
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GLOSSARY OF ACRONYMS

Term	Definition
AGC	Arkansas Gas Consumers, Inc.
AG	Office of Arkansas Attorney General Tim Griffin
Commission	Arkansas Public Service Commission
EDIT	Excess Deferred Income Taxes
HHEG	Hospitals and Higher Education Group
O&M	Operation and Maintenance
ROE	Return on Equity
Settlement	Joint Settlement Agreement
Settlement Parties	SUA, Staff, AG, HHEG, and AGC
SSER	System Safety Enhancement Rider
Staff	General Staff of the Arkansas Public Service Commission
SUA	Summit Utilities Arkansas, Inc.

SETTLEMENT TESTIMONY OF BILLIE S. LACONTE

Introduction

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

2 A Billie S. LaConte; 14323 S. Outer 40 Blvd., Suite 206N, St. Louis, MO 63017.

3 **Q ARE YOU THE SAME BILLIE S. LACONTE WHO PREVIOUSLY SUBMITTED**
4 **DIRECT TESTIMONY AND SURREBUTTAL TESTIMONY ON BEHALF OF**
5 **ARKANSAS GAS CONSUMERS, INC. (AGC) IN THIS DOCKET?**

6 A Yes.

Purpose

7 **Q WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

8 A I have been asked to comment on the Joint Settlement Agreement (Settlement)
9 submitted by Summit Utilities Arkansas, Inc. (SUA), the General Staff of the Arkansas
10 Public Service Commission (Staff), Office of Arkansas Attorney General Tim Griffin
11 (AG), Hospitals and Higher Education Group (HHEG), and AGC (hereinafter
12 collectively referred to as "Settlement Parties").

Settlement Agreement

13 **Q PLEASE DESCRIBE THE SETTLEMENT.**

14 A The Settlement resolves all issues related to SUA's rate case filing. The revenue
15 requirement was developed based on Staff's surrebuttal testimony, along with certain
16 adjustments.

1 **Q PLEASE DESCRIBE YOUR ASSESSMENT OF THE SETTLEMENT.**

2 The Settlement equitably resolves all issues in this case, and reduces SUA's revenue
3 deficiency from approximately \$104.7 million to approximately \$87.7 million. The total
4 Settlement amount is \$17 million less than SUA's original request. Settling this case
5 required compromise from each of the parties, and I recommend that the Commission
6 accept the Settlement in full.

7 **Q DOES THE SETTLEMENT RESOLVE AGC'S PRIMARY CONCERNS IN THIS**
8 **PROCEEDING?**

9 A Yes. The Settlement resolves AGC's primary issues regarding SUA's return on equity
10 (ROE), capital structure, and revenue allocation. The Settlement also reasonably
11 resolves AGC's issues regarding Operation and Maintenance (O&M) expense,
12 Incentive Compensation, the treatment of its excess deferred income tax (EDIT) asset
13 related to Cost of Removal, and the System Safety Enhancement Rider (Rider SSER).

14 **Q HOW DOES THE SETTLEMENT RESOLVE AGC'S ISSUE REGARDING SUA'S**
15 **RETURN ON EQUITY AND CAPITAL STRUCTURE?**

16 A The Settlement reduces SUA's requested 11% ROE to 9.85% and reduces the equity
17 component of SUA's capital structure to 46%, compared to SUA's proposed 55.59%
18 equity component.

19 **Q HOW DOES THE SETTLEMENT RESOLVE AGC'S ISSUE REGARDING SUA'S**
20 **PROPOSED REVENUE ALLOCATION?**

21 A AGC recommended using its class cost-of-service study to determine the appropriate
22 revenue allocation. The Settlement revenue allocation represents a fair balance
23 between SUA's proposal and the Settlement parties' proposals, including

1 AGC's. The Settlement proposal recognizes the design day demand recommended
2 by HHEG witness, Mr. Larry Blank, and supported by AGC.

3 **Q HOW DOES THE SETTLEMENT RESOLVE AGC'S CONCERNS REGARDING**
4 **OPERATION AND MAINTENANCE EXPENSE AND INCENTIVE**
5 **COMPENSATION?**

6 A AGC opposed certain O&M expense related to SUA's maintenance of mains, because
7 newer mains require less maintenance. The Settlement recognizes the reduction in
8 O&M expense through Rider SSER by reducing O&M expense as new pipes are
9 placed in service.

10 The Settlement also excludes incentive compensation expense, as
11 recommended by AGC.

12 **Q HOW DOES THE SETTLEMENT RESOLVE AGC'S CONCERNS REGARDING**
13 **SUA'S PROPOSED TREATMENT OF ITS EXCESS DEFERRED INCOME TAX**
14 **ASSET?**

15 A The Settlement allows for SUA to recover the EDIT asset over 13 years, and reflects
16 compromise on AGC's part to support SUA's position regarding the recovery of the
17 EDIT asset.

18 **Q HOW DOES THE SETTLEMENT RESOLVE AGC'S CONCERNS REGARDING THE**
19 **SYSTEM SAFETY ENHANCEMENT RIDER?**

20 A AGC opposed the inclusion of reliability projects in Rider SSER. The Settlement
21 properly excludes the reliability projects from the Rider, which reduces customers' risk
22 because it lowers their exposure to additional costs being passed through the Rider,
23 rather than through base rates.

Conclusion

1 **Q WILL THE SETTLEMENT BENEFIT ALL OF SUA’S CUSTOMERS?**

2 A Yes.

3 **Q DOES THE SETTLEMENT PROVIDE A JUST AND REASONABLE RESOLUTION**
4 **OF THE ISSUES RAISED BY SUA’S 2024 RATE CASE FILING?**

5 A Yes. The terms of the Settlement fall within the range of likely outcomes that the
6 Commission could have reached had the parties chosen to fully litigate the case. With
7 regard to the issues it addresses, the Settlement provides a just and reasonable
8 outcome for the parties in this proceeding, as well as SUA and its customers. For
9 these reasons, I recommend that the Commission approve the Settlement.

10 **Q DOES THIS CONCLUDE YOUR TESTIMONY IN SUPPORT OF THE**
11 **SETTLEMENT?**

12 A Yes.

Certificate of Service

I, M. Shawn McMurray, hereby certify that, on October 7, 2024, I served a copy of the foregoing Testimony in Support of the Joint Settlement Agreement of Billie S. LaConte upon all parties of record *via* electronic mail.

/s/ M. Shawn McMurray