

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

SUR-SURREBUTTAL TESTIMONY  
OF  
KURT W. ADAMS  
PRESIDENT AND CHIEF EXECUTIVE OFFICER  
ON BEHALF OF  
SUMMIT UTILITIES ARKANSAS, INC.

Date Filed: September 20, 2024

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1 **I. INTRODUCTION**

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

3 A. My name is Kurt W. Adams. I am President and Chief Executive Officer of Summit  
4 Utilities, Inc. (“SUI”). My business address is 10825 E. Geddes Ave, Suite 410,  
5 Centennial, Colorado 80112.

6 **Q. ARE YOU THE SAME KURT W. ADAMS WHO FILED DIRECT TESTIMONY**  
7 **ON JANUARY 25, 2024, AND REBUTTAL TESTIMONY ON AUGUST 7, 2024, IN**  
8 **THIS PROCEEDING?**

9 A. Yes.

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

11 A. The purpose of my Sur-Surrebuttal Testimony is to provide an overview of the various  
12 subjects addressed by SUA witnesses in sur-surrebuttal and an overview of the updated  
13 cost of service requested by Summit Utilities Arkansas, Inc. (“SUA,” or the “Company”) as a result of the Company’s adoption of various Intervenor and Arkansas Public Service  
14 Commission (“Commission”) General Staff (“Staff”) proposals.

16 **II. COMPANY SUR-SURREBUTTAL WITNESSES**

17 **Q. PLEASE PROVIDE A SUMMARY OF THE COMPANY’S WITNESSES AND THE**  
18 **PURPOSE OF THEIR TESTIMONY.**

19 A. The chart below provides a summary of the Company’s Sur-Surrebuttal Testimony by  
20 witness.

<b>Dylan D'Ascendis</b>	Responds to the Surrebuttal Testimonies of Staff, the Office of the Arkansas Attorney General Tim Griffin (“AG”), and Arkansas Gas Consumers, Inc. (“AGC”) as they relate to the Company’s return on common equity on its Arkansas jurisdictional rate base and appropriate capital structure.
<b>Phillip B. Gillam</b>	Responds to certain proposed adjustments, contentions, and recommendations of Staff, the AG, and Hospitals and Higher Education Group (“HHEG”). Also addresses recommendations related to SUA’s proposed riders Billing Determinate Adjustment (“BDA”) and System Safety Enhancement Rider (“SSER”).
<b>Fred Kirkwood</b>	Responds to certain proposed adjustments, contentions, and recommendations in the Surrebuttal Testimonies of the AG and HHEG as it relates to customer service performance.
<b>Timothy S. Lyons</b>	Addresses concerns and recommendations regarding the class cost of service study and rate design proposed by Staff and the Intervenors.
<b>Vernon McNully</b>	Responds to proposed adjustments, conditions and recommendations in the Surrebuttal Testimonies of AGC, Staff, and the AG witness related to the Company’s requested operations and maintenance expense for maintenance of mains and the proposed SSER.
<b>Craig Root</b>	Addresses the Surrebuttal Testimonies of Staff, the AG, HHEG, and AGC related to the reasonableness of the Company’s proposed capital structure.
<b>Paul Schulte</b>	Responds to certain recommendations in the Surrebuttal Testimonies of Staff and AGC related to Accumulated Deferred Income Tax and Excess Deferred Income Tax.
<b>Sam Springer</b>	Responds to proposed adjustments and recommendations in the Surrebuttal Testimonies of AGC, Staff, and the AG related to certain aspects of the Company’s requested compensation and benefits costs.
<b>Dane A. Watson</b>	Rebuts the Surrebuttal Testimony of Staff and the AG regarding their proposed changes to the depreciation rates proposed by SUA.

**III. UPDATED COST OF SERVICE**

- 1
- 2 **Q. HAS THE COMPANY’S REQUESTED COST OF SERVICE CHANGED AS A**
- 3 **RESULT OF ITS REVIEW OF THE RECOMMENDATIONS MADE BY STAFF**
- 4 **AND CERTAIN INTERVENORS?**
- 5 **A. Yes. Similar to the Company’s rebuttal case, additional necessary adjustments to the**
- 6 **Company’s Class Cost of Service have been identified.**

1 **Q. WHAT IS THE REVENUE DEFICIENCY THE COMPANY IS REQUESTING AS**  
2 **A RESULT OF ITS SUR-SURREBUTTAL CASE?**

3 A. As further explained in Company witness Phillip Gillam's Sur-Surrebuttal Testimony,  
4 SUA's updated Total Non-Fuel Revenue Requirement request is now \$287,737,044;  
5 however, the Company continues to seek the lesser of the original Total Non-Fuel Revenue  
6 Requirement of \$286,660,736. SUA's updated revenue deficiency is \$99,177,080.

7 **Q. ARE THERE STILL PROPOSED INTERVENOR AND STAFF ADJUSTMENTS**  
8 **THAT SUA IS ASKING THE COMMISSION TO REJECT?**

9 A. There are. As reflected in the various Sur-Surrebuttal Testimonies filed by the Company,  
10 and in Company witness Mr. Gillam's Sur-Surrebuttal Exhibit PBG-1, the Company has  
11 accepted some adjustments and continues to dispute others.

12 **Q. HAVE THE PRIMARY DRIVERS OF THE DIFFERENCE BETWEEN THE**  
13 **COMPANY'S REQUESTED REVENUE REQUIREMENT AND THE REVENUE**  
14 **REQUIREMENTS PROPOSED THROUGH STAFF'S DIRECT CASE CHANGED**  
15 **THROUGH THE SURREBUTTAL AND SUR-SURREBUTTAL PROCESS?**

16 A. No. The drivers of the difference between the revenue requirement currently requested by  
17 the Company and the revenue requirement proposed by Staff continue to relate to different  
18 views on the issues of return on rate base, base revenues and operating expenses.

19 **Q. DO YOU HAVE ANY COMMENTS ON CONTINUED AREAS OF**  
20 **DISAGREEMENT BETWEEN THE INTERVENORS, STAFF AND THE**  
21 **COMPANY?**

22 A. Yes. As noted in my Rebuttal Testimony, the results of this case serve as a foundation for  
23 SUA's future ability to meet customer expectations and to provide safe and reliable natural

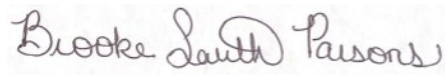
1 gas service for years to come. It will have direct and real consequences with respect to  
2 how SUA is financed and operated. SUA is committed to partnership with the  
3 Commission, its customers, and its employees and is simply seeking a result that will  
4 enable it to be successful in all of those partnerships. SUA appreciates the Commission's  
5 thoughtful consideration of its requests in this case.

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

7 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 20th day of September 2024.

A handwritten signature in cursive script that reads "Brooke South Parsons". The signature is written in black ink on a light-colored background.

Brooke South Parsons

BEFORE THE  
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SUR-SURREBUTTAL TESTIMONY  
OF  
PHILLIP B. GILLAM  
DIRECTOR OF RATES & REGULATORY AFFAIRS  
ON BEHALF OF  
SUMMIT UTILITIES ARKANSAS, INC.

Date Filed: September 20, 2024



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1 **I. INTRODUCTION**

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

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

6 **Q. ARE YOU THE SAME PHILLIP B. GILLAM WHO FILED DIRECT**  
7 **TESTIMONY ON JANUARY 25, 2024, AND REBUTTAL TESTIMONY ON**  
8 **AUGUST 7, 2024, IN THIS PROCEEDING?**

9 A. Yes.

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

11 A. The purpose of my Sur-Surrebuttal Testimony is to respond to certain proposed  
12 adjustments, contentions, and recommendations in the Surrebuttal Testimonies of  
13 Arkansas Public Service Commission (“Commission”) General Staff (“Staff”) witnesses  
14 Mr. Don Malone, Mr. Jeff Hilton, Mr. Middleton Ray, Mr. Robert Swaim, Mr. Claude  
15 Robertson, Mr. Michael Pitts, and Mr. Dan Daves, Office of the Arkansas Attorney General  
16 (“AG”) witnesses, Mr. Richard Porter, Mr. Dante Mugrace, and Dr. Marlon Griffing,  
17 Arkansas Gas Consumers, Inc. (“AGC”) witness Mr. Jonathan Ly, and Hospitals and  
18 Higher Education Group (“HHEG”) witness Mr. Larry Blank.

19 **Q. ARE YOU SPONSORING OR CO-SPONSORING ANY EXHIBITS TO YOUR**  
20 **TESTIMONY?**

21 A. Yes, I sponsor the exhibits listed in the Table of Contents.

22 **Q. HOW DOES YOUR TESTIMONY RELATE TO THE TESTIMONY OF OTHER**  
23 **COMPANY WITNESSES?**

1 A. Timothy S. Lyons provides testimony supporting the Company’s Sur-Surrebuttal  
2 Minimum Filing Requirement (“MFR”) Schedule E-11.2, and MFR Schedules G through  
3 H, and other Company witnesses support various numbers in the schedules and the  
4 reasonableness of the various expenses and rate base items. Dane Watson provides  
5 testimony supporting the Company’s depreciation study, and the Company’s agreement  
6 with Staff witness Claude Robertson’s recommendation on certain depreciation rate  
7 changes proposed by the Company. Craig Root provides testimony supporting certain  
8 elements of the Company’s Weighted Average Cost of Capital (“WACC”) calculation that  
9 is used in the determination of the Company’s revenue requirement.

10 **II. SUMMARY OF REVENUE REQUIREMENT AND SUR-SURREBUTTAL**

11 **Q. HAS THE COMPANY UPDATED ITS REVENUE REQUIREMENT AND**  
12 **REVENUE DEFICIENCY FOLLOWING ITS REVIEW OF STAFF AND**  
13 **INTERVENOR SURREBUTTAL TESTIMONY?**

14 A. Yes, SUA’s updated Total Non-Fuel Revenue Requirement request is now \$287,737,044.  
15 It represents a total revenue requirement increase of \$1,076,308 compared to the  
16 Company’s originally requested Total Non-Fuel Revenue Requirement of \$286,660,736.  
17 As described in the footnote to MFR Schedule A-1, the Company seeks the lesser of the  
18 original Total Non-Fuel Revenue Requirement of \$286,660,736 and the updated revenue  
19 requirement. The updated revenue deficiency is \$99,096,462. It represents a revenue  
20 deficiency decrease of \$5,582,965 compared to the Company’s originally requested  
21 revenue deficiency of \$104,679,427. A summary of Staff’s proposed adjustments that have  
22 been accepted and/or contested by the Company is attached as Sur-Surrebuttal Exhibit

1 PBG-1 and Sur-Surrebuttal Exhibit PBG-2. The updated revenue requirement is attached  
2 as Sur-Surrebuttal Exhibit PBG-3, which is also MFR Schedule A-1.

3 **Q. HOW DOES THE COMPANY'S UPDATED RATE SCHEDULE REVENUE**  
4 **REQUIREMENT COMPARE TO STAFF'S SURREBUTTAL TESTIMONY RATE**  
5 **SCHEDULE REVENUE REQUIREMENT?**

6 A. The Company's updated rate schedule revenue requirement of \$280,658,415 is  
7 \$30,718,712 higher than Staff's surrebuttal rate schedule revenue requirement because of  
8 differences in the proposed rate base and the return on that rate base using the Company's  
9 proposed WACC. There are also differences in Revenues, Expenses, and Income Taxes  
10 which will be discussed later in this Sur-Surrebuttal Testimony.

11 **Q. HOW IS THE REMAINDER OF YOUR SUR-SURREBUTTAL TESTIMONY**  
12 **ORGANIZED?**

13 A. Similar to my Rebuttal Testimony, I first address continued proposed adjustments related  
14 to working capital assets, accumulated depreciation, and other rate base items. I then  
15 address certain expense-related adjustments, flow-through adjustments, and tariff-related  
16 proposals. Some proposed adjustments of Intervenors and Staff impact both rate base and  
17 expense issues. For purposes of clarity, I again address the rate base and expense issues  
18 separately in different sections. Again, where the Company can agree to a proposed  
19 adjustment, I affirm SUA's agreement, and the adjustment is reflected in the Company's  
20 updated cost of service. In some cases, I also identify other SUA witnesses who further  
21 support the Company's position on each contested issue.

1 **III. PROPOSED MODIFIED BALANCE SHEET APPROACH (“MBSA”), RATE**  
2 **BASE, AND RELATED ACCUMULATED DEPRECIATION ADJUSTMENTS**

3 **A. Working Capital Assets (“WCA”).**

4 **Q. HAS MR. MALONE’S POSITION ON WCA CHANGED SINCE THE FILING OF**  
5 **HIS DIRECT TESTIMONY?**

6 A. Not entirely. He maintains his position on the treatment of certain Other Accounts  
7 Receivable, but he has changed his position on the treatment of Cash and Temporary  
8 Investments.

9 **Q. DO YOU AGREE WITH MR. MALONE’S NEW PROPOSED ADJUSTMENTS TO**  
10 **WCA?**

11 A. The Company now agrees with the treatment of Other Accounts Receivable, but not the  
12 adjustment to Cash and Temporary Investments.

13 **Q. HOW DID MR. MALONE’S POSITION WITH RESPECT TO CASH AND**  
14 **TEMPORARY CASH INVESTMENTS CHANGE?**

15 A. Mr. Malone has altered his position on eliminating the cash balances contained within the  
16 WCA based primarily on the Company including a revenue adjustment in my Rebuttal  
17 Testimony.

18 **Q. DO YOU AGREE WITH MR. MALONE’S NEW POSITION ON WCA CASH?**

19 A. No. Mr. Malone now proposes to keep a small balance of cash, while at the same time  
20 accepting the Company’s revenue adjustment, which was done to take into account the  
21 relationship between the cash balance and the interest income associated with these cash  
22 balances. It is inappropriate to virtually eliminate the cash and temporary investment  
23 balance, while accepting a revenue adjustment for the related interest income earned on

1 these cash balances, which lowered the Company’s revenue requirement in its rebuttal  
2 case. The 13-month average cash balance included in the Company sur-surrebuttal revenue  
3 requirement is \$9,880,839, which is comprised of FERC Account 1310 – Cash, \$3,298,438  
4 and FERC Account 1360 – Temporary Cash Investments, \$6,582,401. Therefore, I  
5 recommend that the Commission accept the Company’s inclusion of the entire cash balance  
6 and associated interest income.

7 **Q. PLEASE EXPLAIN AGC WITNESS MR. LY’S CONCERN ABOUT THE**  
8 **TREATMENT OF HEATING ASSISTANCE FUNDS AND THEIR INCLUSION IN**  
9 **THE COST OF SERVICE STUDY.**

10 A. Mr. Ly contends that since only the residential customer class is eligible to receive Heating  
11 Assistance Funds, these amounts should be removed from Accounts Receivable and  
12 directly assigned to the residential customer class.

13 **Q. WHAT IS YOUR RESPONSE TO MR. LY’S POSITION IN SURREBUTTAL?**

14 A. The Company agrees to accept Mr. Ly’s adjustment of \$109,000 to the WCA Accounts  
15 Receivable balance of \$66,429,089. This has been reflected in Company witness Tim  
16 Lyons’ sur-surrebuttal CCOS Study.

17 **Q. WHAT ADJUSTMENTS SHOULD THE COMMISSION MAKE TO THE**  
18 **COMPANY’S FILED WCA?**

19 A. The Company has made an adjustment of \$321,912 in its Sur-surrebuttal WCA included  
20 in the calculation of the Company’s proposed rate base. This adjustment sets the Other  
21 Accounts Receivable balance to zero. The Cash and Temporary Investment adjusted  
22 balances proposed by Mr. Malone should be rejected.

23 **B. Current, Accrued and Other Liabilities (“CAOL”).**

1 **Q. HAS MR. MALONE’S POSITION ON CAOL CHANGED SINCE THE FILING OF**  
2 **HIS DIRECT TESTIMONY?**

3 A. Yes. In Mr. Malone’s Direct Testimony, he stated that his CAOL balance was based on  
4 SUA CAOL balances.<sup>1</sup> However, in his Surrebuttal Testimony, he states that “CAOL is  
5 calculated using Southern Col Holdco, LLC (‘SCHC’ or ‘Holdco’) balances updated  
6 through the end of April 2024 in the amount of \$154,497,558, which was provided to Staff  
7 witness Dan Daves for inclusion in the capital structure at zero cost.”<sup>2</sup>

8 **Q. DID MR. MALONE PROVIDE AN EXPLANATION FOR CHANGING HIS**  
9 **POSITION FROM SUA BALANCES TO HOLDCO BALANCES FOR CAOL?**

10 A. No, nor did he address in his Direct Testimony why he believed it more appropriate to use  
11 SUA CAOL at that time. However, in my Rebuttal Testimony I explained that the use of  
12 Holdco balances would be consistent with how the capital structure was determined in  
13 CenterPoint Energy Resources Corp’s (“CERC”) last rate case, Docket No. 15-098-U. I  
14 also explained that the use of Holdco balances is consistent with the use of the Holdco  
15 entity to determine the appropriate capital structure overall.<sup>3</sup>

16 **Q. GIVEN YOUR AGREEMENT WITH MR. MALONE’S CHANGE TO HOLDCO**  
17 **BALANCES, DO YOU AGREE WITH MR. MALONE’S CURRENT PROPOSED**  
18 **ADJUSTMENTS TO CAOL?**

19 A. No. While I agree with Mr. Malone that Holdco balances should be used to determine  
20 CAOL, I take issue with the following adjustments for the reasons described below:

21 1. Account 2420 – Miscellaneous Current & Accrued Liabilities

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<sup>1</sup> Surrebuttal Testimony of Don Malone at 12:5-6 (July 10, 2024).

<sup>2</sup> Malone Surrebuttal at 9:17-20.

<sup>3</sup> Rebuttal Testimony of Phillip B. Gillam at 7 and 8:1-15 (August 7, 2024).



1           2. Accounts 2421 & 2422 – Intercompany Accounts Payable

2           3. Accounts 2271, 2272, 2430 & 2431 – Lease Liabilities

3           4. Account 238 - Accrued Dividends Payable

4 **Q.   WHAT   ADJUSTMENT   DID   MR.   MALONE   RECOMMEND   FOR**  
5 **MISCELLANEOUS CURRENT & ACCRUED LIABILITIES?**

6 A.   Mr. Malone proposes to exclude what he deemed an asset balance, within the overall set  
7 of balances shown in Account 2420 – Miscellaneous Current & Accrued Liabilities.

8 **Q.   IS THIS APPROPRIATE?**

9 A.   No. The balance shown in Sub-Account 2420.0000.000 is the result of a reclassification of  
10 amounts that are shown in mostly Sub-Account 2420.0000.740. All of the 242 Sub-  
11 Accounts should be viewed in tandem with one another. The true liability is the sum of all  
12 of the sub-accounts, and as such, the credit balance should not be considered as an asset  
13 within a liability account.

14 **Q.   WHAT IS THE APPROPRIATE ADJUSTMENT?**

15 A.   There should be no adjustment to the total amount shown in Account 2420, Miscellaneous  
16 Current and Accrued Liabilities of \$38,515,905 in MFR Schedule D-6.1.

17 **Q.   WHAT   ADJUSTMENT   DID   MR.   MALONE   RECOMMEND   FOR**  
18 **INTERCOMPANY ACCOUNTS PAYABLE?**

19 A.   Mr. Malone proposes to remove two Intercompany Accounts Payable sub-accounts –  
20 Account 2421, Intercompany Accounts Payable with SUA, and Account 2422,  
21 Intercompany Accounts Payable with SUO.

22 **Q.   IS THIS APPROPRIATE?**

1 A. No. The amounts in these two accounts should have been recorded in Account 2340,  
2 Accounts Payable to Associated Companies as they are not Account 2420 related, which  
3 is the Miscellaneous Current and Accrued Liabilities account.

4 **Q. WHAT IS THE APPROPRIATE ADJUSTMENT?**

5 A. The Company has reclassified the amounts in sub-accounts 2421 and 2422 in its MFR  
6 Schedule D-6.1 to the appropriate account, which is 2340, Accounts Payable to Associated  
7 Companies.

8 **Q. WHAT ADJUSTMENT DID MR. MALONE RECOMMEND FOR LEASE**  
9 **LIABILITIES?**

10 A. Mr. Malone restored the adjustment the Company made to Account 2271 and Account  
11 2272, Obligation Under Capital Lease Noncurrent, and to Account 2430, ASC 842 Lease  
12 and Account 2431, Obligation Under Capital Lease Current.

13 **Q. IS THIS APPROPRIATE?**

14 A. No. The Company contends that assets and liabilities associated with capital leases are not  
15 part of the revenue requirement calculation. Therefore, it is not appropriate to include the  
16 liabilities associated with the capital leases, since the Company did not include the capital  
17 lease asset in Account 101.1 in its rate base calculation. If you include the liability, then  
18 you must include the asset.

19 **Q. WHAT IS THE APPROPRIATE ADJUSTMENT?**

20 A. The Company has appropriately excluded the amounts in Accounts 2271, 2272, 2430 and  
21 2431 from the CAOL calculation in MFR Schedule D-6.1.

22 **Q. WHAT ADJUSTMENT DID MR. MALONE RECOMMEND FOR ACCRUED**  
23 **DIVIDEND PAYABLE?**

1 A. Mr. Malone calculated an adjustment of \$18,896,438 for Accrued Dividends Payable,  
2 based on the dividends declared and paid by Summit Utilities, Inc. (“SUI”), the ultimate  
3 parent company of all subsidiaries under the Summit umbrella. This adjustment is a level  
4 above the SCHC entity, as illustrated in the organizational chart included in Company  
5 witness Mr. Root’s Rebuttal Testimony.<sup>4</sup>

6 **Q. IS THIS APPROPRIATE?**

7 A. No. As further explained in Company witness Craig Root’s Sur-Surrebuttal Testimony, it  
8 would be inappropriate to use SUI balances for purposes of determining the accrued  
9 dividends payable. The dividends payable calculation should be based on dividends  
10 declared and dividends paid at the SCHC level to remain consistent with other components  
11 of the capital structure. In addition, Mr. Root explains additional errors in Mr. Malone’s  
12 calculation of this adjustment.

13 **Q. DOES MR. ROOT CALCULATE THE APPROPRIATE AMOUNT OF ACCRUED**  
14 **DIVIDENDS PAYABLE THAT SHOULD BE INCLUDED IN THE CAPITAL**  
15 **STRUCTURE AS A COMPONENT OF CAOL?**

16 A. Yes, in Confidential Sur-Surrebuttal Exhibit CR-1, Mr. Root corrects the calculation of  
17 accrued dividends payable, and I have updated MFR Schedule D1.3 Holdco to reflect a  
18 balance of \$1,125,479 consistent with Mr. Root’s calculation.

19 **Q. WHAT ADJUSTMENTS SHOULD THE COMMISSION MAKE TO THE**  
20 **COMPANY’S FILED CAOL AND MBSA?**

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<sup>4</sup> Rebuttal Testimony of Craig Root at 7 (August 7,2024).

1 A. The Commission should accept the Company's filed CAOL amount of \$94,576,419  
2 provided in the Sur-Surrebuttal MFR Schedule D-1.3 Holdco.

3 C. **Excess Deferred Income Taxes ("EDIT") Related Adjustment to Capital**  
4 **Structure.**

5 **Q. WHAT IS MR. MALONE'S POSITION AS IT RELATES TO THE PERIOD OF**  
6 **TIME OVER WHICH THE COMPANY SHOULD RECOVER THE**  
7 **RECLASSIFIED UNPROTECTED EDIT?**

8 A. Mr. Malone now agrees with the Company's proposed level of zero cost EDIT to include  
9 in the capital structure in the amount of \$65,217,129, but he continues to propose that the  
10 unprotected EDIT asset associated with the cost of removal be collected over the same time  
11 period as the refund to ratepayers under the Average Rate Assumption Method ("ARAM").

12 **Q. SHOULD THE COMMISSION ADOPT MR. MALONE'S PROPOSED**  
13 **ADJUSTMENT RELATED TO EDIT AND THE COST OF REMOVAL?**

14 A. No. As noted in the Rebuttal and Sur-Surrebuttal Testimonies of Company witness Mr.  
15 Paul Schulte, it is the Company's position that Mr. Malone's proposal to recover cost of  
16 removal-related EDIT over ARAM is not reasonable.

17 **Q. IS MR. MALONE'S CONTINUED POSITION ON A FIVE-YEAR COLLECTION**  
18 **PERIOD FOR EDIT RELATED TO THE CHANGE IN STATE CORPORATE TAX**  
19 **RATE REASONABLE?**

20 A. No. For the reasons stated in my Rebuttal Testimony and in Mr. Schulte's Rebuttal and  
21 Sur-Surrebuttal, the Commission should approve the Company's requested two-year  
22 collection period.

1 **Q. DO ANY OTHER WITNESSES CONTINUE TO TAKE ISSUE WITH USING**  
2 **HOLDCO BALANCES FOR CAOL, EDIT, OR OTHER COST OF CAPITAL**  
3 **COMPONENTS?**

4 A. Yes, it seems so. While Staff witness Mr. Daves did not address the portion of my Rebuttal  
5 Testimony where I explained that using Holdco balances aligns with CERC's previous rate  
6 case in Docket No. 15-098-U,<sup>5</sup> he continues to recommend using SUA-specific balances  
7 to determine the debt and equity balances for the Company's WACC calculation. This is  
8 clearly illustrated in his supporting Exhibit DD-3, where he uses SUA's total capitalization  
9 of \$1,862,796,423 as of April 30, 2024.

10 **Q. DOES THIS CREATE AN ISSUE WITH CALCULATING THE WACC USING**  
11 **THE MODIFIED BALANCE SHEET APPROACH?**

12 A. Yes. As mentioned in the testimonies of both Mr. Daves and Mr. Malone, Mr. Daves relied  
13 on the balances provided by Mr. Malone for CAOL and EDIT, which, as noted earlier,  
14 were based on Holdco's balances in Staff's WACC calculation. This creates a situation  
15 where the capital balances used to calculate the capital structure proportions are not apples  
16 to apples (SUA balances for Debt and Equity and Holdco balances for CAOL, Customer  
17 Deposits and EDIT).

18 **Q. WHAT IMPACT DOES THIS HAVE ON THE WACC CALCULATION?**

19 A. The mismatch lowers the WACC. For comparison purposes, had Mr. Daves only updated  
20 his Surrebuttal Exhibit DD-3 to reflect the total capitalization and goodwill of Holdco in  
21 alignment with Mr. Malone, the return would increase from 5.71% as shown in Mr. Daves'

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<sup>5</sup> Rebuttal Testimony of Phillip B. Gillam at 7-8:1-11 (August 7, 2024).

1 Surrebuttal Exhibit DD-2 to 5.85% as shown in my Sur-Surrebuttal Exhibit PBG-4. I only  
2 point this out to highlight the effect that using different capital components from different  
3 entities has on Mr. Daves' WACC calculation. However, I continue to recommend the  
4 Commission approve the WACC of 6.9797% as set forth in MFR Schedule D-1.3 Holdco.

5 **D. Gross Plant-in-Service ("GPIS").**

6 **Q. WHAT CONTESTED ADJUSTMENTS TO GPIS REMAIN?**

7 A. Mr. Michael Pitts continues to propose two adjustments to GPIS relating to Short-Term  
8 Incentive Compensation ("STI") and Volunteer Time Off.

9 **Q. DOES THE COMPANY CONTINUE TO OBJECT TO STAFF'S CURRENT**  
10 **PROPOSED ADJUSTMENTS TO GPIS?**

11 A. Yes, it does.

12 **E. Capitalized Incentive Compensation Costs.**

13 **Q. WHAT ADJUSTMENTS DO INTERVENORS AND STAFF CONTINUE TO**  
14 **PROPOSE AS IT RELATES TO CAPITALIZED INCENTIVE COMPENSATION**  
15 **AMOUNTS?**

16 A. The treatment of STI adjustments is also discussed in the expense adjustments portion of  
17 my testimony below. For capitalized STI, Staff continues to propose to eliminate STI of  
18 \$1,749,525 and the related AD of \$66,767.

19 **Q. SHOULD THE COMMISSION ADOPT THE STAFF AND INTERVENOR**  
20 **PROPOSALS TO DISALLOW CAPITALIZED INCENTIVE COMPENSATION**  
21 **COSTS AND CORRESPONDING AMOUNTS OF AD?**

1 A. No. As addressed in the Rebuttal and Sur-Surrebuttal Testimony of Mr. Springer, the  
2 Company's incentive compensation-related costs are reasonable and should be included in  
3 the Company's cost of service.

4 **F. VTO.**

5 **Q. SHOULD THE COMMISSION ADOPT STAFF'S CONTINUED PROPOSAL TO**  
6 **ELIMINATE VOLUNTEER TIME OFF AND CORRESPONDING AMOUNTS OF**  
7 **AD FROM THE COMPANY'S COST OF SERVICE?**

8 A. No. As detailed in my Rebuttal Testimony, Mr. Pitts' rate base adjustments of \$57,145 for  
9 GPIS and \$2,179 for AD, along with Mr. Ray's adjustment of \$151,865 to O&M expenses  
10 should be rejected by the Commission. Company witness Mr. Springer further explains  
11 why VTO is appropriate for recovery.

12 **G. Retention and Sign-on Bonuses.**

13 **Q. SHOULD THE COMMISSION ADOPT MR. MUGRACE'S CONTINUED**  
14 **PROPOSAL TO ELIMINATE RETENTION AND SIGN-ON BONUS AMOUNTS**  
15 **FROM THE COMPANY'S COST OF SERVICE?**

16 A. No. As described in the Rebuttal and Sur-Surrebuttal Testimony of Company witness Mr.  
17 Springer, SUA's requested capitalized costs associated with retention and sign-on bonuses  
18 are reasonable, necessary and should be included in the Company's cost of service.

19 **IV. PROPOSED EXPENSE ADJUSTMENTS**

20 **A. Overtime Expense.**

21 **Q. DOES STAFF CONTINUE TO PROPOSE AN ADJUSTMENT TO OVERTIME**  
22 **EXPENSE?**

1 A. Yes. Staff witness Ray continues to propose an adjustment to payroll overtime costs by  
2 \$1,619,052 based on a “normalization” of overtime costs using a five-year average. Mr.  
3 Ray stated “the two years of SUA overtime hours was much higher than the three years of  
4 CERC data,” but he did not address my Rebuttal Testimony explaining that the Company’s  
5 proposed amount “is more reflective of SUA’s operational practices, and reflects a  
6 normalized level that is likely to be incurred by SUA in the future.”

7 **Q. SHOULD THE COMMISSION ADOPT MR. RAY’S PROPOSED ADJUSTMENT**  
8 **TO OVERTIME EXPENSE?**

9 A. No. The Company’s proposed overtime expense adjustment amount, arrived at through a  
10 two-year average of SUA’s overtime costs, which would result in an adjustment of  
11 \$685,188, is reasonable, reflective of SUA’s operational practices, and reflects a  
12 normalized level that is likely to be incurred by SUA in the future. Mr. Ray did not rebut  
13 my earlier testimony on this subject. Therefore, SUA’s proposed amount should be  
14 approved.

15 **B. Forfeited Discounts.**

16 **Q. WHAT ADJUSTMENT DOES STAFF CONTINUE TO PROPOSE TO SUA’S**  
17 **REQUESTED FORFEITED DISCOUNTS EXPENSE?**

18 A. Staff proposes to increase the amount of forfeited discount revenues by \$711,158 by using  
19 a three-year average of actual forfeited discounts for the years 2018, 2019 and 2022. In  
20 other words, Staff’s proposal excludes the years of 2020 and 2021. This would take the Pro  
21 Forma Year Balance to \$2,187,780.

22 **Q. DO YOU AGREE WITH STAFF’S PROPOSED METHODOLOGY AND**  
23 **ADJUSTMENT TO FORFEITED DISCOUNTS?**



1 A. No.

2 **Q. WHAT AMOUNT SHOULD THE COMMISSION APPROVE FOR SUA’S TEST**  
3 **YEAR FORFEITED DISCOUNTS REVENUE?**

4 A. As noted in my Rebuttal Testimony, the Commission should approve an adjustment of  
5 \$1,495,193 and a total amount of \$2,971,816, based on the use of the prescribed five-year  
6 average required by MFR C-4.

7 **C. Uncollectible Expense.**

8 **Q. DOES STAFF CONTINUE TO PROPOSE AN ADJUSTMENT TO**  
9 **UNCOLLECTIBLE EXPENSE?**

10 A. Yes. Staff witness Mr. Hilton maintains his position that uncollectible expense should be  
11 reduced by \$8,115,740 based on the use of the years 2018, 2019, and 2022 to calculate an  
12 average of uncollectible expense.

13 **Q. DID MR. HILTON EXPLAIN IN HIS SURREBUTTAL TESTIMONY WHY HE**  
14 **CHOSE TO EXCLUDE THE DATA FROM 2020 AND 2021?**

15 A. Yes. In response to my testimony indicating that Mr. Hilton did not provide any  
16 explanation justifying the exclusion of those years in his Direct Testimony and that the  
17 MFR C-4 requires the use of a five-year average, Mr. Hilton stated, “While I support the  
18 use of the most recent five-year average per the C-4, I disagree with blindly adhering to it  
19 when the data included does not appear representative of the normal on-going ratios and  
20 resulting amounts determined by those ratios.” Mr. Hilton further provided a table  
21 comparing forfeited discounts and uncollectible ratios for the years 2020, 2021 and the  
22 five-year average, and he concluded that because the forfeited discount and especially the  
23 uncollectible ratios appeared to “deviate from the norm” during 2020 and 2021, those years

1 should be excluded. He also observes that the uncollectible ratio deviates more broadly  
2 from the norm than forfeited discounts, but in favor of treating the two ratios the same, he  
3 chooses to exclude the years 2020 and 2021 for both uncollectible accounts expense and  
4 forfeited discounts revenues.

5 **Q. HOW DO YOU RESPOND TO MR. HILTON'S CONTENTION THAT THE FIVE-**  
6 **YEAR AVERAGE REQUIREMENT IN MFR C-4 SHOULD BE DISREGARDED?**

7 A. A five-year average is an effective method for smoothing out anomalies because it captures  
8 the full range of data, including unusual fluctuations, without allowing outliers to  
9 disproportionately influence the trend. By averaging over five years, the impact of  
10 anomalous years is minimized, leading to a more accurate and consistent representation of  
11 the trends. Excluding anomalous years can introduce bias, compromise data integrity, and  
12 distort the true trend, as these years are part of the real-world data. Thus, including all years  
13 in a five-year average provides a more reliable and objective analysis.

14 **Q. HOW DO YOU RESPOND TO MR. HILTON'S CONTENTION THAT THE TWO**  
15 **RATIOS MUST BE TREATED THE SAME?**

16 A. We agree, but for the reasons noted above, a five-year average should be used for both  
17 forfeited discount revenues and uncollectible accounts expense.

18 **Q. WHAT IS THE PROPOSED LEVEL OF PRO FORMA UNCOLLECTIBLE**  
19 **EXPENSE FOR SUA AND STAFF?**

20 A. After SUA's adjustment of \$6,109,401, the proposed level of uncollectible expense is  
21 \$5,497,682. After Staff's adjustment of \$8,115,740, Staff's proposed level of uncollectible  
22 expense is \$3,491,343.

1 **Q. HOW DOES THIS COMPARE TO THE CURRENT LEVEL OF PRO FORMA**  
2 **YEAR EXPENSE ALREADY RECORDED IN 2024?**

3 A. The balance in SUA’s Account 904, Uncollectible Expense through August 2024 is  
4 \$5,396,310, which is trending towards a higher number than what the Company is  
5 requesting and would be significantly higher than what Staff is proposing.

6 **Q. DID STAFF EXCLUDE THE YEARS IMPACTED BY COVID AND RESULTING**  
7 **MORATORIUMS IN BLACK HILLS ENERGY ARKANSAS, INC.’S (“BLACK**  
8 **HILLS”) RECENT RATE PROCEEDING?**

9 A. No, Staff did not exclude these years in that case.<sup>6</sup>

10 **Q. SHOULD THE COMMISSION APPROVE MR. HILTON’S PROPOSED**  
11 **ADJUSTMENT TO UNCOLLECTIBLE EXPENSE?**

12 A. No. The Commission should approve an adjustment to uncollectible expense based on a  
13 five-year average as discussed in the Company’s Rebuttal Testimony. The Company’s  
14 proposed adjustment is \$6,109,401.

15 **D. Rate Case Expense.**

16 **Q. WHAT ADJUSTMENT DOES STAFF CURRENTLY PROPOSE TO THE**  
17 **COMPANY’S REQUESTED RATE CASE EXPENSE AMOUNT?**

18 A. Mr. Hilton now proposes a rate case expense amount of \$714,328. Mr. Hilton also  
19 continues to propose an extension of the recovery period to five years as compared to the  
20 Company’s proposal of a two-year amortization.

21 **Q. DOES THE COMPANY HAVE ANY OBJECTION TO STAFF’S PROPOSED**  
22 **ADJUSTMENT?**

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<sup>6</sup> Docket No. 23-074-U, Direct Testimony of Jeff Hilton at 28:1-2 (May 23, 2024).

1 A. As the Company understands Mr. Hilton’s proposed adjustment, the adjustment recognizes  
2 actual costs incurred to date and reduces the anticipated costs of this proceeding. Those  
3 costs will continue to increase throughout this proceeding and will likely exceed the  
4 amount provided by Mr. Hilton. In this round of testimony, the Company lowered the  
5 estimate for rate case expense to \$1,009,881, but SUA continues to request that its rate case  
6 expense amount be monitored and adjusted moving forward as those costs are incurred,  
7 and that the final and actual amount be approved for recovery. Additionally, consistent  
8 with my Rebuttal Testimony on this subject, the Company is likely to need to file another  
9 general rate case sooner rather than later, so the Company continues to propose maintaining  
10 the two-year amortization period originally proposed.

11 **E. Incentive Compensation.**

12 **Q. WHAT POSITIONS DO STAFF AND THE INTERVENORS CONTINUE TO**  
13 **TAKE AS IT RELATES TO INCENTIVE COMPENSATION?**

14 A. Staff and Intervenor witnesses continue to take the position that some portion of incentive  
15 compensation should be disallowed because of its limited benefit to customers.

16 **Q. DOES THE COMPANY AGREE WITH THESE POSITIONS?**

17 A. No. As noted in the Rebuttal and Sur-Surrebuttal Testimonies of Mr. Springer, incentive  
18 compensation costs should be included in the Company’s cost of service.

19 **F. Customer Deposit Interest.**

20 **Q. PLEASE SUMMARIZE STAFF’S POSITION ON CUSTOMER DEPOSIT**  
21 **INTEREST.**

1 A. Staff witness Mr. Hilton disagrees with moving the customer deposit interest amount and  
2 including it in the cost of service. He states this cost is being recovered as a component of  
3 the Weighted Average Cost of Capital.

4 **Q. DOES THE COMPANY AGREE WITH STAFF?**

5 A. Yes. I agree with Mr. Hilton’s position and have removed this cost from the customer  
6 accounts expense.

7 **G. Retention and Sign-on Bonuses.**

8 **Q. SHOULD THE COMMISSION ADOPT MR. MUGRACE’S CONTINUED**  
9 **RECOMMENDATION RELATED TO RETENTION AND SIGN-ON BONUSSES?**

10 A. No. As described in the Rebuttal and Sur-Surrebuttal Testimony of Company witness Mr.  
11 Springer, SUA’s requested expensed costs associated with retention and sign-on bonuses  
12 are reasonable, necessary and should be approved.

13 **H. Deferred COVID-19 Expenses.**

14 **Q. HAS MR. HILTON’S PROPOSED ADJUSTMENT RELATED TO THE**  
15 **AMORTIZATION OF COVID-19 EXPENSES CHANGED?**

16 A. No. Mr. Hilton proposes to amortize SUA’s deferred Covid-19 expenses of \$6,339,131  
17 over five years.

18 **Q. DO YOU AGREE WITH MR. HILTON’S PROPOSED AMORTIZATION**  
19 **PERIOD?**

20 A. No. While five years may be reasonable for companies that have implemented a Formula  
21 Rate Plan (“FRP”), SUA has not elected to be regulated pursuant to an FRP. As discussed  
22 in my Rebuttal Testimony and above, it is unlikely that the Company will be able to avoid  
23 another base rate filing for the next five years. Given the size and age of this regulatory

1 asset, it is more reasonable to amortize the asset over the three-year period originally  
2 proposed by the Company. If the Commission decides to accept Staff's proposal for a five-  
3 year amortization period, then the Company requests carrying costs on the unrecovered  
4 balance at the WACC approved in this docket. The Company's Sur-Surrebuttal MFR  
5 Schedules continue to include a three-year amortization of Covid-19 expenses with no  
6 return on the unrecovered balance.

7 **I. Revenue Conversion Factor.**

8 **Q. HAS MR. HILTON'S PROPOSED ADJUSTMENT TO THE COMPANY'S**  
9 **REVENUE CONVERSION FACTOR CHANGED SINCE THE FILING OF HIS**  
10 **DIRECT TESTIMONY?**

11 A. No. Mr. Hilton continues to propose the use of an average of the years of 2018, 2019, and  
12 2022, excluding the years of 2020 and 2021, for uncollectibles and forfeited discounts  
13 instead of the five-year averages proposed by the Company, and to calculate the factor  
14 using the forfeited discount ratio.

15 **Q. SHOULD THE COMMISSION ADOPT MR. HILTON'S PROPOSED**  
16 **ADJUSTMENT TO THE REVENUE CONVERSION FACTOR?**

17 A. No. For the reasons outlined in the Company's Rebuttal Testimony, the Commission  
18 should adopt the Company's proposal.

19 **J. Vegetation Control.**

20 **Q. WHAT IS STAFF'S CURRENT ADJUSTMENT TO TEST-YEAR VEGETATION**  
21 **CONTROL EXPENSE?**

22 A. Staff proposes an adjustment to vegetation control expense in the amount of \$243,702  
23 which results in a vegetation control expense amount of \$817,136 based on what Mr.

1 Malone deems a three-year average of vegetation control expenses from 2022 through  
2 2024; however, Mr. Malone's 2024 number is only representative of seven months of  
3 actual vegetation control expense incurred in 2024.

4 **Q. WHAT TEST YEAR AMOUNT SHOULD THE COMMISSION APPROVE FOR**  
5 **VEGETATION CONTROL?**

6 A. As discussed in my Rebuttal Testimony, the Commission should approve the test year  
7 amount presented in the Company's initial case. The Company continues to assert that the  
8 test year expense amount of \$1,060,838 is a more accurate reflection of the level of  
9 vegetation control expense the Company expects to incur moving forward.

10 **K. Non-Recurring Expenses.**

11 **Q. WHAT ADJUSTMENTS DOES STAFF CONTINUE TO PROPOSE TO TEST**  
12 **YEAR EXPENSE FOR NON-RECURRING EXPENSES?**

13 A. Staff has modified their adjustment to remove \$51,204 for non-recurring expenses.

14 **Q. DO YOU AGREE WITH STAFF'S PROPOSED ADJUSTMENTS?**

15 A. I partially agree. For the reasons detailed in my Rebuttal Testimony, I continue to disagree  
16 with Mr. Malone's proposed adjustment of \$32,596 for legal fees associated with billing  
17 errors. The Company will continue to experience various legal expenses, many of which  
18 will not be exactly repeated. That adjustment made for non-recurring legal expenses should  
19 be based on a normalized level of legal expenses which is what the Company included in  
20 its actual test year expense.

21 **L. VTO.**

22 **Q. DOES COMMISSION STAFF CONTINUE TO PROPOSE AN EXPENSE**  
23 **ADJUSTMENT RELATED TO VTO?**

1 A. Yes. Staff witness Mr. Ray continues to propose to adjust O&M payroll expense by  
2 \$141,906 and payroll taxes by \$9,959 for VTO.

3 **Q. WHAT IS THE COMPANY'S POSITION ON CAPITALIZED VOLUNTEER**  
4 **TIME, WHETHER THE COST IS INCLUDED IN PLANT-IN-SERVICE OR**  
5 **EXPENSE?**

6 A. As explained in my Rebuttal Testimony and in the Rebuttal Sur-Surrebuttal Testimony of  
7 Mr. Springer, the Company's request for recovery related to all VTO costs is reasonable  
8 and should be approved regardless of whether the cost is booked to plant-in-service,  
9 expense or has any flow through/attendant impacts.

10 **M. Depreciation.**

11 **Q. DOES STAFF CONTINUE TO RECOMMEND ANY DEPRECIATION**  
12 **ADJUSTMENTS THAT WERE NOT ACCEPTED BY THE COMPANY IN**  
13 **REBUTTAL?**

14 A. Yes. Mr. Roberston continues to recommend an adjustment to depreciation expense based  
15 on using his proposed depreciation rates as described in his Surrebuttal Exhibits CR-1 and  
16 CR-2. In addition, Mr. Pitts continues to recommend a \$888,014 adjustment to  
17 transportation depreciation expense.

18 **Q. HAS THE COMPANY CHANGED ITS POSITION ON THE DEPRECIATION**  
19 **RATES?**

20 A. Yes. To facilitate the resolution of this proceeding and to eliminate an issue in controversy,  
21 the Company agrees to Mr. Robertson's recommended depreciation rates. I should also  
22 mention that the Company has now included an adjustment to depreciation expense for the



1 accrued theoretical reserve that was inadvertently left out of its previous depreciation  
2 adjustments.

3 **Q. HAS THE COMPANY CHANGED ITS POSITION ON TRANSPORTATION**  
4 **DEPRECIATION EXPENSE?**

5 A. No. Mr. Pitts continues to propose an adjustment related to transportation depreciation  
6 expense because as he says “transportation depreciation expense is reclassified as a part of  
7 transportation overhead and applied to both O&M and capital expenditures”,<sup>7</sup> however this  
8 is simply not true.

9 **Q. WHAT EVIDENCE HAS MR. PITTS PROVIDED TO SUPPORT HIS**  
10 **ADJUSTMENT?**

11 A. On page 7 of Mr. Pitts’ Surrebuttal Testimony he points to the fact that SUA allocates fleet  
12 costs using its GL clearing account 184230 and references SUA’s Chart of Accounts that  
13 was provided in Schedule E-9.1 from SUA’s initial application. Below is an excerpt from  
14 the Chart of Accounts that Mr. Pitts references.

104	184230	Clearing-Fleet OH	This account is used to record the unapplied cost of labor, materials used and expenses for operation and maintenance of vehicles.
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15 **Q. IS MR. PITTS MISINTERPRETING THE GL ACCOUNT DESCRIPTION?**

16 A. Yes. SUA uses GL account 184230 to track labor, materials, and expenses related to  
17 vehicle operation and maintenance, but it does not include depreciation expense. In my  
18 Sur-Surrebuttal Exhibit PBG-5, I provide the GL activity for account 184230 for the 2023  
19 calendar year and through June 2024. As shown, no transportation depreciation is recorded  
20 in that account for either year, making Mr. Pitts’ proposed \$888,014 adjustment to reduce

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<sup>7</sup> Surrebuttal Testimony of Michael L. Pitts at 6:24, 7:1-2 (September 9, 2024).

1 depreciation expense unsupported. His recommendation should be rejected by the  
2 Commission.

3 **V. FLOW THROUGH/ATTENDANT IMPACT ADJUSTMENTS**

4 **A. Payroll Taxes and Benefits.**

5 **Q. HAVE YOU REVIEWED THE UPDATED CALCULATIONS PROVIDED BY**  
6 **STAFF RELATED TO THE FLOW THROUGH/ATTENDANT IMPACTS OF**  
7 **THEIR PROPOSED ADJUSTMENTS TO PAYROLL TAXES AND BENEFITS?**

8 A. Yes.

9 **Q. HAS STAFF CALCULATED THE FLOW THROUGH/ATTENDANT IMPACTS**  
10 **OF THEIR CONTINUED ADJUSTMENTS CORRECTLY?**

11 A. Yes.

12 **VI. TARIFF PROPOSALS**

13 **A. SSER.**

14 **Q. WHAT IS STAFF'S CURRENT POSITION AS IT RELATES TO THE**  
15 **COMPANY'S REQUESTED RIDER SSER?**

16 A. Staff witness Jeff Hilton continues to recommend the following:

- 17 • No additional monthly SSER filings would be made once the Company files an  
18 application for a general rate change.
- 19 • The Company should continue to include cumulative savings resulting from a  
20 reduction in O&M expenses due to capital investments.
- 21 • There should be an annual base rate cap of 4%.

- 1           • The Company should recognize additional Accumulated Deferred Income Tax  
2           ("ADIT") associated with capital investments being included for recovery by  
3           reducing gross plant.
- 4           • Short-Term Incentive Compensation ("STIC") and Long-Term Incentive  
5           Compensation ("LTIC") should be excluded from plant.

6           Additionally, Mr. Hilton states riders should be "fairly applied to all jurisdictional  
7           utilities."<sup>8</sup>

8   **Q. HAS THE COMPANY'S POSITION CHANGED WITH REGARD TO THE**  
9   **RECOMMENDATION SUGGESTED BY MR. HILTON?**

10   A. No, it has not for the same reasons outlined in my Rebuttal Testimony.

11   **Q. ARE STAFF'S RECOMMENDATIONS REGARDING SUA'S SSER**  
12   **CONSISTENT WITH STAFF'S RECOMMENDATIONS REGARDING THE SI**  
13   **RIDER PROPOSED IN BLACK HILLS' RECENT DOCKET NO. 23-074-U?**

14   A. No. In its recent rate proceeding filed in Docket No. 23-074-U, Black Hills proposed  
15   revisions to its SI rider, which is a rider similar to the Company's SSER. While Staff  
16   consistently opposed the inclusion of reliability costs in Black Hills' SI rider, Staff did not  
17   propose (1) any type of cap on the SI Rider; (2) inclusion of a cumulative level of savings  
18   due to the reduction in O&M expenses; or (3) recognition of the additional accelerated  
19   depreciation-related ADIT associated with the capital investments being included for  
20   recovery by reducing gross plant. While Staff did propose that no additional monthly SI  
21   Rider filings should be made once the Company has filed its Application for a general

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<sup>8</sup> Surrebuttal Testimony of Jeff Hilton at 16:1-2 (September 9, 2024).

1 change in rates in future cases, this recommendation was not included in the Joint  
2 Settlement filed by the parties on August 12, 2024.

3 **Q. HOW DO YOU RESPOND TO MR. HILTON'S SURREBUTTAL TESTIMONY**  
4 **CONCERNING A 4% CAP ON THE SSER?**

5 A. For all the reasons addressed in my Rebuttal Testimony, the Company continues to strongly  
6 oppose the imposition of a cap on the SSER going forward. As I stated previously, a cap  
7 does not support the intent of the SSER, which is to allow the Company to recover certain  
8 mandated costs in a more efficient manner. Mr. Hilton's argument that a cap is critical  
9 because the Company's Customer Credit Rider is expiring is a red herring. The Customer  
10 Credit Rider was negotiated as part of the settlement of Docket No. 21-060-U and has no  
11 bearing on whether the Company should be allowed to recover mandated safety investment  
12 as other gas utilities in Arkansas are authorized to do.

13 **Q. HOW DO YOU RESPOND TO MR. HILTON'S PROPOSAL TO INCLUDE IN**  
14 **THE RIDER A CUMULATIVE LEVEL OF SAVINGS DUE TO THE REDUCTION**  
15 **IN O&M EXPENSES?**

16 A. The Company continues to oppose this addition to the SSER for the reasons stated in my  
17 Rebuttal Testimony. Furthermore, Mr. Hilton does not provide support for the increased  
18 amount of savings he now proposes in his Surrebuttal Testimony. His recommendation  
19 should be rejected. If the Commission ultimately decides to include these savings in the  
20 SSER, it should utilize the \$106,314 in SUA's current rider instead of Mr. Hilton's  
21 unsupported amount.

1 **Q. HOW DO YOU RESPOND TO MR. HILTON’S CONTINUED ASSERTION THAT**  
2 **THE COMPANY SHOULD RECOGNIZE ADIT BEING INCLUDED FOR**  
3 **RECOVERY BY REDUCING GROSS PLANT?**

4 A. Mr. Hilton references an ADIT credit balance of \$14.9M as of April 30, 2024, on the SUA  
5 balance sheet from MFR Schedule E-1.1. However, what Mr. Hilton doesn’t explain is that  
6 included in that balance is approximately \$21M of an ADIT credit balance associated with  
7 Goodwill generated from the acquisition premium resulting from the asset sale. As noted  
8 in the Settlement Agreement in Docket No. 21-060-U, the Company must remove all  
9 impacts of the acquisition premium and has done so as part of the WACC calculation in  
10 MFR Schedule D1.3 Holdco. What I explained in my Rebuttal Testimony remains true, “it  
11 is uncertain at this time when the current ADIT asset . . . will become an ADIT liability.”  
12 As such, the Commission should reject Mr. Hilton’s proposal to include ADIT in the SSER  
13 calculation.

14 **Q. HAVE YOU PREVIOUSLY ADDRESSED MR. HILTON’S ASSERTIONS**  
15 **REGARDING THE NEED TO APPLY THE “TRADITIONAL RIDER TEST” FOR**  
16 **THE PROPOSED EXPANSION OF THE SSER?**

17 A. Yes. My Rebuttal Testimony addresses the Company’s position, which is that this test has  
18 not historically been applied to safety riders and was not applied when this rider was  
19 approved by the Commission in Docket No. 21-060-U. The Company’s proposed SSER is  
20 in the public interest and should be approved by the Commission.

21 **Q. PLEASE SUMMARIZE THE AG’S POSITION ON SUA’S PROPOSED SSER.**

22 A. AG witness Mr. Porter only addresses SUA’s proposal to expand the Company’s current  
23 SSER to include reliability projects. Mr. Porter asserts that the Company has not responded

1 to one of the “traditional criteria” necessary for rider approval, lack of control. He further  
2 explains that in his opinion, the costs of reliability are not appropriately included in a rider  
3 since the timing and amount is at the Company’s discretion.

4 **Q. DOES THE COMPANY AGREE WITH THIS POSITION?**

5 A. No. First, as stated in my Rebuttal Testimony and herein, there is no requirement to apply  
6 these factors. Second, I disagree that the timing and amount are completely within the  
7 Company’s discretion. It is important and necessary to address reliability constraints as  
8 soon as possible to provide the best possible service to customers and to avoid outages  
9 during inclement weather. Including recovery in the SSER better enables to the Company  
10 to address reliability concerns.

11 **B. BDA.**

12 **Q. HAS STAFF CHANGED THEIR POSITION ON SUA’S PROPOSED BDA?**

13 A. Yes. Staff now recommends approval of the BDA Rider but continues to recommend  
14 SUA’s BDA and WNA Riders be updated to reflect the Degree Day Factors (“DDF”)  
15 shown in Staff witness Mr. Swaim’s Surrebuttal Testimony table.

16 **Q. DO YOU AGREE WITH UPDATING THE BDA AND WNA TO MATCH STAFF’S  
17 SUGGESTED DDF?**

18 A. No. Company witness Mr. Lyons further discusses the Company’s position on the proposed  
19 BDA and WNA.

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

21 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 20th day of September 2024.

A handwritten signature in cursive script that reads "Brooke South Parsons". The signature is written in black ink on a white background.

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Brooke South Parsons

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

SUR-SURREBUTTAL EXHIBITS  
OF  
PHILLIP B. GILLAM  
DIRECTOR OF RATES & REGULATORY AFFAIRS  
ON BEHALF OF  
SUMMIT UTILITIES ARKANSAS, INC.

Date Filed: September 20, 2024



**SUR-SURREBUTTAL EXHIBIT PBG-1**

**SUMMARY OF ACCEPTED/CONTESTED  
INCOME STATEMENT ADJUSTMENTS**

Summit Utilities Arkansas, Inc  
 Summary of Income Statement Adjustments  
 Docket No. 23-079-U

SUR-SURREBUTTAL EXHIBIT PBG-1  
 1 OF 1

Line No.	Adjustment Description	SUA Adjustment	Staff Adjustment	Difference	Position
1	IS-1 Cost of Gas Adjustment	262,228,735	262,228,734	1	Not Contested
2	IS-2 Miscellaneous Taxes (Other Than Income) Adjustment	8,033	8,033	-	Not Contested
3	IS-3 Revenue Adjustment	(265,459,431)	(273,283,597)	7,824,166	Contested-Not Updated
4	IS-4 Forfeited Discount Normalization	1,495,193	711,158	784,036	Contested-Not Updated
5	IS-5 Energy Efficiency Adjustment	10,175,378	10,175,378	(0)	Not Contested
6	IS-6 Bad Debt Adjustment	6,109,401	8,115,740	(2,006,339)	Contested-Not Updated
7	IS-7 Rate Case Amortization Adjustment	(504,940)	(142,866)	(362,074)	Contested and Updated
8	IS-8 Interest Income Adjustment	613,249	613,249	(0)	Not Contested
9	IS-9 Advertising & Marketing Adjustment	922,529	922,529	-	Not Contested
10	IS-10 Other Expenses Adjustment	418,450	418,450	-	Not Contested
11	IS-11 Interest on Customer Deposits	-	-	-	Not Contested
12	IS-12 Payroll Adjustment	(396,911)	1,604,232	(2,001,143)	Contested-Not Updated
13	IS-13 Benefits Adjustment	(123,300)	225,834	(349,134)	Contested-Not Updated
14	IS-14 Meals & Travel Adjustment	375,037	375,037	-	Not Contested
15	IS-15 Postage Expense Adjustment	(168,749)	(168,749)	-	Not Contested
16	IS-16 Property Tax Adjustment	24,501	24,501	-	Not Contested
17	IS-17 Pipeline Locator Fees	(1,166,079)	(1,166,079)	-	Not Contested
18	IS-18 Corporate Pro Forma Adjustments	(537,818)	152,293	(690,111)	Contested-Not Updated
19	IS-19 Depreciation Expense Adjustment	(8,292,241)	(8,064,458)	(227,783)	Contested and Updated
20	IS-20 Deferred COVID Expense Recovery	(2,113,044)	(1,267,826)	(845,217)	Contested-Not Updated
21	IS-21 Deferred Income Tax Expense - ARO	186,125	-	186,125	Not Contested
22	IS-22 Current Income Tax **	5,416,683	7,196,886	(1,780,203)	Contested and Updated
23	IS-23 Non-Utility Expenses	4,581	-	4,581	Contested
24	IS-24 Vegetation Control Expense	-	243,702	(243,702)	Contested-Not Updated
25	IS-25 Non-Recurring Transactions	18,608	51,204	(32,596)	Contested
26	IS-26 Volunteer Time Off	-	151,865	(151,865)	Contested
27	IS-27 Transportation Depreciation Allocation	-	888,014	(888,014)	Contested
28	IS-28 Call Center	-	489,252	(489,252)	Contested
		9,233,989	10,502,515		

\*\*Includes an adjustment for deferred inc tax, utility operating

**SUR-SURREBUTTAL EXHIBIT PBG-2**

**SUMMARY OF ACCEPTED/CONTESTED RATE  
BASE ADJUSTMENTS**

Summit Utilities Arkansas, Inc  
 Summary of Rate Base Adjustments  
 Docket No. 23-079-U

SUR-SURREBUTTAL EXHIBIT PBG-2  
 1 OF 1

Line No.	SUA Adj. No.	Staff Adj. No.	Description	SUA Adjustments	Staff Adjustments	Difference	Position
1			<u>Adjustments to Utility Gross Plant-In-Service</u>				
2	RB-2	RB-2	CWIP Placed in Service Pro Forma Year	\$ 162,461,129	\$ 162,461,129	-	Not Contested
3	RB-3	RB-3	Pro Forma Retirements	(15,824,916)	(15,826,521)	1,605	Updated
4	RB-4	RB-4	Pro Forma Reclassifications	(7,773,000)	(7,773,000)	-	Not Contested
5	RB-12	RB-12	ARO - Adjustment	(2,280,944)	(2,280,944)	-	Not Contested
6		RB-13	STIC	-	(1,749,525)	1,749,525	Contested
7		RB-14	Volunteer Time Off	-	(57,145)	57,145	Contested
8	RB-15	RB-15	Rebranding Capital Expenditures	(379,968)	(379,968)	-	Not Contested
9			Total Adjustments to Utility Gross Plant-In-Service	<u>\$ 136,202,301</u>	<u>\$ 134,394,026</u>	1,808,275	
10			<u>Adjustments to Accumulated Depreciation</u>				
11	RB-1	RB-1	Pro Forma Capital Expenditures	8,550,586	8,550,586	(0)	Not Contested
11	RB-3	RB-3	Pro Forma Retirements	15,824,916	15,826,521	(1,605)	Updated
13		RB-5	Pro Forma RWIP /Retirements	-	(54,319)	54,319	Contested and Updated
14	RB-6	RB-6	Pro Forma Depreciation	(66,353,140)	(66,357,897)	4,757	Contested and Updated
15	RB-7	RB-7	Remove CWIP/ RWIP	(8,857,409)	(8,857,410)	1	Updated
16	RB-12	RB-12	ARO - Adjustment	228,094	228,094	-	Not Contested
17		RB-13	STIC	-	66,767	(66,767)	Contested and Updated
18		RB-14	Volunteer Time Off	-	2,179	(2,179)	Contested and Updated
19	RB-15	RB-15	Rebranding Capital Expenditures	14,500	14,500	-	Not Contested
20			Total Adjustments to Accumulated Depreciation	<u>\$ (50,592,454)</u>	<u>\$ (50,580,980)</u>	(11,474)	
21			<u>Adjustments to Construction Work-In-Progress</u>				
22	RB-7		Remove CWIP/ RWIP	(\$21,958,399)	(21,958,399)	(0)	Updated
23			<u>Adjustments to Working Capital Assets</u>				
24	RB-10	RB-10	Adjust 13-Month Average Balance	(225,119,207)	(244,463,045)	19,343,838	Contested and Updated
25	RB-11	RB-11	Adjust Working Capital Assets to 13 month Average Balance	(34,235,349)	(13,935,674)	(20,299,675)	Contested and Updated
26			Total Adjustments to Working Capital Assets	<u>\$ (259,354,556)</u>	<u>\$ (258,398,719)</u>	(955,837)	
27			<u>Other Adjustments</u>				
28	RB-9	RB-9	Remove Acquisition Adjustment	\$ (690,091,096)	(690,091,096)	-	Not Contested
29	RB-12	RB-12	ARO - Adjustment	-	-	-	
30			Total Other Adjustments	<u>\$ (690,091,096)</u>	<u>\$ (690,091,096)</u>		
31			Total Rate Base Adjustments	(885,794,204)			

**SUR-SURREBUTTAL EXHIBIT PBG-3**  
**UPDATED REVENUE REQUIREMENT**

**Summit Utilities Arkansas, Inc.**  
**Arkansas Calculation of Revenue Requirement**  
**For The Pro Forma Test Year Ended December 31, 2024**

**Schedule: A - 1**  
**Title: Calculation of**  
**Requested Increase In**  
**Revenue Requirement**  
**Docket No. 23-079-U**

Explanation: Schedule showing test year information and the calculation of Arkansas jurisdictional revenue requirement and revenue deficiency as determined by separate supporting schedules.

I. Test Year Information

- |   |  |                                      |
|---|--|--------------------------------------|
| 1 | Provide the ending date of the test year                                       | <u>12/31/2023</u>                    |
| 2 | Specify whether the test year is completely historical or partially projected. | <u>partially projected test year</u> |

II. Calculation of Revenue Requirement

(1)	(2)	(3)
<u>Line No.</u>	<u>Line Item Description</u>	<u>Arkansas Jurisdiction*</u>
1	Adjusted Rate Base (a)	1,215,564,617
2	Adjusted Operating Revenue (a)	188,640,582
3	Adjusted Operating Expense (a)	177,837,127
4	Adjusted Operating Income (L.2 - L.3)	10,803,455
5	Current Rate of Return (L.4 / L.1)	0.8888%
6	Required Rate of Return (b)	6.9797%
7	Required Operating Income (L.1 x L.6)	84,842,764
8	Operating Income Deficiency (L.7 - L.4)	74,039,309
9	Revenue Conversion Factor (c)	1.33843
10	Revenue Deficiency (L.8 x L.9)	99,096,462
11	Total Non-Fuel Revenue Requirement (L.2 + L.10)	287,737,044
12	Adjusted Revenues Other Than Rate Schedule Revenue (a)	7,078,629
13	Rate Schedule Revenue Requirement (L.11 - L.12)	280,658,415
14	Percentage Increase in Total Revenue Requirement (L.10 / L.2)	52.5319%

Supporting Schedules

- (a) G-1
- (b) D-1.3-Holdco - Sur-Surrebuttal
- (c) C-5 Surrebuttal, or composite from G-1 if determined by rate class

\* Due to changes from deficiencies in certain schedules, the Total Non-Fuel Revenue Requirement increased. The Company is limited to the originally filed Total Non-Fuel Revenue Requirement of \$286,660,736 and the originally filed Revenue Deficiency of \$104,679,427 in Docket No. 23-079-U-Doc. 18 (Schedule A-1).

**SUR-SURREBUTTAL EXHIBIT PBG-4**

**DAVES' WACC RECALCULATION**

**Summit Utilities Arkansas, Inc.  
 External Capital Components  
 Staff Recommended Capital Structure Updated for Holdco Capitalization**

	Short-Term Debt	Long-Term Debt	Common Equity	Total Capital
<small>APSC FILED Time: 9/20/2024 11:51:33 AM; Recvd 9/20/2024 11:38:30 AM; Docket 23-079-U-Doc. 169</small> <b>Balance as of April 30th, 2024 (1)</b>				\$ 2,194,779,972
<b>Amount of Goodwill related to Docket No. 21-060-U (2)</b>				\$ (814,203,787)
<b>Total External Capital Dollars</b>				<b>\$ 1,380,576,185</b>
<b>Staff Recommended Proportions</b>	<b>6.16%</b>	<b>48.95%</b>	<b>44.88%</b>	<b>100.00%</b>
<b>Staff Recommended Amount</b>				
<b>Total Debt-to-Total Equity</b>	<b>\$ 85,076,611</b>	<b>\$ 675,832,205</b>	<b>\$ 619,667,369</b>	<b>\$ <u>1,380,576,185</u></b>

Notes:  
 (1) Total capitalization of Southern Col Holdco, LLC ("HOLDCO")  
 (2) Balance of Goodwill at HOLDCO



**SUMMIT UTILITIES ARKANSAS, INC.**  
APSC FILED Time: 9/20/2024 11:51:33 AM: Recvd: 9/20/2024 11:28:30 AM: Docket 23-079-U Doc 169  
**WEIGHTED AVERAGE COST OF CAPITAL**  
**STAFF RECOMMENDATION UPDATED FOR HOLDCO DEBT & EQUITY BALANCES**

Component	Amount	Proportion	Rate	Weighted Cost	Pre-Tax Weighted Cost
Long-Term Debt (1) (2)	\$675,832,205	42.10%	4.11%	1.73%	1.73%
Short-Term Debt (1) (3)	\$85,076,611	5.30%	6.61%	0.35%	0.35%
Common Equity (1) (4)	\$619,667,369	38.60%	9.75%	3.76%	5.00%
Customer Deposits (5)	4,871,144	0.30%	2.93%	0.01%	0.01%
ADIT (6)	\$0	0.00%	0.00%	0.00%	0.00%
EDIT (6)	\$65,217,129	4.06%	0.00%	0.00%	0.00%
CAOL (6)	\$154,497,558	9.63%	0.00%	0.00%	0.00%
<b>Totals</b>	<b>\$1,605,162,015</b>	<b>100.00%</b>		<b>5.85%</b>	<b>7.09%</b>
	<b>RCF</b>	<b>1.329180</b>			

**Sources:**

- (1) Surrebuttal Exhibit DD - 3 (based on actual balances as of April 30, 2024)
- (2) Surrebuttal Exhibit DD - 11
- (3) Agreed by Company witness Root (Rebuttal, page 10)
- (4) Direct and Surrebuttal Testimony of Dan Daves
- (5) Surrebuttal Exhibit DD - 1 (Based on HOLDCO Balances)
- (6) Amount provided by Staff witness Don Malone using HOLDCO Balances

**SUR-SURREBUTTAL EXHIBIT PBG-5**

**GL ACCOUNT 184230 ACTIVITY**

Company Code 1116				
Internal Order OH16800230 - OH 1116 - Fleet Overhead				
Amount		Column Labels		
		2023	2024	Grand Total
Row Labels	Cost element name			
<b>OH16800230</b>				
600010	Regular-Exempt	(1)		(1)
620000	Materials		1,427	1,427
620050	Non-Inventory		610	610
620060	Freight		206	206
620070	Equipment-Vehicles		5,056	5,056
630010	Contractor Costs		1,005,084	1,005,084
630100	Postage		527	527
640020	Emp Exp-Parking		87	87
640030	Emp Exp-Travel		3,534	3,534
640050	Emp Exp-Meals Travel		11	11
640060	Emp Exp-Meals Busins		138	138
640150	Emp Exp-Licenses		4	4
650010	Hardware		39	39
650050	License Fees		3,423	3,423
650130	Ins-Blanket Crime	(170,643)		(170,643)
650160	Ins-Auto Liability		237,087	237,087
650320	Fleet Fuel Purchases		1,048,345	1,048,345
650330	Other Fuel Purchases		2,721	2,721
650350	Other Expenses		23,008	23,008
700000	Ext Settle-Labor	1		1
700030	Ext Settle-Material	9,179,476	3,297,973	12,477,450
700040	Ext Settle-Ext Labor	(447,118)	(996,873)	(1,443,991)
700050	Ext Settle-Employee	(1,430)	(3,773)	(5,203)
700060	Ext Settle-IT Exp		(39)	(39)
700070	Ext Settle-Transport	(2,104,104)	(1,051,564)	(3,155,669)
700080	Ext Settle-Other Exp	(404,374)	(283,751)	(688,124)
800230	Fleet Overhead	(9,194,927)	(3,299,728)	(12,494,655)
800430	Assessments-Material	10,464	181	10,644
800440	Assessment-Ext Labor	447,118	(8,738)	438,380
800450	Assessments-Employee	1,224		1,224
800470	Assessment-Transport	2,102,244		2,102,244
800480	Assessment-Other Exp	554,687	12,108	566,795
800530	Int Settle-Material	4,987	(669)	4,317
800550	Int Settle-Employee	206		206
800570	Int Settle-Transport	1,860	499	2,359
800580	Int Settle-Other Exp	20,329	3,068	23,398
<b>Grand Total</b>		<b>(0)</b>	<b>0</b>	<b>(0)</b>

SUMMIT UTILITIES ARKANSAS, INC.  
 DOCKET NO. 23-079-U  
 SUR-SURREBUTTAL EXHIBITS OF PHILLIP GILLAM

SUR-SURREBUTTAL EXHIBIT PBG-5  
 2 OF 2

Company Code 1116

Amount			Column Labels	
Row Labels	Cost Element	Cost element name	2023	Grand Total
A1160002	650320	Fleet Fuel Purchases	1,934,803	1,934,803
A1160002	650330	Other Fuel Purchases	23,863	23,863
A1160047	650320	Fleet Fuel Purchases	142,705	142,705
A1160047	650330	Other Fuel Purchases	719	719
A1160048	650320	Fleet Fuel Purchases	154	154
<b>Grand Total</b>			<b>2,102,244</b>	<b>2,102,244</b>

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

SUR-SURREBUTTAL TESTIMONY  
OF  
FRED KIRKWOOD  
CHIEF CUSTOMER OFFICER  
ON BEHALF OF  
SUMMIT UTILITIES ARKANSAS, INC.

Date Filed: September 20, 2024

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I. INTRODUCTION .....1  
II. REPLY TO SURREBUTTAL .....1  
III. CONCLUSION.....4

1 **I. INTRODUCTION**

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

3 A. My name is Fred Kirkwood. I am the Senior Vice President & Chief Customer Experience  
4 Officer for Summit Utilities, Inc. (“SUI”). My business address is 1000 Fianna Way, Suite  
5 520, Fort Smith, Arkansas.

6 **Q. ARE YOU THE SAME FRED KIRKWOOD WHO FILED DIRECT TESTIMONY  
7 ON JANUARY 25, 2024, AND REBUTTAL TESTIMONY ON AUGUST 7, 2024, IN  
8 THIS PROCEEDING?**

9 A. Yes.

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

11 A. The purpose of my Sur-Surrebuttal Testimony is to respond to certain proposed  
12 adjustments, contentions, and recommendations in the Surrebuttal Testimonies of Attorney  
13 General (“AG”) witness Dr. Marlon F. Griffing and Arkansas and Hospitals and Higher  
14 Education Group (“HHEG”) witness Mr. Larry Blank.

15 **II. REPLY TO SURREBUTTAL**

16 **Q. HAVE YOU REVIEWED DR. GRIFFING’S SURREBUTTAL TESTIMONY?**

17 A. Yes, I have.

18 **Q. DID DR. GRIFFING RECOMMEND A DOWNWARD ADJUSTMENT TO SUA’S  
19 RETURN ON EQUITY (“ROE”) IN HIS DIRECT TESTIMONY AS STATED IN  
20 HIS SURREBUTTAL?**

21 A. No. Despite referencing pages 40-42 of his Direct Testimony, there is no reference in Dr.  
22 Griffing’s Direct Testimony to a downward adjustment due to SUA’s performance related  
23 to billing, nor is there any other mention of poor performance on these pages or any other

1 pages of Dr. Griffing’s Direct Testimony. Dr. Griffing’s recommendation of a downward  
2 adjustment due to performance concerns is a new adjustment proposed for the first time in  
3 his Surrebuttal Testimony.

4 **Q. DOES DR. GRIFFING EXPLAIN OR SUPPORT WHAT HE CONSIDERS TO BE**  
5 **POOR PERFORMANCE?**

6 A. No. Dr. Griffing simply states in his Surrebuttal that he is recommending a downward  
7 adjustment in ROE for SUA’s poor performance in billing but provides no evidence or  
8 argument as to what should be considered poor performance.

9 **Q. DO YOU AGREE WITH DR. GRIFFING THAT SUA PERFORMED POORLY IN**  
10 **BILLING?**

11 A. No. As I stated in my Rebuttal Testimony in response to HHEG’s witness Mr. Blank, the  
12 Commission found no evidence that SUA violated any of the Commission’s General  
13 Service Rules and that all billing errors at issue were corrected. I also highlighted in my  
14 Rebuttal Testimony that SUA is exceeding all service levels included in Commission Rule  
15 2.05 D.

16 **Q. WHAT IS MR. BLANK’S RESPONSE TO YOUR REBUTTAL TESTIMONY**  
17 **ADDRESSING HIS PROPOSED REDUCTION IN ROE DUE TO SERVICE**  
18 **PERFORMANCE?**

19 A. Mr. Blank states that no violation of Commission rules does not indicate that no service  
20 issues exist and additionally points to the number of public comments filed in this docket  
21 as compared to the number of public comments filed in Black Hills Energy Arkansas’s  
22 docket.

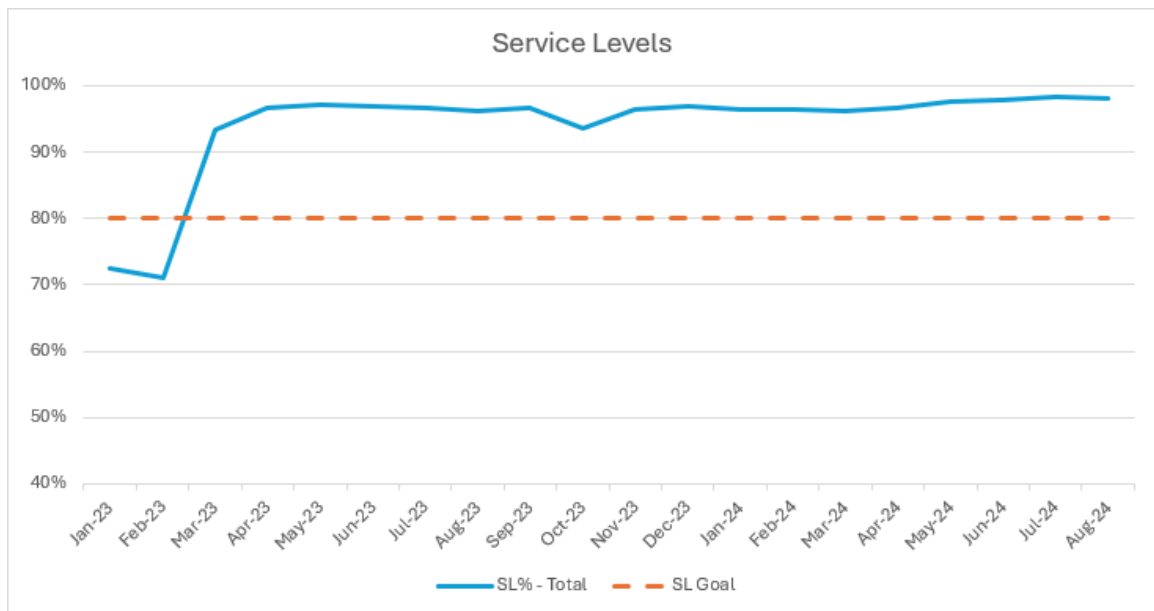
23 **Q. WHAT IS YOUR RESPONSE TO MR. BLANK?**

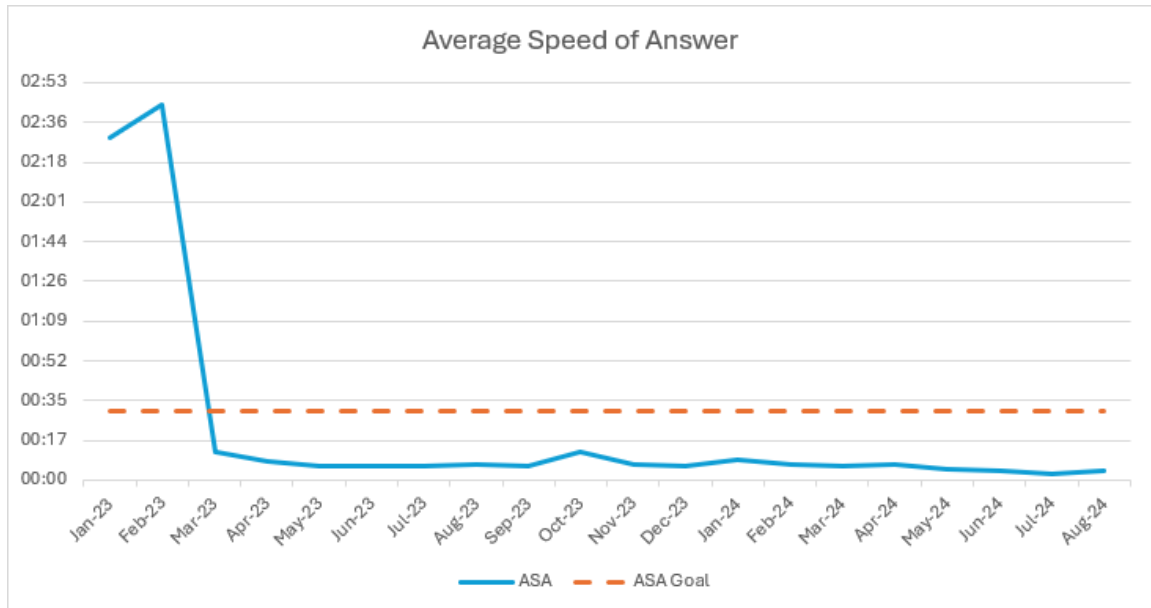


1 A. The number of public comments filed in a general rate case proceeding is not an indication  
2 that the Company is performing poorly. In fact, of the 49 public comments filed in this  
3 docket, only 5 of them mention a billing issue. Moreover, in the last general rate case filed  
4 by Entergy Arkansas, LLC, 79 public comments were filed, but to my knowledge, no party  
5 in that case recommended an ROE penalty. There is no substantial evidence presented in  
6 this case to support a decrease in ROE due to poor performance.

7 **Q. DO YOU HAVE ANY ADDITIONAL EVIDENCE THAT SUA IS PERFORMING**  
8 **AS REQUIRED BY THE COMMISSION?**

9 A. Yes, please see the charts below which continue to show excellent service levels.





**III. CONCLUSION**

1

2 **Q. PLEASE SUMMARIZE YOUR TESTIMONY AND RECOMMENDATIONS.**

3 A. SUA continues to perform at or above Commission General Service Rule levels in Rule  
4 2.05 D. Call Center Operations - Utility Response Requirements. Neither the AG’s witness  
5 nor HHEG’s witness have provided any reliable evidence that SUA’s performance is  
6 problematic and warrants a downward adjustment to its ROE.

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

8 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 20th day of September 2024.

A handwritten signature in cursive script that reads "Brooke South Parsons". The signature is written in black ink on a light-colored background.

---

Brooke South Parsons

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

SUR-SURREBUTTAL TESTIMONY  
OF  
VERNON MCNULLY  
SENIOR DIRECTOR OF OPERATIONS  
ON BEHALF OF  
SUMMIT UTILITIES ARKANSAS, INC.

Date Filed: September 20, 2024

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I. INTRODUCTION .....1

II. MAINTENANCE OF MAINS EXPENSE.....1

III. SYSTEM SAFETY ENHANCEMENT RIDER .....3

IV. CONCLUSION.....9

1 **I. INTRODUCTION**

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

3 A. My name is Vernon McNully. I am the Senior Director of Operations for Summit Utilities  
4 Arkansas, Inc. (“SUA” or the “Company”). My business address is 2205 E. Roosevelt  
5 Road, Little Rock, AR 72206.

6 **Q. ARE YOU THE SAME VERNON MCNULLY WHO FILED DIRECT**  
7 **TESTIMONY ON JANUARY 25, 2024, AND REBUTTAL TESTIMONY ON**  
8 **AUGUST 7, 2024, IN THIS PROCEEDING?**

9 A. Yes.

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

11 A. The purpose of my Sur-Surrebuttal Testimony is to respond to proposed adjustments,  
12 contentions and recommendations in the Surrebuttal Testimonies of Arkansas Gas  
13 Consumers, Inc. witness Ms. Billie S. LaConte, Arkansas Public Service Commission  
14 (“Commission”) General Staff (“Staff”) witness Mr. Jeff Hilton, and Attorney General  
15 (“AG”) witness Mr. Richard W. Porter, addressing the Company’s requested operations  
16 and maintenance (“O&M”) expense for maintenance of mains and the proposed System  
17 Safety Enhancement Rider (“SSER”).

18 **II. MAINTENANCE OF MAINS EXPENSE**

19 **Q. WHAT IS MS. LACONTE’S RESPONSE TO YOUR REBUTTAL TESTIMONY**  
20 **ADDRESSING HER PROPOSED REDUCTION OF \$1.4 MILLION IN**  
21 **MAINTENANCE OF MAINS EXPENSE?**

22 A. Ms. LaConte continues to maintain her opinion that newer mains require less operations  
23 and maintenance (“O&M”) activities and costs but does not respond to specific O&M

1 needs addressed in my Rebuttal Testimony. She acknowledges that new mains still require  
2 maintenance activities, but she argues that the level of activities and costs should be  
3 reduced compared to older mains that require additional repairs to maintain reliable service.  
4 Therefore, she continues to support a reduction in O&M expense related to the maintenance  
5 of mains. Additionally, Ms. LaConte has revised her recommended reduction to the O&M  
6 expense related to the maintenance of mains to \$1.1 million. Ms. LaConte based her  
7 reduction on a significantly smaller amount of inflation than the Company has experienced,  
8 which I referenced in my Direct Testimony.

9 **Q. HAVE YOU CHANGED YOUR POSITION SINCE FILING REBUTTAL**  
10 **TESTIMONY THAT EVEN NEWER MAINS WILL REQUIRE ONGOING O&M**  
11 **INVESTMENT?**

12 A. No, I have not changed my position. Even newer mains require ongoing operations and  
13 maintenance investment to ensure reliable service. As outlined in my rebuttal testimony,  
14 specific maintenance activities are necessary for newer mains, including regular leak  
15 surveys, cathodic protection to prevent corrosion, locating, trenching, backfilling, breaking  
16 and restoring pavement, repairing broken mains, cleaning, repainting, coating, and  
17 wrapping exposed mains, and changing locations of mains as needed. These activities are  
18 essential to maintain the integrity and functionality of the mains, regardless of their age.

19 **Q. SHOULD THE COMMISSION ADOPT MS. LACONTE'S REVISED POSITION**  
20 **AND REDUCE MAINTENANCE OF MAINS COSTS BY \$1.1 MILLION?**

21 A. No. As I explained in my Rebuttal Testimony, the Company must perform all required  
22 maintenance of mains activities to continue to operate a safe and reliable system. Ms.

1 LaConte’s position ignores that reality and is based on an unfounded assertion that newer  
2 mains require less O&M activity.

3 **III. SYSTEM SAFETY ENHANCEMENT RIDER**

4 **Q. WHAT ARE MR. HILTON’S AND MR. PORTER’S POSITIONS ON THE**  
5 **COMPANY’S REQUESTED SSER AFTER REVIEWING YOURS AND MR.**  
6 **GILLAM’S REBUTTAL TESTIMONY?**

7 A. Mr. Hilton and Mr. Porter maintain their positions against the inclusion of reliability  
8 projects in the SSER. Mr. Hilton asserts that reliability projects, while important, are  
9 distinct from safety-related projects mandated by regulatory bodies like Pipeline and  
10 Hazardous Materials Safety Administration (“PHMSA”) and the Arkansas Gas Pipeline  
11 Code. Mr. Porter argues that the costs associated with reliability projects are ultimately  
12 discretionary and within the control of the utility's management. He contends that the  
13 decision regarding the amount to spend on reliability costs and the timing of these  
14 expenditures are controlled by the Company, making them inappropriate for inclusion in a  
15 rider. Mr. Gillam addresses the ratemaking aspects of their positions in his sur-surrebuttal  
16 testimony.

17 **Q. IS THE COMPANY MAINTAINING ITS ORIGINAL REQUEST FOR THE SSER?**

18 A. Yes. The Company is asking the Commission to approve the original request for the  
19 expansion of the SSER. In my direct testimony, I outlined the importance of expanding  
20 the SSER to include all capital investment associated with Distribution Integrity  
21 Management Program (DIMP) and Transmission Integrity Management Program (TIMP)  
22 projects, not just mains and services. Additionally, the Company seeks to include recovery  
23 for public improvement projects, other projects eligible under Act 310, and costs associated



1 with reliability improvement projects. This expansion is crucial for addressing the dynamic  
2 needs of our utility operations and ensuring timely recovery of necessary safety and  
3 reliability investments. In my Rebuttal Testimony, I reiterated the need for these revisions  
4 to the SSER, emphasizing that they align with the evolving regulatory requirements and  
5 the Company's commitment to maintaining a safe and reliable natural gas system. Allowing  
6 cost recovery via the SSER streamlines the recovery process for these vital projects, saving  
7 time and resources for both the Company and General Staff, and maintaining Staff's  
8 oversight of these costs through the audit process used for the SSER. This approach will  
9 allow the Company to adopt a proactive approach to system reliability, and timely cost  
10 recovery for these critical projects will lead to a safer system and position SUA to be able  
11 to meet the demands of its customers.

12 **Q. MR. HILTON ACKNOWLEDGES THAT YOU ADDRESSED HIS TESTIMONY**  
13 **ABOUT THE PRIORITIZATION OF RELIABILITY PROJECTS, BUT HE**  
14 **CONTINUES TO EXPRESS CONCERNS ABOUT THE NEED TO INCLUDE**  
15 **RELIABILITY PROJECTS IN THE SSER. WHAT IS YOUR RESPONSE?**

16 A. I understand Mr. Hilton's concerns, but I firmly believe that including reliability projects  
17 in the SSER is both reasonable and appropriate because safety and reliability go hand in  
18 hand. Reliability projects are essential for ensuring that our natural gas system can deliver  
19 services in the quantity and quality demanded by our customers, especially during extreme  
20 weather events and other unforeseen circumstances. These projects, such as the installation  
21 of supply receipt points, line looping for system redundancy, and pressure-control station  
22 upgrades, directly contribute to the overall safety and reliability of our system. Moreover,  
23 my Rebuttal Testimony highlights the Commission's General Service Rule 8.01(A), which

1 mandates that we operate and maintain our entire system so that service is safe, adequate,  
2 and reliable. This requirement underscores the inseparable link between safety and  
3 reliability. By including reliability projects in the SSER, we can ensure timely recovery of  
4 costs associated with these critical investments, allowing us to maintain a safe and reliable  
5 system for our customers.

6 **Q. DID MR. HILTON CHANGE HIS POSITION CONCERNING THE RECOVERY**  
7 **OF ACT 310 PROJECTS NOT PREVIOUSLY APPROVED FOR RECOVERY IN**  
8 **A SUA OR ITS PREDECESSOR ACT 310 FILING?**

9 A. No. Mr. Hilton continues to recommend that the SSER should not include cost recovery  
10 for projects unless they have been previously approved for recovery by SUA or its  
11 predecessor under Act 310. As mentioned in my Rebuttal Testimony, Act 310 provides  
12 clear criteria as to what may be recovered via an Act 310 surcharge, so this limitation is  
13 unnecessary, especially given that the General Staff will maintain oversight of the SSER  
14 via its audit process. I also explained that Black Hills Arkansas's similar Safety and  
15 Integrity rider does not include a similar restriction, a point to which Mr. Hilton did not  
16 respond in his Surrebuttal Testimony, despite his expressed desire to fairly apply such  
17 riders to all jurisdictional utilities.<sup>1</sup>

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<sup>1</sup> Surrebuttal Testimony of Jeff Hilton at 16:1-2 (September 9, 2024).

1 **Q. DID MR. HILTON CLARIFY HIS RECOMMENDATION THAT THE SSER**  
2 **SHOULD NOT INCLUDE COST RECOVERY FOR FUTURE PHMSA OR**  
3 **ARKANSAS GAS PIPELINE CODE (“CODE”) REQUIREMENTS?**

4 A. Yes, he did. I originally interpreted Mr. Hilton’s recommendation to mean that as PHMSA  
5 and/or Code requirements evolve in the future, the Company would need to propose  
6 revisions to its SSER tariff to include projects required by such future regulations for  
7 recovery within the SSER. In response to my concern stated in Rebuttal Testimony that  
8 Mr. Hilton’s recommendation “would require the Company to come back to the  
9 Commission and request an expansion of the rider for a category of investment that the  
10 Commission has already determined should be recovered via a rider,”<sup>2</sup> Mr. Hilton clarified  
11 that his recommendation is “designed to avoid inclusion of projects pursuant to proposed  
12 or anticipated rule changes, not to limit projects pursuant to the rules that are in place at  
13 the time of the investment.” Mr. Hilton explained that his recommendation does not “limit  
14 projects pursuant to the rules that are in place at the time of investment.”<sup>3</sup> As clarified, the  
15 Company does not oppose this recommendation. It is reasonable for SUA to include  
16 projects required by PHMSA or the Arkansas Gas Pipeline Code and not to include projects  
17 that were completed based on proposed or anticipated changes to those requirements. This  
18 ensures that only necessary and immediate safety-related projects are included, avoiding  
19 the inclusion of projects based on proposed or anticipated rule changes.

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<sup>2</sup> Rebuttal Testimony of Vernon McNully at 14:14-21 and 15:1-3 (August 7, 2024).

<sup>3</sup> Hilton Surrebuttal at 19:1-11.

1 **Q. WHAT IS YOUR RESPONSE TO MR. PORTER'S SURREBBUTAL**  
2 **ADDRESSING WHETHER RELIABILITY INVESTMENT IS SUBJECT TO**  
3 **ISSUES OUTSIDE THE COMPANY'S CONTROL?**

4 A. The Company appreciates Mr. Porter's acknowledgment that issues outside the Company's  
5 control can impact the level of reliability investment, so it seems we agree on that concept.  
6 He then focuses on the idea that whether to include costs of reliability projects in a rider is  
7 within the Company's control. For reasons I addressed in my Rebuttal Testimony, as well  
8 as the testimony below, including costs for reliability projects in the rider is reasonable  
9 when reliability and safety projects work in tandem to maintain the overall safety of the  
10 Company's system.

11 **Q. ARE RELIABILITY COSTS WITHIN THE CONTROL OF THE COMPANY?**

12 A. No, reliability costs are not fully within the control of the Company. While the Company  
13 can plan and prioritize certain investments, many reliability-related costs are driven by  
14 external factors such as extreme weather events and customer demands. As noted above,  
15 the Commission mandates that the Company operate and maintain its system to ensure  
16 safe, adequate, and reliable service. Additionally, severe weather events like Winter  
17 Storms Uri, Elliot, and Gerri, as well as tornadoes in Arkansas, necessitate continuous  
18 assessment and enhancement of our system's reliability

19 **Q. HOW HAS CHANGING WEATHER IMPACTED SUA'S RELIABILITY-**  
20 **RELATED INVESTMENTS?**

21 A. Changing weather, particularly extreme weather events, has significantly impacted SUA's  
22 reliability-related investments. In my Direct Testimony, I highlighted how severe weather  
23 events like Winter Storms Uri, Elliot, and Gerri, as well as tornadoes in Arkansas, have

1 necessitated continuous assessment and enhancement of our system's reliability. These  
2 events have underscored the need for investments in projects such as the deployment of  
3 pressure monitoring devices, modification of regulator stations, and installation of larger  
4 mains to increase capacity and address low-pressure concerns.

5 **Q. WHAT ROLE DOES THE ARKANSAS ENERGY RESOURCES PLANNING**  
6 **TASK FORCE PLAY IN GUIDING SUA'S PROPOSED INCLUSION OF**  
7 **RELIABILITY IMPROVEMENTS IN SSER?**

8 A. The Arkansas Energy Resources Planning Task Force, created by the Governor following  
9 Winter Storm Uri, has provided valuable recommendations for improving reliability. The  
10 Task Force emphasized the importance of evaluating investments to ensure adequate  
11 natural gas supplies, protecting key components of the supply system from extreme cold,  
12 and considering incentives for measures that enhance reliability. These recommendations  
13 align with SUA's focus on reliability projects, such as installing redundant feeds, upgrading  
14 regulator stations, and deploying remote monitoring devices to ensure a resilient system.

15 **Q. HOW DOES SUA ADDRESS CUSTOMER DEMANDS FOR RELIABLE**  
16 **SERVICE DURING EXTREME WEATHER EVENTS TO MEET THE LEVEL OF**  
17 **SERVICE EXPECTED TO BE PROVIDED BY THE COMMISSION?**

18 A. SUA is committed to meeting customer demands for reliable service, especially during  
19 extreme weather events. Our approach includes proactive measures such as strengthening  
20 the system through targeted installations of remote monitoring equipment, creating loops  
21 in the distribution system for multiple regulator feeds, and increasing main sizes to enhance  
22 capacity. Additionally, our Gas Control team monitors system pressures and collaborates  
23 with subject matter experts to ensure timely responses to potential challenges. These efforts

1 are crucial for maintaining uninterrupted natural gas service, limiting service outages  
2 during events, and ensuring customer safety during adverse weather conditions.

3 **IV. CONCLUSION**

4 **Q. PLEASE SUMMARIZE YOUR TESTIMONY AND RECOMMENDATIONS.**

5 A. The expenses associated with the maintenance of mains are essential, reasonable and  
6 necessary and cannot be reduced simply because newer mains are being installed. Even  
7 new mains require ongoing maintenance activities to ensure they remain reliable and safe  
8 assets throughout their usable life. Therefore, I recommend that the Commission reject Ms.  
9 LaConte's proposed reduction in the maintenance of mains expense.

10 Regarding the SSER, SUA's proposed revisions are crucial for ensuring the timely  
11 recovery of costs associated with safety and reliability projects. Including reliability  
12 projects in the SSER is both reasonable and appropriate because safety and reliability go  
13 hand in hand. The SSER should also allow for the recovery of costs for projects required  
14 by PHMSA or the Arkansas Gas Pipeline Code, as well as projects eligible under Act 310.  
15 This approach will streamline the recovery process, save time and resources, and maintain  
16 the General Staff's oversight through the audit process.


17 I urge the Commission to accept SUA's proposed SSER changes, which will enable  
18 the Company to make necessary investments in safety and reliability, ultimately benefiting  
19 our customers by providing a safer and more reliable natural gas system.

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

21 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 20th day of September 2024.

A handwritten signature in cursive script that reads "Brooke South Parsons". The signature is written in black ink on a white background.

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Brooke South Parsons

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

SUR-SURREBUTTAL TESTIMONY  
OF  
PAUL SCHULTE  
SENIOR TAX MANAGER  
ON BEHALF OF  
SUMMIT UTILITIES ARKANSAS, INC.

Date Filed: September 20, 2024



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**I. INTRODUCTION**

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

A. My name is Paul Schulte. I am the Senior Tax Manager for Summit Utilities, Inc. (“SUI”), which is the ultimate parent company of Summit Utilities Arkansas, Inc. (“SUA” or “Company”). My business address is 10825 E Geddes Avenue, Suite 410, Centennial, Colorado 80112.

**Q. ARE YOU THE SAME PAUL SCHULTE WHO FILED DIRECT TESTIMONY ON JANUARY 25, 2024, AND REBUTTAL TESTIMONY ON AUGUST 7, 2024, IN THIS PROCEEDING?**

A. Yes.

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

A. The purpose of my Sur-Surrebuttal Testimony is to respond to certain assertions in the Surrebuttal Testimony of Arkansas Public Service Commission (“Commission”) General Staff (“Staff”) witness Mr. Don Malone related to Accumulated Deferred Income Tax (“ADIT”) and Excess Deferred Income Tax (“EDIT”).

**II. REPLY TO STAFF SURREBUTTAL**

**Q. HAVE SUA AND STAFF REACHED AGREEMENT ON THE TREATMENT OF ADIT AND EDIT IN THE COMPANY’S COST OF SERVICE?**

A. Not completely.

**Q. WHAT DIFFERENCES REMAIN BETWEEN THE SUA AND STAFF POSITIONS?**

A. While there is no dispute between SUA and staff regarding the zero ADIT balance in the capital structure, the Company is responding to Mr. Malone’s position on EDIT. Mr.

1 Malone continues to recommend that the Commission order the collection of the  
2 Company's cost of removal unprotected EDIT asset using the average rate assumption  
3 method ("ARAM") and that SUA's unprotected state income tax deferred asset of  
4 \$140,337 be collected from customers over a five-year period. These recommendations  
5 also affect Mr. Malone's income tax expense position. For the reasons noted below and in  
6 my Rebuttal Testimony, SUA believes its requests in this case to credit the cost of removal-  
7 related EDIT asset balance against the Company's existing TCJA-related protected EDIT  
8 liability for approximately 13 years, and to recover its unprotected state income tax  
9 deferred asset over two years remain reasonable and should be adopted.

10 **Q. WHICH PORTIONS OF YOUR REBUTTAL TESTIMONY ADDRESS THESE**  
11 **ISSUES?**

12 A. My Rebuttal Testimony at pages 1 through 5 address Mr. Malone's positions.

13 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS RELATED TO MR.**  
14 **MALONE'S SURREBUTTAL ON THE COST OF REMOVAL EDIT ASSET**  
15 **RECOVERY PERIOD?**

16 A. Yes. Mr. Malone's reasoning for retaining his recommendation of recovering the cost of  
17 removal EDIT asset over the life of the protected EDIT liability appears to be based on his  
18 point in Surrebuttal to "keep[ing] in mind the COR DTA originated from federal protected  
19 EDIT."<sup>1</sup> The idea that the cost of removal EDIT asset originated from federal protected  
20 EDIT has nothing to do with the fact that the IRS has since ruled that it should be accurately  
21 categorized as federal unprotected EDIT, and, thus, may be collected or refunded without

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<sup>1</sup> Surrebuttal Testimony of Don Malone at 15, lines 20-21 (September 9, 2024).

1 regard to any prescribed time periods. As stated in my Rebuttal Testimony, the Company’s  
2 proposal does not stop the return of protected EDIT to customers. Rather, it provides for a  
3 return to the Company from the cost of removal-related asset at the same rate as the refund  
4 to customers from the protected EDIT liability. The Company’s proposal for recovery of  
5 the unprotected EDIT asset over approximately 13 years is reasonable, does not keep the  
6 utility from continuing to refund protected EDIT in current rates, and, as such, should be  
7 approved.

8 **Q. DO YOU AGREE WITH MR. MALONE THAT THE COMPANY’S PROPOSAL**  
9 **WILL INCREASE THE OVERALL COST OF UTILITY SERVICE FOR**  
10 **CUSTOMERS BY REMOVING THE TCJA REFUND FOR THIRTEEN YEARS?**

11 A. No. I do not understand this assertion by Mr. Malone. The Company’s proposal does not  
12 change the number of years over which protected EDIT will be returned to customers. It  
13 simply reduces the balance of protected EDIT that is already gradually being returned to  
14 customers over ARAM. Thus, customers will continue to see the benefit of a cost reduction  
15 associated with the TCJA and will continue to see that benefit until all of the protected  
16 EDIT balances created by the TCJA are extinguished through ARAM.

17 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS RELATED TO MR.**  
18 **MALONE’S POSITION ON THE RECOVERY TIME PERIOD FOR THE**  
19 **UNPROTECTED STATE EDIT ASSET?**

20 A. Yes. I would simply note that Mr. Malone’s concerns related to possible over-collection  
21 and past practice should be evaluated in the context of SUA’s current position, not prior  
22 Commission decisions for other utilities facing different circumstances. Five years is the  
23 term of a Formula Rate Plan (“FRP”), but SUA has not proposed an FRP in this case and

1 will likely need to file a general rate case sooner than five years. Two years is a more  
2 reasonable time period for the recovery of the unprotected state income tax deferred asset  
3 given the ratemaking facts and circumstances specific to SUA.

4 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS RELATED TO MR.**  
5 **MALONE’S INCOME TAX EXPENSE POSITION?**

6 A. Yes. Mr. Malone’s income tax expense position is driven by his recommendations related  
7 to the amortization of the cost of removal-related EDIT asset and state EDIT asset. Because  
8 the Company believes that the Commission should not adopt Mr. Malone’s  
9 recommendations on the cost of removal EDIT asset and recovery period for the  
10 unprotected state EDIT asset, it believes the Commission should not adopt his income tax  
11 expense proposal.

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

13 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 20th day of September 2024.

A handwritten signature in cursive script that reads "Brooke South Parsons". The signature is written in black ink on a light-colored background.

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Brooke South Parsons

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

REDACTED SUR-SURREBUTTAL TESTIMONY  
OF  
CRAIG ROOT  
VICE PRESIDENT AND CORPORATE TREASURER  
ON BEHALF OF  
SUMMIT UTILITIES ARKANSAS, INC.

Date Filed: September 20, 2024

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SUR-SURREBUTTAL EXHIBIT CR-1   Average Accrued Dividend Payable  
(CONFIDENTIAL)



**I. INTRODUCTION**

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

A. My name is Craig Root. I am the Vice President and Corporate Treasurer for Summit Utilities, Inc. (“SUI”), which is the ultimate parent company of Summit Utilities Arkansas, Inc. (“SUA” or “Company”). My business address is 1400 Centerview Drive, Suite 100, Little Rock, AR 72211.

**Q. ARE YOU THE SAME CRAIG ROOT WHO FILED DIRECT TESTIMONY ON JANUARY 25, 2024, AND REBUTTAL TESTIMONY ON AUGUST 7, 2024, IN THIS PROCEEDING?**

A. Yes.

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

A. The purpose of my Sur-Surrebuttal Testimony is to rebut portions of the Surrebuttal Testimonies of the Arkansas Public Service Commission (“Commission”) General Staff (“Staff”) witnesses Mr. Dan Daves and Mr. Don Malone, the Arkansas Attorney General (“AG”) witness Dr. Marlon F. Griffing, Ph.D., Hospitals and Higher Educations Group (“HHEG”) witness Mr. Larry Blank, and Arkansas Gas Consumers, Inc. (“AGC”) witness Ms. Billie S. LaConte.

**Q. ARE YOU SPONSORING OR CO-SPONSORING ANY EXHIBITS?**

A. Yes, I sponsor the exhibit listed in my Table of Contents.

**Q. DOES THE FACT THAT YOU MAY NOT ADDRESS AN ISSUE OR POSITION RAISED BY ANOTHER PARTY INDICATE THAT YOU AGREE WITH THEIR POSITION?**

A. No, it does not.

1 **II. CAPITAL STRUCTURE**

2 **Q. WHAT IS THE COMPANY’S REQUESTED CAPITAL STRUCTURE IN THIS**  
3 **CASE?**

4 A. Based on updated numbers from the final 2023 audit, the Company is requesting a capital  
5 structure of 45.12% total debt and 54.88% equity, consistent with the actual capital  
6 structure planned for Southern Col Holdco, LLC (“SCHC”) as of December 31, 2024.

7 **Q. WHAT HAVE THE OTHER PARTIES PROPOSED RELATING TO CAPITAL**  
8 **STRUCTURE?**

9 A. The other parties’ capital structure positions are as follows:

- 10 • On behalf of Staff, Mr. Daves continues to recommend a hypothetical capital  
11 structure but has revised his recommended capital structure to 55% debt (inclusive  
12 of 6.16% short-term debt) and 45% equity.<sup>1</sup>
- 13 • On behalf of the AG, Dr. Griffing continues to propose a hypothetical capital  
14 structure of 54% debt (inclusive of 8% short-term debt), and 46% common equity.<sup>2</sup>
- 15 • Testifying on behalf of HHEG, Dr. Blank revises his proposed capital structure to  
16 include 51.82% debt (up from 51.41% recommended in his Direct Testimony) and  
17 48.18% common equity (down from 48.59% in Direct Testimony).<sup>3</sup>
- 18 • For AGC, Ms. LaConte now recommends a capital structure incorporating a 44%  
19 equity ratio.<sup>4</sup> In her Direct Testimony, Ms. LaConte recommended that the

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<sup>1</sup> Surrebuttal Testimony of Dan Daves at 6 (September 9, 2024).

<sup>2</sup> Surrebuttal Testimony of Marlon F. Griffing, Ph.D. at 4 (September 9, 2024).

<sup>3</sup> Surrebuttal Testimony of Larry Blank at 4 (September 9, 2024).

<sup>4</sup> Surrebuttal Testimony of Billie S. LaConte at 14 (September 9, 2024).

1 Commission lower the Company’s proposed common equity ratio to no higher than  
2 50%.<sup>5</sup>

3 **Q. STAFF WITNESS DAVES CHARACTERIZED YOUR REBUTTAL TESTIMONY**  
4 **WITH RESPECT TO THE DISCUSSION OF THE COMPANY’S CREDIT**  
5 **RATING AS “MISLEADING.” ARE THERE ANY POINTS IN THIS REGARD**  
6 **THAT YOU WOULD LIKE TO CLARIFY?**

7 A. Mr. Daves stated that my Rebuttal Testimony is misleading because I stated that SCHC  
8 has a credit rating by Fitch of A-. It was not my intention to be misleading, and Mr. Daves  
9 is correct that SCHC does not have a credit rating of A-. Just to clarify, Southern Col  
10 Midco, LLC (“SCMC”) has a general corporate rating of BBB+, but the SCMC private  
11 placement notes are rated A-, reflecting a one-notch upgrade to A- because they are secured  
12 by a pledge of SCMC’s equity in SUA and Summit Utilities Oklahoma, Inc. (“SUO”). The  
13 cost of debt used in our proposed capital structure reflects that the A- rating will be  
14 maintained. Notwithstanding Mr. Daves’ clarification, which I do appreciate, the point that  
15 I was making in my testimony is still valid and relevant to the issue at hand before the  
16 Commission. The debt issued by SCHC and SCMC is used solely to support SUA and  
SUO’s operations. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

23

<sup>5</sup> Direct Testimony of Billie S. LaConte at 34 (July 10, 2024).

<sup>6</sup> Rebuttal Exhibit of Craig Root, CR-1 at 4 (August 7, 2024)



[REDACTED]

7 [REDACTED]

8 **Q. STAFF WITNESS DAVES HAS STATED THAT THE CAPITAL STRUCTURE**  
9 **IMPUTED TO CENTERPOINT ENERGY RESOURCES CORP. (“CERC”) IN ITS**  
10 **2015 RATE CASE HAS NO RELEVANCE TO THIS PROCEEDING. DO YOU**  
11 **AGREE?**

12 A. No. As I mentioned in my Rebuttal Testimony, the capital structure imputed to CERC is  
13 relevant in the respect that it is a meaningful data point relative to the capital structure  
14 being proposed by Mr. Daves and Dr. Griffing. Although the current authorized capital  
15 structure was originally made in 2015, I think it is important to note that the Commission  
16 imputed the same 51.5% debt / 48.5% equity capital structure recommended by Staff in  
17 2021 in Order No. 11 of Docket No. 21-060-U, when the acquisition of CERC’s assets was  
18 approved by the Commission. Incidentally, the RRA Report provided as Mr. Daves’ Direct  
19 Exhibit 16, also shows that the average equity ratios authorized for gas utilities in 2023,  
20 2022 and 2021, were 52.45%, 51.38%, and 50.94%, respectively,<sup>10</sup> which coincides with  
21 the capital structure applied in Order No. 11 of Docket No. 21-060-U. This leads me to

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<sup>8</sup> Emphasis added.  
<sup>9</sup> Rebuttal Exhibit of Craig Root, CR-1 at 4.  
<sup>10</sup> Direct Exhibits of Dan Daves, DD-16 at 6 (July 10, 2024)

1 believe that the equity ratio authorized as part of the acquisition of CERC’s assets was in  
2 line with its peers in 2021, and that SUA’s current recommendation of 45.12% total debt  
3 and 54.88% equity is also generally in line with peers now based on market trends.

4 **Q. ON PAGE 16 OF HIS SURREBUTTAL TESTIMONY, STAFF WITNESS DAVES**  
5 **TAKES THE POSITION THAT “DEBT COSTS HAVE GENERALLY DECLINED**  
6 **WITH INTEREST RATES” SINCE CERC’S LAST RATE CASE WAS FILED IN**  
7 **2015. WHAT IS YOUR RESPONSE?**

8 A. I do not agree with the premise of Mr. Daves’ statement nor the conclusion that he draws  
9 from it. Clearly, current interest rates are much higher than they were in 2015 when  
10 CERC’s last rate case was filed. The table below shows that rates have risen substantially  
11 across the entire yield curve since October 1, 2015, with rate increases ranging between  
12 5.18% for 1-month Treasury notes and 1.12% for 30-Year Treasury Bonds.

Constant Maturity Treasury Rates											
Date	1 Month	3 Month	6 Month	1 Year	2 Year	3 Year	5 Year	7 Year	10 Year	20 Year	30 Year
2015-10-01	0.00%	0.00%	0.08%	0.31%	0.64%	0.92%	1.37%	1.75%	2.05%	2.49%	2.85%
2024-09-10	5.18%	5.06%	4.65%	4.07%	3.59%	3.42%	3.43%	3.53%	3.65%	4.04%	3.97%
Change	5.18%	5.06%	4.57%	3.76%	2.95%	2.50%	2.06%	1.78%	1.60%	1.55%	1.12%

Source: Federal Reserve Website: <https://www.federalreserve.gov/datadownload/Choose.aspx?rel=H15>

13 Additionally, the remainder of Mr. Daves’ statement that, “In the years since the  
14 Company’s previous rate case, debt costs have generally declined with interest rates which  
15 appears to have incentivized companies to finance operations more through debt as  
16 indicated by the levels of long-term debt in the proxy group of companies in Staff’s  
17 Surrebuttal Exhibit DD-4” is contradicted by his own Surrebuttal Exhibit DD-4, which  
18 shows average Common Equity Ratios increasing 1.59% over the last quarters from

1 43.29% in Q3 2022 to 44.88% in Q2 2024.<sup>11</sup> As mentioned in my Rebuttal Testimony, Mr.  
2 Daves' statement is also contradicted in his own Exhibit 16, which is the RRA Report  
3 provided by Mr. Daves in his Direct Testimony that stated average authorized equity ratios  
4 for gas utilities have risen substantially from 45.81% in 2004 to 53.86% in Q1 2024.<sup>12</sup>

5 **Q. ON PAGE 18 OF HIS SURREBUTTAL TESTIMONY, STAFF WITNESS DAVES**  
6 **STATES THAT HE “PARTIALLY AGREES” WITH YOUR POSITION THAT**  
7 **STAFF’S METHODOLOGY FOR ARRIVING AT THE COST OF DEBT, COST**  
8 **OF EQUITY, AND RECOMMENDED CAPITAL STRUCTURE IN THIS CASE**  
9 **ARE NOT CONGRUENT WITH ONE ANOTHER. HOW DO YOU RESPOND?**

10 A. It appears that Mr. Daves and I may disagree on what the term “congruence” means in  
11 terms of capital structure. In the context of capital structure, congruence means that risk  
12 and return must be aligned. Higher levels of risk, either financial or operational, must  
13 translate into higher required returns on debt and equity from an investor’s perspective.  
14 Mr. Daves’ recommendation to change the capital from the current approved capital  
15 structure of 51.5% debt / 48.5% equity to 55% debt / 45% equity while using the current  
16 actual cost of debt and little to no change in the cost of equity in a higher interest rate  
17 environment since 2015 is categorically incongruent.

18 **Q. HHEG WITNESS BLANK TAKES THE POSITION THAT SCHC DOES NOT**  
19 **REPRESENT THE REGULATED UTILITY WITH THE ARKANSAS**  
20 **JURISDICTION AND IS ONLY BEING USED AS A “PROXY” REGARDING THE**  
21 **DETERMINATION OF A CAPITAL STRUCTURE FOR SUA. WHAT IS YOUR**  
22 **RESPONSE?**

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<sup>11</sup> Surrebuttal Testimony of Dan Daves at 16 (September 9, 2024).

<sup>12</sup> Direct Exhibits of Dan Daves, DD-16 at 6-7.

1 A. Mr. Blank is correct that SCHC is not a regulated utility in Arkansas, but this is a distinction  
2 without a difference. SCHC’s sole purpose is to function as a holding company and provide  
3 financing for SUO and SUA, which are regulated utilities in Oklahoma and Arkansas,  
4 respectively. It does not serve any other purpose. Therefore, it is my position that the  
5 SCHC’s capital structure is not a “proxy capital structure,” but rather it is the actual capital  
6 structure used to finance SUA and SUO’s utility operations. Furthermore, since SCHC is  
7 a parent company of SUA under common management and control, it should carry more  
8 weight than a peer group company that does not have the same management oversight.

9 **Q. HHEG WITNESS BLANK ASSERTS THAT THE COMPANY’S PROPOSED**  
10 **GOODWILL ADJUSTMENT WOULD VIOLATE THE MERGER SETTLEMENT**  
11 **AGREEMENT. IS THE COMPANY’S PROPOSED ADJUSTMENT CONSISTENT**  
12 **WITH THE COMMISSION’S ORDER?**

13 A. I disagree with Mr. Blank. The Company’s proposed adjustment to remove goodwill was  
14 made in order to comply with the Settlement Agreement that specifically states on page  
15 five that, “SUA will not, directly or indirectly, seek recovery of any acquisition premium  
16 associated with the transaction and will not include any such acquisition premium in the  
17 capital structure of SUA for Arkansas regulatory or ratemaking purposes (“Acquisition  
18 Premium”).”<sup>13</sup>

19 **Q. AGC WITNESS LACONTE STATED THAT SHE NOW ADOPTS STAFF’S**  
20 **CAPITAL STRUCTURE RECOMMENDATION IN THIS CASE. WHAT**  
21 **ANALYSIS DID SHE PERFORM TO ARRIVE AT HER PROPOSED CAPITAL**  
22 **STRUCTURE?**

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<sup>13</sup> Docket No. 21-060-U, Joint Motion to Approve Settlement and to Waive Hearing, Joint Exhibit 1 at 5, B.1.i. (October 14, 2021).



1 A. None. Ms. LaConte does not provide any analysis or empirical evidence to support her  
2 conclusion, and Staff's recommended capital structure has since changed. In the absence  
3 of facts, Ms. LaConte's statement is merely an opinion and should be afforded no weight  
4 by the Commission.

5 **III. OTHER COST OF CAPITAL ISSUES**

6 **A. Short-Term and Long Term Debt**

7 **Q. STAFF'S RECOMMENDED LONG-TERM DEBT COST RATE HAS CHANGED**  
8 **FROM 3.3916% IN DIRECT TO 4.11% IN SURREBUTTAL. DO YOU HAVE ANY**  
9 **COMMENTS ON ITS RELATED ANALYSIS?**

10 A. Mr. Daves' recommended cost of debt of 4.11% based on a proxy group is inappropriate  
11 in this circumstance and is not a significant enough difference to deviate from SCHC's  
12 actual cost of debt. There are a number of factors that can cause differences between  
13 SUA's actual cost of debt and the proxy group average, including, but not limited to: timing  
14 of transactions, interest rate risk management, company-specific credit risk and tenor.  
15 SCHC has a consolidated debt structure already in place for SUA and the risk associated  
16 with private placements is already imbedded in the Company's actual costs. This would  
17 suggest that SUA's recommended cost of debt is reasonable and consistent with peers,  
18 which would justify using it for rate-making purposes.

19 **Q. AG WITNESS GRIFFING STATES THAT "SUA REQUESTED A CAPITAL**  
20 **STRUCTURE WITH NO SHORT-TERM DEBT." IS THAT ACCURATE?**

21 A. No. As I mentioned in my Rebuttal Testimony, SUA's proposed capital structure of  
22 45.12% total debt and 54.88% equity includes short-term debt. The only portion of SUA's  
23 capital structure that could be considered short-term debt is the \$200 million revolving

1 credit facility. While the cost of that revolving credit facility is currently embedded into  
 2 SUA’s recommended cost of total debt and capital structure, it can be broken out for  
 3 illustrative purposes. The following schedules show a breakout of SUA’s recommended  
 4 capital structure and cost of debt with pro-forma adjustments applied to both long-term and  
 5 short-term debt to keep the total cost of debt the same as what was originally proposed:

<b>Proforma Capital Structure - 2024</b>		
	<b>Total</b>	<b>%</b>
Short-Term Debt	88,553,339	7.34%
Long-Term Debt	455,557,661	37.78%
Equity	661,694,553	54.88%
<b>Total</b>	<b>1,205,805,553</b>	<b>100.00%</b>

	(5)	(6)	(7)	(8)	
	Subtotal Amount End of Pro Forma Year	Special Pro Forma Adjustments	Amount End of Pro Forma Year	Proportion (Amount/Total)	Rate %
Short Term Debt	199,668,339	(111,115,000)	88,553,339	16.27%	6.6074%
Long Term Debt	1,064,411,986	(608,854,326)	455,557,661	83.73%	3.7079%
<b>Total Debt</b>	<b>1,264,080,325</b>	<b>(719,969,326)</b>	<b>544,110,999</b>	<b>100.00%</b>	<b>4.1798%</b>

6 If short-term and long-term debt are broken out, SUA’s recommended capital  
 7 structure is 45.12% debt (inclusive of 7.34% short-term debt) and 54.88% equity. The  
 8 actual cost of short-term and long-term debt are 6.6074% and 3.7079%, respectively.

9 **B. Uri Debt**

10 **Q. ON PAGE 17 OF THE SURREBUTTAL TESTIMONY OF STAFF WITNESS**  
 11 **DAVES, HE TAKES ISSUE WITH THE COMPANY’S ELIMINATION OF URI**  
 12 **DEBT FROM THE COMPANY’S PROPOSED CAPITAL STRUCTURE. WHY IS**  
 13 **THIS ADJUSTMENT APPROPRIATE?**

14 **A.** Mr. Daves is inconsistent in his recommendation. On page 19, Mr. Daves states that it is  
 15 appropriate to use proxy group information for cost of debt instead of SUA’s actual cost of  
 16 debt, which would be “as reported” data, but on page 17, he states that “Observing these  
 17 financing decisions ‘as reported’ is the best way to observe ‘best practices’ in a financial

1 sense.” These inconsistencies go to the heart of why Mr. Daves’ recommendation on capital  
2 structure and cost of capital are not congruent with each other.

3 **Q. DO YOU MAINTAIN THAT WINTER STORM URI IMPACTED THE OVERALL**  
4 **DEBT LEVELS OF THE PROXY GROUP?**

5 A. Yes, it certainly did for SUA, Atmos, ONE Gas and Spire as addressed in my Rebuttal  
6 Testimony.

7 **Q. HHEG WITNESS BLANK MAINTAINS THAT THE COMPANY’S REMOVAL**  
8 **OF THE URI DEBT IS AN “ATTEMPT TO INCREASE COST OF CAPITAL AND**  
9 **BASE RATES IN THIS CASE, AND THEREBY, CIRCUMVENT THE**  
10 **COMMISSION’S DECISION ON APPROPRIATE COST RECOVERY FOR URI.”**  
11 **IS THIS STATEMENT FACTUAL?**

12 A. No. It is counter-factual for the reasons mentioned above and in my Direct and Rebuttal  
13 Testimonies. Winter Storm Uri was an extraordinary event that cannot be planned for  
14 when setting a normal capital structure for a regulated utility. The cost of maintaining that  
15 level of liquidity is simply too high. The debt associated with Winter Storm Uri in most  
16 cases was a reaction to an immediate liquidity crisis that should not be factored into setting  
17 a company’s target capital structure. This is why many states used securitization to relieve  
18 the burden of holding the debt from the utilities. In SUA’s case, the cost of securitizing  
19 the debt did not justify benefit from a customer perspective. As discussed in my Rebuttal  
20 Testimony, SUA should not be penalized for acting in the customer’s best interest by  
21 keeping that debt in the capital structure instead of using securitization.

1 **Q. DO YOU MAINTAIN THAT URI DID NOT IMPACT THE COMPANY'S**  
2 **TARGET CAPITAL STRUCTURE?**

3 A. Yes. Winter Storm Uri did not impact the Company's target capital structure. This is why  
4 SCHC initially used a bridge loan facility to finance the regulatory asset as part of the  
5 acquisition instead of building it into its permanent capital structure. The Company's target  
6 capital structure is 45.12% total debt and 54.88% equity.

7 **C. Dividends Payable**

8 **Q. IN TABLE 4 ON PAGE 11 OF STAFF WITNESS MALONE'S SURREBUTTAL,**  
9 **THERE IS A LINE ITEM OF \$18,896,438 RELATED TO "ADJUST DIVIDENDS**  
10 **PAYABLE." DO YOU HAVE ANY COMMENTS RELATED TO THAT?**

11 A. I have a few comments on this adjustment. While I agree this is an acceptable adjustment,  
12 it appears that Mr. Malone made a few errors in his calculation of what the dividend  
13 payable should be, which are as follows:

14 1) Mr. Malone used the ultimate parent company, SUI, as the basis for his calculation  
15 instead of SCHC. I am not sure if this was an oversight or misunderstanding of SUI's  
16 corporate and legal structure, but the dividends paid by SCHC are not directly tied to  
17 dividends payable from SUI to its shareholder. The dividends used for the purpose of  
18 determining an adjustment should be consistent with the other components of the capital  
19 structure used to calculate the WACC. In other words, Mr. Malone should have used  
20 SCHC-level dividends for his calculation.

21 2) Several of the dividends shown have overlapping days, but instead of combining  
22 amounts, Mr. Malone double counts the days, resulting in an overstatement of the number  
23 of days that dividends were outstanding.

1           3) Mr. Malone uses the “Average Dividend Per Day” as the starting point in his calculation  
2           by calculating the total dividends paid in a year divided by 365 days. However, he  
3           multiplies it by the “Average Lag Days per Quarter” to calculate “Average Dividend Per  
4           Quarter.” Using the 13-month average method, this is incorrect, because it fails to properly  
5           account for the actual working capital impact from periods when no dividend is declared  
6           and outstanding.

7           In my Sur-Surrebuttal Exhibit CR-1, I show a corrected calculation of Average  
8           Accrued Dividends Payable. Like Mr. Malone, I calculate the “Average Dividend Per  
9           Day” as the starting point in my calculation by calculating the total dividends paid in a year  
10          divided by 365 days. Then, I take the total number of days that dividends were outstanding  
11          in the year and divide it by the number of dividends to arrive at an “Average Days per  
12          Dividend.” Finally, I multiply “Average Dividend per Day” by “Average Days per  
13          Dividend” to arrive at “Average Dividend” (i.e., Average Accrued Dividends Payable). I  
14          am not an attorney, but it is my understanding that the Commission applied the same logic  
15          and calculation methodology in Docket No. 06-101-U.<sup>14</sup> Further, as consistent with the  
16          discussion in Order No. 22 of Docket No. 06-101-U, Staff has utilized the dividends of  
17          SUA’s ultimate parent but presented no evidence as to why his use of the ultimate parent  
18          company is appropriate.

19          While I agree with Mr. Malone’s inclusion of dividends payable as an adjustment  
20          to CAOL in the capital structure, due to Mr. Malone’s use of the incorrect legal entity and  
21          the calculation error, I have attached a revised, corrected calculation showing that the  
22          adjustment should be \$1,125,479 instead of \$18,896,438 as proposed by Mr. Malone.

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<sup>14</sup> See Docket No. 06-101-U, Order No. 22 (October 2, 2009).

1 **IV. CONCLUSION**

2 **Q. PLEASE SUMMARIZE YOUR TESTIMONY AND RECOMMENDATIONS.**

3 A. The Company is requesting a capital structure of 45.12% total debt and 54.88% equity,  
4 consistent with the actual capital structure planned for SCHC. This capital structure will  
5 maintain SCMC's credit rating. SUA properly adjusted its capital structure calculation for  
6 both goodwill, as required in the Settlement Agreement in Docket No. 21-060-U, and for  
7 Winter Storm Uri. Finally, while the Company does agree with Staff's adjustment related  
8 to dividends payable, it is improper to use SUI's dividends payable and the calculation to  
9 determine the days that dividends were outstanding is incorrect. The Company maintains  
10 its position that the appropriate capital structure is the actual planned capital structure for  
11 SCHC.

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

13 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 20th day of September 2024.

A handwritten signature in cursive script that reads "Brooke South Parsons". The signature is written in black ink on a light-colored background.

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Brooke South Parsons

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

REDACTED SUR-SURREBUTTAL EXHIBIT  
OF  
CRAIG ROOT  
VICE PRESIDENT AND CORPORATE TREASURER  
ON BEHALF OF  
SUMMIT UTILITIES ARKANSAS, INC.

Date Filed: September 20, 2024

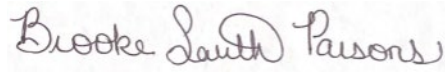


**REDACTED SUR-SURREBUTTAL EXHIBIT CR-1**  
**AVERAGE ACCRUED DIVIDEND PAYABLE**

This Exhibit is redacted in its entirety, pursuant to Docket No. 23-079-U, Order No. 1

**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 20th day of September 2024.

A handwritten signature in black ink that reads "Brooke South Parsons". The signature is written in a cursive style with a large initial 'B'.

Brooke South Parsons

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

SUR-SURREBUTTAL TESTIMONY  
OF  
SAM SPRINGER  
DIRECTOR OF HUMAN RESOURCES  
ON BEHALF OF  
SUMMIT UTILITIES ARKANSAS, INC.

Date Filed: September 20, 2024

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III. VOLUNTEER TIME OFF .....3

IV. RETENTION AND SIGN-ON BONUSES.....4

V. CONCLUSION.....5

1 **I. INTRODUCTION**

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

3 A. My name is Sam Springer. I am the Director of Human Resources for Summit Utilities,  
4 Inc. (“SUI”), which is the ultimate parent company of Summit Utilities Arkansas, Inc.  
5 (“SUA” or "Company"). My business address is 10825 E. Geddes Avenue, Suite 410,  
6 Centennial, Colorado 80112.

7 **Q. ARE YOU THE SAME SAM SPRINGER WHO FILED DIRECT TESTIMONY ON**  
8 **JANUARY 25, 2024, AND REBUTTAL TESTIMONY ON AUGUST 7, 2024, IN**  
9 **THIS PROCEEDING?**

10 A. Yes.

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

12 A. The purpose of my Sur-Surrebuttal Testimony is to respond to proposed adjustments and  
13 recommendations in the Surrebuttal Testimonies of Arkansas Gas Consumers, Inc. witness  
14 Ms. Billie S. LaConte, Arkansas Public Service Commission (“Commission”) General  
15 Staff (“Staff”) witness Mr. Middleton Ray, and Attorney General (“AG”) witness Mr.  
16 Dante Mugrace, all of whom address certain aspects of the Company’s requested  
17 compensation and benefits costs. In general, I will address the importance of offering the  
18 compensation and benefit programs intervenor and Staff witnesses are challenging, which  
19 supports the reasonableness and necessity of the compensation and benefits costs SUA  
20 seeks to recover. Company witness Mr. Gillam will address the accounting and/or  
21 ratemaking aspects of their positions.

**II. SHORT-TERM INCENTIVE COMPENSATION COSTS**

**Q. AFTER REVIEWING YOUR REBUTTAL TESTIMONY, HAVE MS. LACONTE, MR. RAY, OR MR. MUGRACE CHANGED THEIR POSITIONS IN OPPOSITION TO RECOVERY OF CERTAIN SHORT-TERM INCENTIVE (“STI”) COMPENSATION AMOUNTS?**

A. No, each witness maintains their original position.

**Q. DOES THE COMPANY CONTINUE TO REQUEST RECOVERY OF TEST YEAR STI AMOUNTS?**

A. Yes. I continue to support the arguments and information contained in my Rebuttal Testimony that show SUA should be permitted to recover all STI amounts, including amounts related to financial or Environmental, Social and Governance (“ESG”) goals. SUA takes a geographic approach to employee compensation that reflects the labor markets where the Company provides service. Only through the combination of base pay and STI is an employee’s overall pay at the median of the market. Recovery of all requested STI amounts is reasonable because not allowing recovery penalizes the Company for designating a portion of an employee’s reasonable and market competitive compensation package as a form of variable or incentive pay. Variable or incentive pay is tied to performance goals that motivate employees to achieve higher-level, more impactful performance outcomes that benefit customers. The impactful outcomes SUI intends to achieve related to financial and ESG goals, as well as all categories of SUI’s stated corporate goals, have a material impact on the safe, reliable and cost-effective services that all of our customers and communities enjoy.

1 **Q. WHAT DOES SUI HOPE TO ACHIEVE THROUGH THE COMBINATION OF**  
2 **STI GOALS IN THE COMPANY’S PLAN, INCLUDING FINANCIAL AND ESG**  
3 **GOALS?**

4 A. SUI and the Company aim to achieve success across three areas when considering the  
5 reasonableness of a request for recovery of STI tied to all plan goals. First, achievement of  
6 established goals must lead to positive outcomes for customers; second, goal results of the  
7 Company must be the result of the aggregated outcome of an individual employee’s  
8 achievements over the performance period; and third, employee compensation must be  
9 maintained at a competitive level on a geographic basis so as to remain competitive within  
10 the local labor market where they (and the Company’s customers) work. When all three of  
11 these areas are achieved as the Company has accomplished, it is hard to understand why  
12 any part of the Company’s requested STI expense would not be considered reasonable and  
13 necessary and therefore recoverable through rates.

14 **III. VOLUNTEER TIME OFF**

15 **Q. DO MR. RAY OR MS. LACONTE CONTINUE TO OPPOSE THE COMPANY’S**  
16 **RECOVERY OF VOLUNTEER TIME OFF (“VTO”) COSTS?**

17 A. Yes.

18 **Q. WHAT IS THE COMPANY’S POSITION ON VTO AMOUNTS AFTER**  
19 **REVIEWING THE SURREBUTTAL TESTIMONY SUBMITTED BY MR. RAY**  
20 **AND MS. LACONTE?**

21 A. The Company maintains its position that this program provides benefits to customers  
22 because those customers live and work in the communities that are the beneficiaries of the  
23 VTO hours. This program offers a wonderful opportunity for employees to interact with



1 customers while helping to lift up and improve the community. These interactions lead to  
2 opportunities to educate the community on various aspects of operating a natural gas utility  
3 and providing service to customers while also answering their questions. Providing safe,  
4 reliable, and cost-effective services allows the community to be well informed on ways  
5 they can take advantage of tools at their disposal that allow them to enjoy efficient service  
6 as well as fully understand how they can take measures to keep themselves and their  
7 families safe while enjoying the benefits of using natural gas. The VTO program creates  
8 these types of positive interactions that lead to a partnership between customers and the  
9 Company. For these reasons, the Company believes recovery of VTO expenses is  
10 reasonable.

11 **IV. RETENTION AND SIGN-ON BONUSES**

12 **Q. WHAT POSITION DOES MR. MUGRACE TAKE ON RECOVERY OF**  
13 **AMOUNTS FOR RETENTION AND SIGN-ON BONUSES AFTER REVIEWING**  
14 **THE COMPANY'S REBUTTAL TESTIMONY?**

15 A. Mr. Mugrace opposes recovery of costs for sign-on and retention bonuses because he  
16 claims these "costs are clearly to the benefit of the Company" and are human resource-  
17 related costs, suggesting there is no assumption that all of these types of costs are to be  
18 recovered in rates.<sup>1</sup>

19 **Q. HAS THE COMPANY CHANGED ITS REQUEST TO RECOVER COSTS FOR**  
20 **RETENTION AND SIGN-ON BONUSES?**

21 A. No, the Company maintains its position that costs associated with these rarely used  
22 programs enable it to successfully recruit employees with the critical skills and knowledge

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<sup>1</sup> Surrebuttal Testimony of Mugrace at 11-13 (September 9, 2024).

1 needed to achieve the services our customers enjoy. If employees are key to achieving the  
2 goal of offering safe, reliable and cost-effective services, then there is no avoiding these  
3 costs as they ensure that we recruit and retain the type of talent that is integral in achieving  
4 those outcomes. When used, the sign-on bonus keeps the Company's offer competitive and  
5 helps a candidate accept a job with SUA when they may still have compensation due to  
6 them at their current employer.

7 The retention bonus has been used sparingly and resulted in the Company being  
8 able to retain critical talent. This is not a tool that is used for every role in the Company,  
9 but only those roles where the person is working on a critical project or has a critical skill  
10 that would be difficult to replace. The Company still experiences attrition; however, the  
11 retention bonus is used to avoid attrition for key individuals whose departure would have  
12 a negative impact on projects or programs that impact customers.

## 13 V. CONCLUSION

### 14 Q. PLEASE SUMMARIZE YOUR TESTIMONY AND RECOMMENDATIONS.

15 A. Customers are a top priority for the Company. In many cases, team members are also  
16 customers, along with their extended family members. The compensation costs the  
17 Company is asking to recover are not above and beyond what is reasonable within the areas  
18 where we operate. Our geographic approach to compensation reflects the labor markets  
19 where we have operations and aligns well with customers who are also subject to local  
20 wage rates at their own employers. Our compensation programs are structured to support  
21 the type of performance that is expected by our customers as well as this Commission, and  
22 we are proud that SUA been able to achieve this goal without paying salaries that are over  
23 market at the expense of customers. For these reasons, allowing recovery of the costs of

1           these items shows that this Commission recognizes the efforts the Company is making to  
2           compensate its employees fairly and reasonably within the local labor markets where it  
3           operates.

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

5   **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 20th day of September 2024.

A handwritten signature in cursive script that reads "Brooke South Parsons". The signature is written in black ink on a light-colored background.

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Brooke South Parsons

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 )

SUR-SURREBUTTAL TESTIMONY

OF

DYLAN W. D'ASCENDIS

SCOTTMADDEN, INC.

ON BEHALF OF

SUMMIT UTILITIES ARKANSAS, INC.

Date Filed: September 20, 2024

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**LIST OF EXHIBITS**

SUR-SURREBUTTAL Schedules DWD-1SSR through DWD-2SSR  
EXHIBIT DWD-1

**I. INTRODUCTION AND PURPOSE**

**Q. PLEASE STATE YOUR NAME, AFFILIATION, AND BUSINESS ADDRESS.**

A. My name is Dylan W. D'Ascendis. I am employed by ScottMadden, Inc. as Partner. My business address is 3000 Atrium Way, Suite 200, Mount Laurel, NJ 08054.

**Q. ON WHOSE BEHALF ARE YOU SUBMITTING THIS TESTIMONY?**

A. I am submitting this sur-surrebuttal testimony (referred to throughout as my "Sur-surrebuttal Testimony") before the Arkansas Public Service Commission (the "Commission") on behalf of Summit Utilities Arkansas, Inc. ("SUA" or the "Company").

**Q. ARE YOU THE SAME DYLAN W. D'ASCENDIS WHO FILED DIRECT AND REBUTTAL TESTIMONIES, IN THIS PROCEEDING?**

A. Yes.

**Q. WHAT IS THE PURPOSE OF YOUR SUR-SURREBUTTAL TESTIMONY?**

A. The purpose of my Sur-surrebuttal Testimony is to respond to the Surrebuttal Testimonies of Mr. Dan Daves, who testifies on behalf of the General Staff ("Staff") of the Commission, Dr. Marlon F. Griffing, Ph.D., who testifies on behalf of the Office of the Arkansas Attorney General Tim Griffin ("AG"), and Ms. Billie S. LaConte, who testifies on behalf of Arkansas Gas Consumers, Inc. ("AGC") (collectively, "the Opposing Witnesses"), as they relate to the Company's return on common equity ("ROE") on its Arkansas jurisdictional rate base and appropriate capital structure.

**II. SUMMARY AND OVERVIEW**

**Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.**

A. I have reviewed the Opposing Witnesses' Surrebuttal Testimonies, and nothing in those testimonies has convinced me that my specific ROE recommendation of 11.00% is not applicable to SUA. I maintain that in view of current markets and the results of my ROE

1 models, recommended ROEs of 9.75% (Staff), 9.59% (AG), and 9.61% (AGC), are  
2 insufficient at this time.

3 My Sur-surrebuttal Testimony responds to new arguments offered by the Opposing  
4 Witnesses in their Surrebuttal Testimonies. For example, I respond to Mr. Daves'  
5 argument that my size adjustment is not properly supported. My Sur-surrebuttal Testimony  
6 does not respond to arguments present in the Opposing Witnesses' direct testimonies. For  
7 example, I do not respond to Mr. Daves' argument regarding the use of the proxy group  
8 average capital structure for his recommended capital structure for SUA, as I have already  
9 responded to that argument in my Rebuttal Testimony.<sup>1</sup>

10 **Q. HAVE YOU PREPARED AN EXHIBIT IN SUPPORT OF YOUR**  
11 **RECOMMENDATION?**

12 A. Yes. I have prepared Schedules DWD-1SSR through DWD-2SSR, which were prepared  
13 by me or under my direction and can be found in Sur-Surrebuttal Exhibit DWD-1.

14 **Q. HOW IS THE REMAINDER OF YOUR SUR-SURREBUTTAL TESTIMONY**  
15 **ORGANIZED?**

16 A. The remainder of my Sur-surrebuttal Testimony is organized as follows:

- 17 • Section III – Provides my response to Staff Witness Daves;
- 18 • Section IV – Provides my response to AG Witness Griffing;
- 19 • Section V – Provides my response to AGC Witness LaConte; and
- 20 • Section VI – Presents my conclusions.

---

<sup>1</sup> D'Ascendis Rebuttal Testimony, at 8-11.



**III. RESPONSE TO STAFF WITNESS DAVES**

**Q. PLEASE SUMMARIZE MR. DAVES' SURREBUTTAL TESTIMONY AS IT PERTAINS TO THE ROE.**

A. Mr. Daves maintains his ROE recommendation of 9.75% based on updated results<sup>2</sup> and responds to portions of my Rebuttal Testimony.

**Q. DO YOU HAVE ANY PRELIMINARY REACTIONS TO MR. DAVES' MODEL RESULTS?**

A. Yes, I do. In reviewing Mr. Daves' model results, I discovered that his 8.20% indicated discounted cash flow model ("DCF") result was a statistical outlier (i.e., more than two standard deviations away from the average results). Removing the outlier from his analysis results in a range of ROEs from 9.10% to 10.52% (midpoint: 9.81%), and average and median results of 9.81% and 9.86%, respectively. As Mr. Daves only updated his analysis, and as he has not changed his application of the models, my critiques to his various applications stand as written in my Rebuttal Testimony.<sup>3</sup>

**Q. DOES MR. DAVES PRESENT ARGUMENTS OR STATEMENTS IN HIS SURREBUTTAL TESTIMONY YOU WOULD LIKE TO ADDRESS?**

A. Yes, he does. I will address the following: (1) his characterization of my Rebuttal Testimony regarding his reliance on the DCF model; (2) his definition of the "congruence" between the appropriate ROE and appropriate capital structure; (3) his characterization of my Rebuttal Testimony regarding the limitations of the DCF relative to other cost of common equity models; (4) his assertion that my size adjustment is unsupported; (5) his continued assertion that my Non-Price Regulated Proxy Group is not comparable to my

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<sup>2</sup> Daves Surrebuttal Testimony, at 5.

<sup>3</sup> D'Ascendis Rebuttal Testimony, at 22-39.

1 Utility Proxy Group; and (6) that earned returns on total capital should be a proxy for the  
2 going forward cost of capital. I will respond to these items below.

3 **Q. MR. DAVES CLAIMS THAT YOU FALSELY SAY THAT HE GIVES PRIMARY**  
4 **WEIGHT TO HIS DCF MODEL RESULTS.<sup>4</sup> DOES MR. DAVES STATE THAT**  
5 **HE GIVES PRIMARY WEIGHT TO THE DCF MODEL IN HIS TESTIMONY?**

6 A. Yes, he does. Mr. Daves states on page 34 of his direct testimony:

7 **Q. What primary methodology did you use to determine a fair return**  
8 **on an equity investment in SUA?**

9 A. The primary methodology I used was the DCF methodology.<sup>5</sup>

10 Given the above, it is clear Mr. Daves relied primarily on the DCF model for his  
11 ROE recommendation and my testimony regarding the over-reliance on DCF model results  
12 in forming an ROE recommendation remains valid. That said, I recognized in my Rebuttal  
13 Testimony that Mr. Daves also relied on various other measures of the ROE to arrive at his  
14 recommended ROE in this proceeding.<sup>6</sup>

15 **Q. PLEASE SUMMARIZE MR. DAVES' DISCUSSION REGARDING**  
16 **CONGRUENCE BETWEEN THE ROE AND CAPITAL STRUCTURE IN HIS**  
17 **SURREBUTTAL TESTIMONY.**

18 A. Mr. Daves defines the congruence between the ROE and the capital structure as that they  
19 are both derived from market-based analyses of the same companies comparable in risk to  
20 SUA.<sup>7</sup>

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4 Daves Surrebuttal Testimony, at 10.

5 Daves Direct Testimony, at 34.

6 D'Ascendis Rebuttal Testimony, at 12.

7 Daves Surrebuttal Testimony, at 18.

1 **Q. DO YOU AGREE WITH MR. DAVES' LOGIC?**

2 A. No. The major reason why I disagree with Mr. Daves on this point is because a company's  
3 capital structure is measurable (it is on the balance sheet), and its ROE is not measurable  
4 and can only be estimated. Because the ROE is not measurable, it is well established that  
5 an analyst should develop a proxy group of comparable risk companies and apply market-  
6 based methods to derive an ROE.

7 Regarding capital structure, I agree that using proxy group data to assess the  
8 reasonability of the levels of debt and equity in a proposed capital structure is useful, but I  
9 do not agree that an authorized capital structure should be forced to meet a proxy group  
10 average. The variation of capital structures and indicated common equity cost rates for the  
11 proxy group companies should reinforce that belief.

12 **Q. MR. DAVES STATES THAT YOU SAY THE DCF MODEL HAS LIMITATIONS AS**  
13 **COMPARED TO OTHER COST OF EQUITY MODELS.<sup>8</sup> DO YOU**  
14 **SPECIFICALLY MAKE THAT CLAIM?**

15 A. No, I do not. Specifically, on page 17 of my Rebuttal Testimony, I state that "As all models  
16 have limitations, it is my opinion that considering multiple models provided the greatest  
17 insight into the investor required return and that no one model is superior to all other  
18 models."<sup>9</sup> This is consistent with the financial literature I cite from pages 17 through 19 of  
19 my Rebuttal Testimony, as well as with SURFA's CRRA practitioner's guide.<sup>10</sup>

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<sup>8</sup> Daves Surrebuttal Testimony, at 22.

<sup>9</sup> D'Ascendis Rebuttal Testimony, at 17.

<sup>10</sup> This practitioner's guide is provided to each CRRA candidate, including myself and Mr. Daves, as the basis for a comprehensive written examination. Page 153 of the 2020 edition of the guide discusses some of the strengths and weaknesses of the DCF model.

1 **Q. MR. DAVES CLAIMS THAT THERE IS NO SUPPORT FOR A SIZE**  
2 **ADJUSTMENT.<sup>11</sup> PLEASE RESPOND.**

3 A. Mr. Daves seems to ignore the academic literature supporting a size adjustment that I cite  
4 in both my Direct<sup>12</sup> and Rebuttal<sup>13</sup> Testimonies. In addition to academic support cited  
5 previously on Schedule DWD-1SSR and presented below, I have performed two studies  
6 which link size and risk for utilities and show that utility companies become riskier as their  
7 size decreases. The first study included the universe of electric, gas, and water companies  
8 included in *Value Line Investor Services* (“*Value Line*”) Standard Edition. From each of  
9 the utilities’ *Value Line* Ratings & Reports, I calculated the annualized volatility (a measure  
10 of risk) and current market capitalization (a measure of size) for each company. After  
11 ranking the companies by size (largest to smallest) and risk (least risky to most risky), I  
12 made a scatter plot of the data, as shown on Chart 1, below:

13 **Chart 1: Relationship Between Size and Risk for the *Value Line* Universe of Utility**  
14 **Companies<sup>14</sup>**



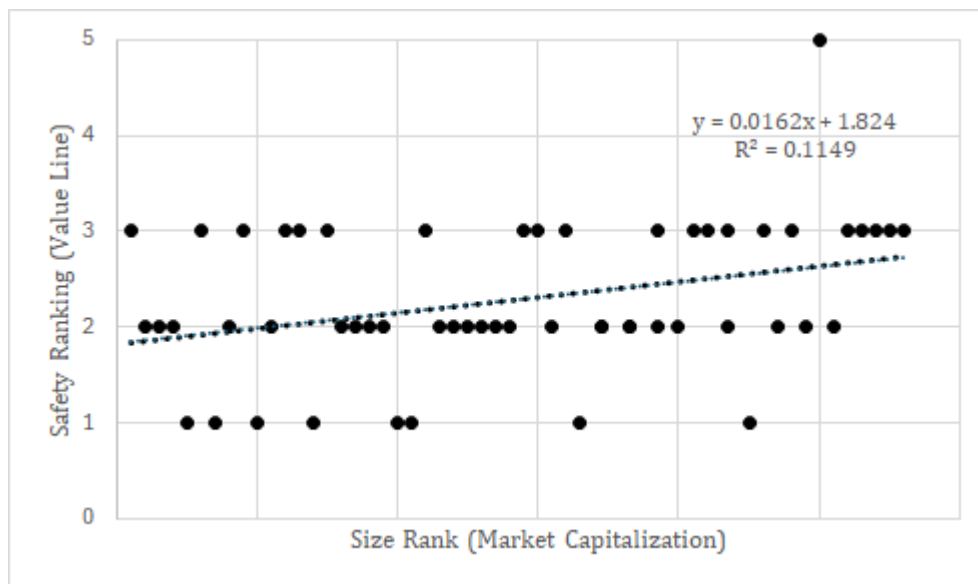
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<sup>11</sup> Daves Surrebuttal Testimony, at 22-23.  
<sup>12</sup> D’Ascendis Direct Testimony, at 42-47.  
<sup>13</sup> D’Ascendis Rebuttal Testimony, at 61-63  
<sup>14</sup> Source: *Value Line*. See, Schedule DWD-1SSR, page 1.

1 As shown in Chart 1 above, as company size decreases (increasing size rank), the  
2 annualized volatility increases, linking size and risk for utilities, which is significant at  
3 95.0% confidence level.

4 The second study used the same universe of companies, but instead of using  
5 annualized volatility, I used the *Value Line* Safety Ranking, which is another measure of  
6 total risk.<sup>15</sup> After ranking the companies by size and Safety Ranking, I made a scatterplot  
7 of those data, as shown on Chart 2, below.

8 **Chart 2: Relationship Between Size and Safety Ranking for the**  
9 **Value Line Universe of Utility Companies<sup>16</sup>**



10  
11 Similar to the first study, as company size decreases, Safety Ranking degrades, indicating  
12 a link between size and risk for utilities. This study is also significant at the 95%

<sup>15</sup> *Value Line* also ranks stocks for Safety by analyzing the total risk of a stock compared to the approximately 1,700 stocks in the *Value Line* universe. Each of the stocks tracked in the *Value Line Investment Survey* is ranked in relationship to each other, from 1 (the highest rank) to 5 (the lowest rank). Safety is a quality rank, not a performance rank, and stocks ranked 1 and 2 are most suitable for conservative investors; those ranked 4 and 5 will be more volatile. Volatility means prices can move dramatically and often unpredictably, either down or up. The major influences on a stock's Safety rank are the company's financial strength, as measured by balance sheet and financial ratios, and the stability of its price over the past five years.

<sup>16</sup> See Schedule DWD-1SSR, page 2.

1 confidence level. In view of the academic evidence previously cited and the empirical  
2 evidence above, the size adjustment I applied to my Utility Proxy Group results is indeed  
3 supported.

4 **Q. MR. DAVES CONTINUES TO REJECT YOUR NON-PRICE REGULATED**  
5 **PROXY GROUP.<sup>17</sup> PLEASE RESPOND.**

6 A. Mr. Daves rejects my Non-Price Regulated Proxy Group results because he deems the  
7 group not comparable to utilities. In my Rebuttal Testimony, I compared my Utility Proxy  
8 Group and Non-Price Regulated Proxy Group using various measures of total risk; (1)  
9 average and median *Value Line* Safety Ranking, (2) average and median coefficient of  
10 variation of net profit, and (3) average and median annualized volatility. Those  
11 comparisons show that the Utility Proxy Group and the Non-Price Regulated Proxy Group  
12 are similar in total risk. Mr. Daves did not refute or challenge those measures in his  
13 Surrebuttal Testimony.

14 **Q. MR. DAVES COMPARES HISTORICALLY EARNED RETURNS ON TOTAL**  
15 **CAPITAL FOR THE PROXY GROUP TO THE REQUESTED WEIGHTED**  
16 **AVERAGE COST OF CAPITAL IN THIS PROCEEDING.<sup>18</sup> ARE THESE**  
17 **VALUES EQUIVALENT?**

18 A. No, they are not. The use of book returns on capital does not measure the market cost of  
19 equity capital, as it is an accounting measure. Since it is an accounting measure, book  
20 returns on equity are independent of most cost of capital indicators (e.g., interest rates). In  
21 addition, accounting returns are not related to risk, while market returns are. In sum, since  
22 accounting returns are independent of market conditions and independent of risk, they

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<sup>17</sup> Daves Surrebuttal Testimony, at 23-24.

<sup>18</sup> Daves Surrebuttal Testimony, at 26.

1 should not be relied on as a measure of the investor required return, which is a function of  
2 market data and risk. In view of the reasons above, both Mr. Daves' comparisons should  
3 be rejected by the Commission.

4 **IV. RESPONSE TO AG WITNESS GRIFFING**

5 **Q. PLEASE SUMMARIZE DR. GRIFFING'S SURREBUTTAL TESTIMONY.**

6 A. Dr. Griffing updates his analysis, resulting in a change of his ROE recommendation from  
7 9.80% to 9.59%. The results of these models are summarized in Table 1, below.

8 **Table 1: Summary of Dr. Griffing's ROE Results<sup>19</sup>**

	<b>Constant Growth DCF</b>	<b>Multistage DCF</b>	<b>CAPM Kroll MRP</b>	<b>CAPM S&amp;P 500 MRP</b>
Mean	9.92%	9.27%	8.61%	13.17%
Median	9.87%	9.48%	8.54%	13.03%

9 In addition to his updated analysis, Dr. Griffing responds to portions of my Rebuttal  
10 Testimony.

11 **Q. PLEASE DISCUSS DR. GRIFFING'S UPDATED RESULTS AND**  
12 **RECOMMENDATIONS.**

13 A. Dr. Griffing now does not consider his CAPM analyses in his recommendation, instead  
14 solely relying on his single stage and multi-stage DCF models for his recommendation. I  
15 have discussed why solely relying on the DCF model is problematic on pages 13 through  
16 21 of my Rebuttal Testimony. I also discussed the reasons why a multi-stage DCF is  
17 inappropriate for utilities on pages 48 through 54 of my Rebuttal Testimony. If Dr. Griffing  
18 derived his ROE recommendation similarly to what he did in his direct analysis (i.e.,  
19 average of all mean results), his recommendation would have increased to 10.24%.

<sup>19</sup> Surrebuttal Exhibit MFG-S-5, Schedule 1.

1 **Q. DR. GRIFFING STATES THAT HE CONTINUES TO RECOMMEND A**  
2 **DOWNWARD ADJUSTMENT TO THE ROE DUE TO ALLEGED POOR**  
3 **BILLING PERFORMANCE.<sup>20</sup> DID DR. GRIFFING ADVOCATE FOR AN ROE**  
4 **DEDUCTION FOR POOR BILLING PERFORMANCE IN HIS DIRECT**  
5 **TESTIMONY?**

6 A. No, he did not.

7 **Q. DOES DR. GRIFFING PRESENT ARGUMENTS OR STATEMENTS IN HIS**  
8 **SURREBUTTAL TESTIMONY YOU WOULD LIKE TO ADDRESS?**

9 A. Yes, I would. I will address the following: (1) his assertion that I prefer using operating  
10 company capital structures in my capital structure analysis; (2) certain assumptions made  
11 in his defense of the multi-stage DCF model; (3) his assertion that historical arithmetic  
12 mean data for market returns and interest rates are opaque; and (4) his assumptions  
13 regarding the calculation of a prospective market return using the DCF model.

14 **Q. DR. GRIFFING STATES THAT YOU PREFER THE USE OF UTILITY**  
15 **OPERATING COMPANIES IN DETERMINING THE REASONABILITY OF A**  
16 **COMPANY'S REQUESTED CAPITAL STRUCTURE.<sup>21</sup> DO YOU MAKE THIS**  
17 **STATEMENT?**

18 A. No, I do not. My capital structure analysis considers the current and expected capital  
19 structures of the Utility Proxy Group and the current capital structures of the operating  
20 subsidiaries of the Utility Proxy Group. That analysis shows that the Company's requested  
21 capital structure is within the range of all of the groups' mentioned. The issue to be  
22 determined by the Commission is not on which group one uses, but whether using the

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<sup>20</sup> Griffing Surrebuttal Testimony, at 15.

<sup>21</sup> Griffing Surrebuttal Testimony, at 19.



1 average proxy group capital structure or the actual capital structure of SUA's corporate  
2 parent is appropriate in this proceeding.

3 **Q. DR. GRIFFING STATES THAT A MULTI-STAGE DCF MODEL CAN BE USED**  
4 **IF EARNINGS PER SHARE ("EPS") GROWTH RATES ARE HIGH ENOUGH**  
5 **THAT IT IS UNLIKELY TO BE CONTINUED.<sup>22</sup> DOES DR. GRIFFING**  
6 **CONDUCT AN ANALYSIS TO DETERMINE THAT CURRENT EPS GROWTH**  
7 **RATES FOR THE PROXY GROUP ARE UNSUSTAINABLE?**

8 A. No, he does not. Conversely, on page 50 of my Rebuttal Testimony, I compare my average  
9 EPS growth rate of my Utility Proxy Group (5.78%) with the long-term average growth  
10 rate of the utility industry (6.55%). Given Dr. Griffing's lack of evidence and the average  
11 Utility Proxy Group's EPS growth rate being below the long-term average growth rate for  
12 the utility industry, Dr. Griffing's use of the multi-stage DCF model for utility companies  
13 is not supported.

14 **Q. DR. GRIFFING STATES THAT THE "TWO-STEP" DCF MODEL HAS BEEN**  
15 **ACCEPTED IN SEVERAL STATES.<sup>23</sup> DOES HE PROVIDE ANY EVIDENCE TO**  
16 **THAT FACT?**

17 A. No, he does not. The footnote on page 20 of his testimony refers to testimonies he provided  
18 in Hawaii, North Dakota, and Oklahoma, but does not provide any final commission orders  
19 approving the "two-step" DCF model as a valid ROE model. Further, Dr. Griffing does  
20 not respond to evidence that suggests the "two-step" DCF has fallen out of favor at the  
21 Federal Energy Regulatory Commission on pages 52-53 of my Rebuttal Testimony.

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<sup>22</sup> Griffing Surrebuttal Testimony, at 20.

<sup>23</sup> Griffing Surrebuttal Testimony, at 20.

1 **Q. DR. GRIFFING STATES THAT THE HISTORICAL ARITHMETIC MEAN AS**  
2 **PUBLISHED BY KROLL IN ITS STOCKS, BONDS, BILLS, AND INFLATION**  
3 **(“SBBI”) YEARBOOK IS OPAQUE.<sup>24</sup> DO YOU AGREE?**

4 A. No, I do not. The arithmetic mean data as published by Kroll is from the Center for  
5 Research in Security Prices (“CRSP”), which provides research-quality financial and  
6 economic data to academic, commercial, and government institutions. The CRSP data is  
7 presented in the appendices at the end of the SBBI Yearbook by month and annually.<sup>25</sup>  
8 The returns and resulting risk premiums are the simple average of the historical period and  
9 is not opaque. Given the above, the Commission should dismiss Dr. Griffing’s statement.

10 **Q. DR. GRIFFING OMITTS NON-DIVIDEND PAYERS IN HIS MARKET DCF**  
11 **BECAUSE HE STATES THAT ONE CANNOT PERFORM A DCF WITHOUT A**  
12 **DIVIDEND.<sup>26</sup> DO YOU AGREE?**

13 A. I agree that one cannot conduct a DCF analysis without a dividend, but the market return  
14 calculation is not supposed to be a traditional DCF, it is supposed to estimate the total  
15 return on the market, which includes non-dividend payers. The total return an investor  
16 experiences is the sum of the income return (dividends) and capital appreciation. In the  
17 market return calculation, the proxy for the income return is the dividend yield and the  
18 proxy for capital appreciation is the EPS growth rate. For example, if a company had a 0%  
19 dividend yield and a 12% EPS growth rate, the expected total return for an investor would  
20 be 12%. Because I am solving for the total return, the use of companies that do not have a  
21 dividend yield is appropriate.

<sup>24</sup> Griffing Surrebuttal Testimony, at 21.

<sup>25</sup> Kroll 2023 SBBI® Yearbook: Stocks, Bonds, Bills, and Inflation®, at 248-250 (Large Company Total Returns) and 266-268 (Income Returns on Long-Term Government Bonds).

<sup>26</sup> Griffing Surrebuttal Testimony, at 22.

V. **RESPONSE TO AGC WITNESS LACONTE**

Q. PLEASE SUMMARIZE MS. LACONTE'S SURREBUTTAL TESTIMONY CONCERNING THE APPROPRIATE ROE FOR SUA.

A. Ms. LaConte eliminates WEC Energy Group, Inc. ("WEC") from her proxy group, which results in the lowering of her ROE recommendation from 9.70% to 9.61%.<sup>27</sup> She then responds to portions of my Rebuttal Testimony.

Q. DO YOU HAVE ANY COMMENT ON MS. LACONTE'S AMENDED PROXY GROUP?

A. Yes, I do. As discussed on page 73 of my Rebuttal Testimony and put forth on Table 12 of that same page (reproduced below), I demonstrate that both Black Hills Corporation ("BKH") and WEC have less than 50% assets and net operating income attributable to regulated natural gas operations:

**Table 2: Percent of 2023 NOI and Assets Attributable to Regulated Natural Gas Utility Operations for BKH and WEC<sup>28</sup>**

	Net Oper. Income	Total Assets
Black Hills Corporation	48.40%	49.13% <sup>29</sup>
WEC Energy Group	14.65%	37.58%

It is curious that Ms. LaConte eliminated WEC due to this information, but neglected to eliminate BKH, even though BKH also does not have a majority of assets or net operating income attributable to regulated gas distribution operations. Inspecting Exhibit BSL-3 (LaConte Direct Testimony), BKH's mean constant growth DCF result is 6.86%, which is approximately 200 basis points lower than the next lowest indicated ROE and is over two standard deviations below the mean result, making it a low-side statistical

<sup>27</sup> LaConte Surrebuttal Testimony, at 5.  
<sup>28</sup> SEC form 10-K.  
<sup>29</sup> Gross Property Plant & Equipment.

1 outlier, and WEC's mean constant growth DCF result is 11.28%, which is her second  
2 highest indicated result. Eliminating WEC and not eliminating BKH results in a severely  
3 skewed and statistically suspect indicated DCF result.

4 **Q. WHAT WOULD MS. LACONTE'S MODEL RESULTS BE IF SHE EXCLUDED**  
5 **BKH AND WEC IN HER ANALYSIS?**

6 A. As discussed in my Rebuttal Testimony,<sup>30</sup> eliminating BKH and WEC would increase her  
7 average ROE result from 9.69% to 9.77% and the midpoint of her range of results from  
8 9.75% to 9.95%.

9 **Q. DOES MS. LACONTE PRESENT ARGUMENTS OR STATEMENTS IN HER**  
10 **SURREBUTTAL TESTIMONY YOU WOULD LIKE TO ADDRESS.**

11 A. Yes. I will address the following: (1) her assertion that my recommended ROE of 11.00%  
12 is no longer appropriate due to the decline in my updated model results; (2) her  
13 characterization of the Minnesota two-growth DCF model; (3) her failure to explain the  
14 changes in her capital asset pricing model ("CAPM") and risk premium model ("RPM")  
15 from previous proceedings; (4) her misunderstanding of the calculation of Beta coefficients  
16 ("beta"); and (5) her characterization of SUA's proposed regulatory mechanisms compared  
17 to those of the Utility Proxy Group.

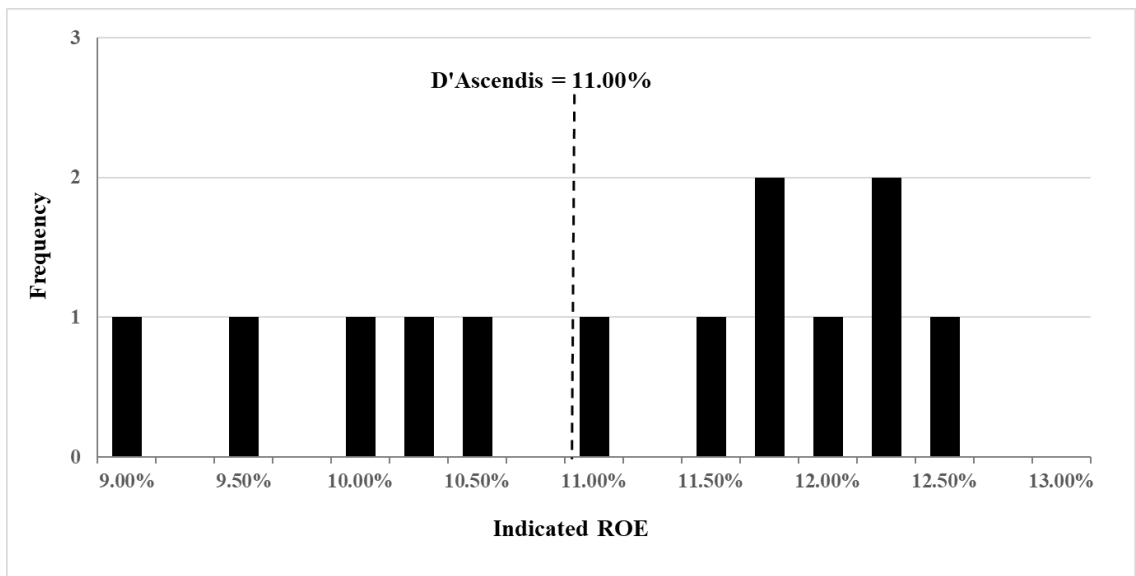
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<sup>30</sup> D'Ascendis Rebuttal Testimony, at 73.

1 **Q. MS. LACONTE STATES THAT YOU SHOULD HAVE ADJUSTED YOUR**  
2 **RECOMMENDED ROE DOWNWARD BASED ON YOUR UPDATED RESULTS.<sup>31</sup>**  
3 **IS YOUR RECOMMENDED ROE OF 11.00% STILL APPROPRIATE GIVEN**  
4 **YOUR UPDATED RESULTS?**

5 A. Yes, it is. As shown on Schedule DWD-2SSR, and in Chart 3, my 11.00% recommended  
6 ROE is in the 43<sup>rd</sup> percentile of my updated indicated results, which means that my 11.00%  
7 recommended ROE is in the lower half of my indicated ROE results, making it a  
8 reasonable, if not conservative, measure of the investor required return for SUA at this  
9 time.

10 **Chart 3: Histogram of D'Ascendis Indicated Model Results and Recommended**  
11 **ROE<sup>32</sup>**



12

<sup>31</sup> LaConte Surrebuttal Testimony, at 6.

<sup>32</sup> See Schedule DWD-2SSR.

1 **Q. MS. LACONTE CITES THE MINNESOTA PUBLIC UTILITIES COMMISSION**  
2 **(“MPUC”) AS SUPPORTING THE MULTI-STAGE DCF.<sup>33</sup> IS THE TWO-**  
3 **GROWTH DCF MODEL CITED IN MS. LACONTE’S SURREBUTTAL**  
4 **TESTIMONY A “TRUE” MULTI-STAGE DCF MODEL?**

5 A. No, it is not.

6 **Q. PLEASE EXPLAIN THE TWO-GROWTH DCF MODEL.**

7 A. The two growth DCF approach moderates the effects of substantially high or low growth  
8 rate estimates that may be influenced by near-term events and may not reflect the subject  
9 company’s expected long-term growth rate. The two growth DCF approach therefore may  
10 be applied when the mean growth rate of a particular company is considered unusually  
11 high or low relative to the proxy group. Whereas the constant growth DCF method assumes  
12 a single, constant growth rate in perpetuity, the two growth DCF approach allows for a  
13 near-term growth estimate (the first stage) followed by a long-term “terminal” period  
14 growth estimate.

15 **Q. THE TWO-GROWTH DCF SPECIFIES TWO DISTINCT GROWTH RATES IN**  
16 **ITS CALCULATION. ARE EITHER OF THEM SPECIFIED BY THE LONG-**  
17 **TERM PROJECTED GROWTH IN GROSS DOMESTIC PRODUCT (“GDP”)?**

18 A. No, they are not. The near-term growth rate is the proxy group company’s projected three  
19 to five-year EPS growth rate. The terminal growth rate can be one of two values: (1) the  
20 proxy group company’s projected three to five-year EPS growth rate; or (2) the average  
21 three to five-year projected EPS growth rate, excluding company growth rates one standard  
22 deviation away from the average growth rate of the proxy group. This method does not

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<sup>33</sup> LaConte Surrebuttal Testimony, at 8.

1 assume that the growth of the utility industry is capped by growth in GDP. The terminal  
2 growth rate is also industry-specific. Further, the two-growth DCF model only affects  
3 company's growth rates that are significantly different from the proxy group average and  
4 does not apply a growth rate generically to each company, like Dr. Griffing and Ms.  
5 LaConte have in their "two-step" methodology.

6 **Q. MS. LACONTE ASSERTS THAT YOU CONDUCTED A TWO-STAGE DCF**  
7 **MODEL ANALYSIS IN A NORTHERN STATES POWER RATE CASE,**  
8 **INFERRING THAT YOU USED GDP GROWTH RATES IN THAT ANALYSIS.<sup>34</sup>**  
9 **DID YOU USE GDP GROWTH RATES IN THE TWO-GROWTH DCF**  
10 **ANALYSIS?**

11 A. No, I did not.

12 **Q. DID YOU REBUT THE USE OF A MULTI-STAGE MODEL USING GDP**  
13 **GROWTH RATES IN THAT PROCEEDING?**

14 A. Yes, I did.<sup>35</sup>

15 **Q. DID THE MPUC SPECIFICALLY REJECT THE MULTI-STAGE DCF USING**  
16 **GDP GROWTH RATES?**

17 A. Yes. The MPUC rejected the multi-stage DCF using GDP growth rates in Docket Nos. E-  
18 017/GR-20-719 and E-015/GR-21-335.

19 **Q. PLEASE SUMMARIZE YOUR RESPONSE TO MS. LACONTE'S ASSERTIONS**  
20 **REGARDING THE APPLICABILITY OF THE MULTI-STAGE DCF USING GDP**  
21 **GROWTH RATES.**

22 A. Ms. LaConte attempts to use the MPUC's reliance on the two-growth DCF model as

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<sup>34</sup> LaConte Surrebuttal Testimony, at 8.

<sup>35</sup> Minnesota Public Utility Commission, Docket No. E002/GR-21-630, Rebuttal Testimony of Dylan W. D'Ascendis, at 36-54.

1 justification for this Commission to accept her (and by extension, Dr. Griffing's) "two-  
2 step" DCF model. Ms. LaConte neglects to mention that the two-growth DCF model  
3 favored by the MPUC does not use a GDP growth rate (the "two-step" model does), nor is  
4 it a universal adjustment to each proxy group company (the "two-step" model adjusts  
5 growth rates for every company). She also fails to mention that the MPUC has recently  
6 and repeatedly rejected the multi-stage DCF model using GDP growth rates. In view of  
7 the above, the multi-stage DCF model applied by Dr. Griffing and Ms. LaConte is not  
8 supported by the MPSC, and is not applicable for utilities, as discussed in detail in my  
9 Rebuttal Testimony.<sup>36</sup>

10 **Q. MS. LACONTE STATES THAT SHE REJECTED HER PRIOR PRACTICE OF**  
11 **RELYING ON THE *VALUE LINE* SUMMARY & INDEX DUE TO IT**  
12 **INCLUDING COMPANIES THAT DO NOT INCLUDE DIVIDEND PAYMENTS**  
13 **AND HAVE NEGATIVE GROWTH RATES AND GROWTH RATES**  
14 **EXCEEDING 20.00%.<sup>37</sup> DOES SHE HAVE ANY EVIDENCE TO SUPPORT THAT**  
15 **STATEMENT?**

16 A. No, she does not. Since the *Value Line* Summary & Index is indeed a high-level summary,  
17 which Ms. LaConte correctly notes,<sup>38</sup> there is no detail on which companies are included  
18 in that summary and their status as dividend payers or what their specific growth rates are.  
19 Additionally, the *Value Line* Summary & Index has been presented in this manner since at  
20 least 2008, and Ms. LaConte has relied on this data as recently as 2022, and the  
21 methodology outlined remained in her testimony in this proceeding.<sup>39</sup> Finally, as stated

<sup>36</sup> D'Ascendis Rebuttal Testimony, at 47-54.

<sup>37</sup> LaConte Surrebuttal Testimony, at 10.

<sup>38</sup> LaConte Surrebuttal Testimony, at 10.

<sup>39</sup> LaConte Direct Testimony, Appendix D, at 74-75.



1 previously in this Sur-surrebuttal Testimony, the calculation of the projected total return  
2 on the market is a sum of income returns and capital appreciation, and the standard DCF  
3 model assumptions would not apply to such a calculation.

4 **Q. MS. LACONTE CLAIMS SHE USED A2-RATED UTILITY BOND YIELDS IN**  
5 **HER RPM BECAUSE YOU USE THEM IN YOUR RPM.<sup>40</sup> DID SHE TAKE THAT**  
6 **APPROACH IN THE LAST CASE YOU TWO WERE INVOLVED IN?**

7 A. No, she did not. She used 30-year Treasury bonds in her RPM analysis. This is consistent  
8 with her description of the application of RPM in Appendix D of her direct testimony.<sup>41</sup>  
9 As discussed in my Rebuttal Testimony, the indicated ROE using the RPM as described in  
10 Appendix D of Ms. LaConte's direct testimony is 9.95%, which is approximately 115 basis  
11 points higher than her indicated RPM result of 8.79%.<sup>42</sup>

12 **Q. MS. LACONTE DOES NOT BELIEVE EXCLUDING COMPANIES THAT PAY**  
13 **DIVIDENDS, HAVE NEGATIVE GROWTH RATES, OR GROWTH RATES**  
14 **HIGHER THAN 20% WOULD AFFECT THE CALCULATION OF BETAS.<sup>43</sup> DO**  
15 **YOU AGREE?**

16 A. No. As discussed in my Rebuttal Testimony,<sup>44</sup> beta is a measure of relative risk,  
17 theoretically, the relative risk of a subject company to the market portfolio. If the market  
18 portfolio is changed substantially (e.g., Dr. Griffing eliminates 150 companies in his  
19 market DCF calculation for his direct testimony), beta should be recalculated using the new  
20 portfolio of assets, as the risk of that portfolio has changed, and as such, the relative risk  
21 of the subject company.

---

<sup>40</sup> LaConte Surrebuttal Testimony, at 11.

<sup>41</sup> LaConte Direct Testimony, Appendix D, at 75-76.

<sup>42</sup> D'Ascendis Rebuttal Testimony, at 80, Schedule DWD-19R.

<sup>43</sup> LaConte Surrebuttal Testimony, at 9.

<sup>44</sup> D'Ascendis Rebuttal Testimony, at 58-60.

1 **Q. MS. LACONTE STATES THAT *VALUE LINE* CALCULATES BETAS USING THE**  
2 ***VALUE LINE* INDEX.<sup>45</sup> IS SHE CORRECT?**

3 A. No, she isn't. *Value Line* betas are calculated over a five-year period using weekly returns  
4 of the New York Stock Exchange, not the *Value Line* Index.

5 **Q. MS. LACONTE STATES THAT SUA'S REGULATORY MECHANISMS AFFORD**  
6 **IT LESS RISK AS COMPARED TO THE PROXY GROUP.<sup>46</sup> IS SHE CORRECT?**

7 A. No. SUA's existing and proposed regulatory mechanisms are common throughout the  
8 industry as demonstrated in Schedule DWD-15R. The Company's existing and proposed  
9 regulatory mechanisms are listed below:

- 10 • Weather Normalization Adjustment ("WNA");
- 11 • Billing Determinant Adjustment ("BDA");
- 12 • Government Mandated Expenditure Surcharge ("GMES");
- 13 • System Safety Enhancement Rider ("SSER"); and
- 14 • Energy Efficiency Cost Recovery Rider ("EECRR").

15 SUA's regulatory mechanisms are organized into three different classifications: (1)  
16 the WNA and BDA are revenue decoupling mechanisms; (2) the GMES and SSER are  
17 infrastructure replacement mechanisms; and (3) the EECRR is an energy efficiency  
18 mechanism. Grouping the data in Schedule DWD-15R into holding company data shows  
19 that SUA's regulatory mechanisms are reflected in the majority of proxy group companies'  
20 market data as shown in Table 3, below.

---

<sup>45</sup> LaConte Surrebuttal Testimony, at 9.

<sup>46</sup> LaConte Surrebuttal Testimony, at 11-12.

1

**Table 3: Regulatory Mechanisms Present in Utility Holding Companies<sup>47</sup>**

Company	Decoupling	Infrastructure Replacement	Energy Efficiency
Atmos Energy Corporation	Yes	Yes	No
Chesapeake Utilities Corporation	Yes	Yes	Yes
New Jersey Resources Corporation	Yes	Yes	Yes
NiSource, Inc.	Yes	Yes	Yes
Northwest Natural Holding Company	Yes	No	Yes
ONE Gas, Inc.	Yes	Yes	Yes
Southwest Gas Holdings, Inc.	Yes	Yes	No
Spire, Inc.	Yes	Yes	Yes

2

As shown in Table 3, every company has revenue decoupling, every company but one has an infrastructure replacement mechanism, and every company but two has an energy efficiency mechanism. Because the proxy group companies overwhelmingly have similar regulatory mechanisms to SUA, if there was a risk reduction associated with those mechanisms, they would already be reflected in their market prices. In addition to the above, Ms. LaConte (and Dr. Griffing) have not provided evidence refuting the financial literature cited in my Rebuttal Testimony<sup>48</sup> and remains unchallenged.

3

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**Q. MS. LACONTE REFERENCES CREDIT RATING AGENCIES' FAVORABLE OPINIONS ON REGULATORY MECHANISMS.<sup>49</sup> DOES SHE PROVIDE EVIDENCE THAT A CREDIT RATING FOR A UTILITY COMPANY WAS UPGRADED UPON THE APPROVAL OR EXPANSION OF A CERTAIN REGULATORY MECHANISM?**

10

11

12

13

14

A. No, she did not.

<sup>47</sup> Source of Information: Schedule DWD-15R.

<sup>48</sup> D'Ascendis Rebuttal Testimony, at 70-71.

<sup>49</sup> LaConte Surrebuttal Testimony, at 12.

1 **VI. CONCLUSION**

2 **Q. PLEASE SUMMARIZE YOUR SUR-SURREBUTTAL TESTIMONY.**

3 A. I respond to the substantive new arguments and mischaracterizations of my Sur-surrebuttal  
4 Testimony as put forth by the Opposing Witnesses in their surrebuttal testimonies. My  
5 ROE recommendation of 11.00%, remains reasonable, if not conservative given the  
6 indicated ROEs of my model results.

7 **Q. SHOULD ANY OR ALL OF THE ARGUMENTS MADE BY THE OPPOSING**  
8 **WITNESSES PERSUADE THE COMMISSION TO LOWER THE RETURN ON**  
9 **COMMON EQUITY IT APPROVES FOR SUA BELOW YOUR**  
10 **RECOMMENDATION?**

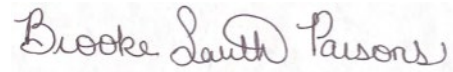
11 A. No, they should not. My recommended cost of common equity of 11.00% will provide  
12 SUA with sufficient earnings to enable it to attract necessary new capital efficiently and at  
13 a reasonable cost, to the benefit of both customers and investors.

14 **Q. DOES THIS CONCLUDE YOUR SUR-SURREBUTTAL TESTIMONY?**

15 A. Yes, it does.

**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 20th day of September 2024.

A handwritten signature in cursive script that reads "Brooke South Parsons". The signature is written in black ink on a white background.

---

Brooke South Parsons

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 )

SUR-SURREBUTTAL EXHIBIT

OF

DYLAN W. D'ASCENDIS

SCOTTMADDEN, INC.

ON BEHALF OF

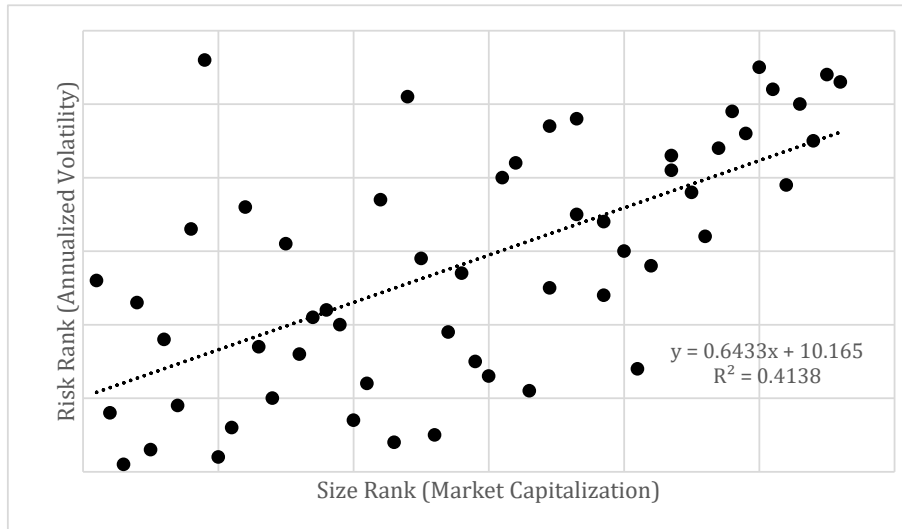
SUMMIT UTILITIES ARKANSAS, INC.

Summit Natural Gas of Arkansas  
Table of Contents of Exhibits  
Sur-surrebuttal Testimony of Dylan W. D'Ascendis

Schedule

Demonstration of Relationship between Size and Risk	DWD-1SSR
Histogram of Mr. D'Ascendis' Rebuttal Model Results	DWD-2SSR

**Summit Natural Gas of Arkansas**  
Relationship between Size and Annualized Volatility



SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.6433
R Square	0.4138
Adjusted R Square	0.4029
Standard Error	12.6022
Observations	56

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	6053.9725	6053.9725	38.1196	0.0000
Residual	54	8576.0275	158.8153		
Total	55	14630			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	10.1654	3.4139	2.9777	0.0043	3.3209	17.0098	3.3209	17.0098
Size Rank	0.6433	0.1042	6.1741	0.0000	0.4344	0.8522	0.4344	0.8522

Source: Value Line as of 8/31/2024



**Summit Natural Gas of Arkansas**  
**Relationship between Size and Value Line Safety Rank**



SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.3389
R Square	0.1149
Adjusted R Square	0.0985
Standard Error	0.7402
Observations	56

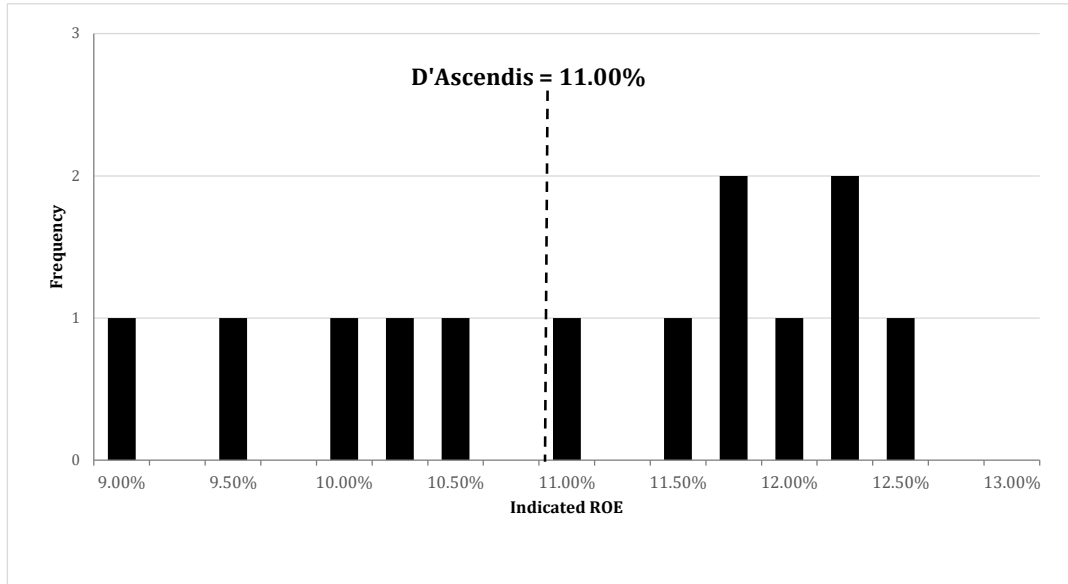
ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	3.8398	3.8398	7.0078	0.0106
Residual	54	29.5887	0.5479		
Total	55	33.4286			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	1.8240	0.2005	9.0960	0.0000	1.4219	2.2260	1.4219	2.2260
Size Rank	0.0162	0.0061	2.6472	0.0106	0.0039	0.0285	0.0039	0.0285

Source: Value Line as of 8/31/2024

Summit Natural Gas of Arkansas  
Histogram of Mr. D'Ascendis' Rebuttal Model Results



Number of Model Results below 11.0%: 6 46.00% ROE Percentile Rank  
11.00% 43.10%

	Plot Number	ROE	D'Ascendis ROE	Bin Frequency	
				Bin	Frequency
<b>DCF</b>					
Atmos Energy Corporation		9.99%	1 8.80%		
New Jersey Resources Corporation		9.50%	2 9.50%	8.00%	0
NiSource Inc.		11.52%	3 9.99%	8.25%	0
Northwest Natural Holding Company		10.04%	4 10.04%	8.50%	0
ONE Gas, Inc.		8.80%	5 10.42%	8.75%	0
Spire Inc.		10.42%	6 10.98%	9.00%	1
<b>RP</b>			7 11.43%	9.25%	0
RP Model		10.98%	8 11.51%	9.50%	1
<b>CAPM</b>			9 11.52%	9.75%	0
Atmos Energy Corporation		11.83%	10 11.83%	10.00%	1
New Jersey Resources Corporation		12.31%	11 12.07%	10.25%	1
NiSource Inc.		12.07%	12 12.07%	10.50%	1
Northwest Natural Holding Company		11.51%	13 12.31%	10.75%	0
ONE Gas, Inc.		11.43%		11.00%	1
Spire Inc.		12.07%		11.25%	0
				11.50%	1
				11.75%	2
				12.00%	1
				12.25%	2
				12.50%	1
				12.75%	0
				13.00%	0
				13.25%	0
				13.50%	0
				13.75%	0
				14.00%	0
				14.25%	0
				14.50%	0
				<b>Total</b>	<b>13</b>

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

SUR-SURREBUTTAL TESTIMONY

OF

TIMOTHY S. LYONS

SCOTTMADDEN, INC.

ON BEHALF OF

SUMMIT UTILITIES ARKANSAS, INC.

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**I. INTRODUCTION**

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

A. My name is Timothy S. Lyons. My business address is 3 Speen Street, Suite 150, Framingham, Massachusetts 01701.

**Q. ARE YOU THE SAME TIMOTHY S. LYONS WHO FILED IN THIS PROCEEDING DIRECT TESTIMONY ON JANUARY 25, 2024 AND REBUTTAL TESTIMONY ON AUGUST 7, 2024?**

A. Yes.

**Q. WHAT IS THE PURPOSE OF YOUR SUR-SURREBUTTAL TESTIMONY?**

A. The purpose of my sur-surrebuttal testimony (“Sur-Surrebuttal Testimony”) is to address on behalf of Summit Utilities Arkansas, Inc. (“SUA” or the “Company”) the surrebuttal testimonies of Mark Burdette on behalf of the General Staff of the Arkansas Public Service Commission (“Staff”), Robert Swaim on behalf of Staff, Richard Porter of Rod Walker & Associates Consultancy on behalf of the Office of Arkansas Attorney General (“AG”), Larry Blank of TAHOEconomics on behalf of Hospitals and Higher Education Group (“HHEG”), and Jonathan Ly of J. Pollock, Incorporated on behalf of Arkansas Gas Consumers, Inc. (“AGC”). The surrebuttal testimonies are related to the Company’s billing determinants and class cost of service study (“COSS”).

1 **II. RESPONSE TO STAFF WITNESS BURDETTE**

2 **Q. DOES THE COMPANY AGREE WITH STAFF WITNESS BURDETTE’S**  
3 **POSITION THAT “ROLLED-IN” RIDER REVENUES SHOULD BE**  
4 **EXCLUDED FROM THE COSS?<sup>1</sup>**

5 A. No. The Company maintains its position that including rider revenues in current  
6 revenues better aligns with customer bill impacts since a portion of the base rate  
7 increase is already reflected in customer bills. The Company believes such alignment  
8 minimizes customer confusion regarding the impact of the proposed rate increase on  
9 customer bills.

10 **Q. DOES THE COMPANY AGREE WITH STAFF WITNESS BURDETTE’S**  
11 **POSITION TO ONLY USE THE MINIMUM-SIZE MAINS STUDY TO**  
12 **CLASSIFY DISTRIBUTION MAINS AS CUSTOMER?<sup>2</sup>**

13 A. No. The Company maintains its position that the zero-intercept study is relevant and  
14 should be considered by the Commission in designing the Company’s rates. First, the  
15 zero-intercept method is recognized by the National Association of Regulatory Utility  
16 Commissioners.<sup>3</sup> Second, the results of the zero-intercept method are statistically  
17 significant. Third, the zero-intercept method represents a meaningful and unique  
18 analysis of distribution mains as compared to the minimum-size mains study.  
19 Specifically, utilizing two-inch mains under the minimum-size mains method reflects  
20 some portion of customer demand. By comparison, utilizing zero-inch mains under the  
21 zero-intercept method reflects no portion of customer demand. This explains why the

---

<sup>1</sup> Surrebuttal testimony of Mark Burdette, pp. 4-5

<sup>2</sup> Id., p. 6-7

<sup>3</sup> Gas Distribution Rate Design Manual prepared by NARUC staff, pp. 22-23

1 minimum-size mains study yields a higher customer portion (66.17 percent) than the  
2 zero-intercept study (41.91 percent).

3 The Company maintains both studies are relevant and should be considered by  
4 the Commission in designing the Company's rates.

5 **Q. DOES THE COMPANY AGREE WITH STAFF WITNESS BURDETTE'S**  
6 **POSITION TO ALLOCATE CASH WORKING CAPITAL ON NET PLANT?<sup>4</sup>**

7 A. No. The Company maintains its position that cash working capital should be allocated  
8 based on the Company's expenses. Cash working capital represents the net funds  
9 required by the Company to finance expenses from the time they are paid for by the  
10 Company until the time that payment (cash) is received from customers. Since the  
11 underlying cost driver is the Company's expenses, the Company believes cash working  
12 capital should be allocated based on the Company's expenses.

13 **Q. WHAT ARE THE PRIMARY METHODOLOGY DIFFERENCES BETWEEN**  
14 **THE COMPANY'S AND STAFF'S COSS?**

15 A. The primary methodology differences between the Company's and Staff's COSS are:  
16 (1) classification of mains, (2) allocation of demand-related costs; and (3) allocation of  
17 cash working capital.

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<sup>4</sup> Surrebuttal testimony of Mark Burdette, p. 5

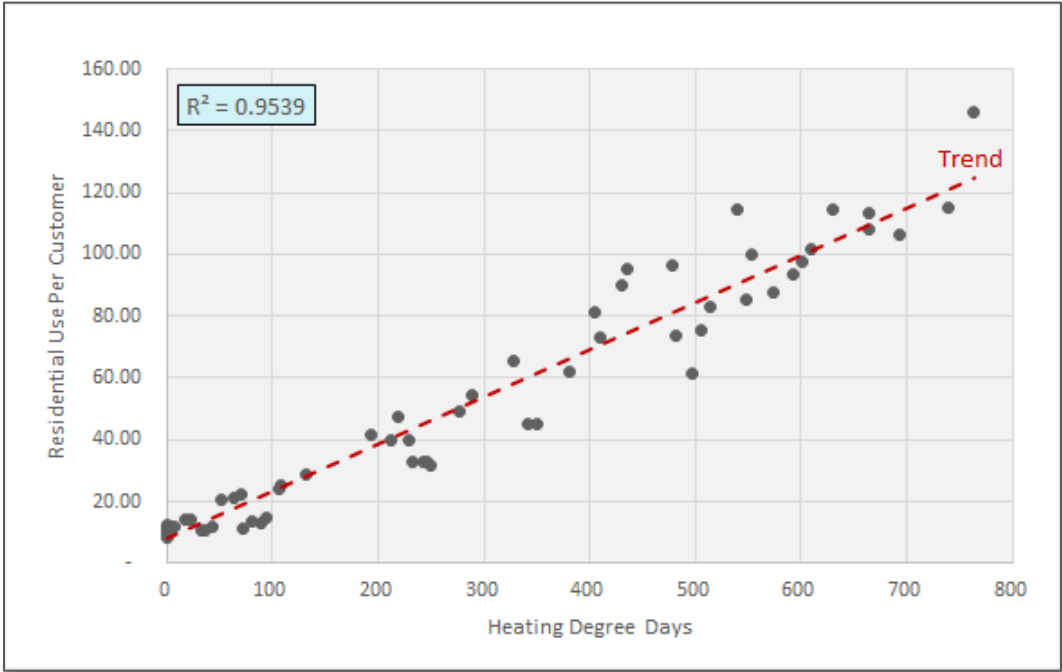
1 **III. RESPONSE TO STAFF WITNESS SWAIM**

2 **Q. DOES THE COMPANY AGREE WITH STAFF WITNESS SWAIM'S**  
3 **RESIDENTIAL BILLING DETERMINANTS?<sup>5</sup>**

4 A. No. The Company maintains its position that the Company's billing determinants  
5 better reflect the relationship between customer usage and weather. Staff's  
6 methodology is based on a simple average of use per heating degree days (HDD) over  
7 the past five years.

8 By comparison, the Company's methodology is based on the statistical  
9 relationship between customer usage and weather utilizing regression analysis. The  
10 approach is well-recognized in the industry and shows there is a strong statistical  
11 relationship between customer usage and weather, as shown in Figure 1 (below).

**Figure 1: Relationship between Residential Use per Customer and Weather**



<sup>5</sup> Surrebuttal testimony of Robert H. Swaim, pp. 7-10



1 The Figure shows a strong statistical relationship between residential customer usage  
2 and weather, as indicated by an R-square of 0.9539.<sup>6</sup>

3 The Company’s methodology to weather-normalize customer usage relied on  
4 regression analysis that yielded a slope coefficient representing use per HDD of  
5 0.15312 CCF, as shown in Figure 2 (below). The Company’s regression analysis also  
6 yielded an intercept representing base use of 8.1 CCF, also shown in Figure 2 (below).  
7 Base use reflects customer usage assuming no HDD.

8 By comparison, Staff’s methodology yields a use per HDD that is lower and a  
9 base use that is higher than the Company’s regression analysis, as shown in Figure 2  
10 (below).

**Figure 2: Staff vs. Company Residential Analyses Results**

Residential	Staff	Company
Proposed Base Usage	9.92	8.12
Proposed Heat Use per HDD (Shoulder)	0.12418	0.15312
Proposed Heat Use per HDD (Winter)	0.14901	0.15312

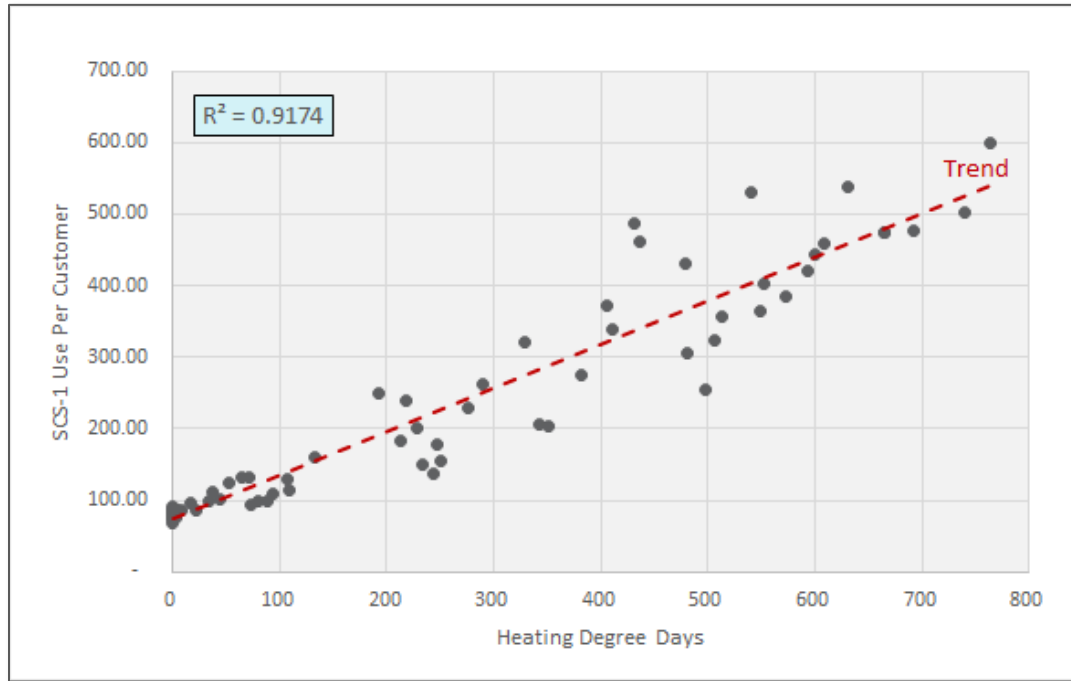
11 **Q. DOES THE COMPANY HAVE SIMILAR CONCERNS WITH STAFF’S SCS-1**  
12 **BILLING DETERMINANTS?**

13 A. Yes. The Company has similar concerns with Staff’s methodology to weather  
14 normalize SCS-1 customer usage.

15 The Company’s methodology shows there is a strong statistical relationship  
16 between SCS-1 customer usage and weather, as shown in Figure 3 (below).

<sup>6</sup> R-squared ( $R^2$ ) measures the extent to which variations in the independent variable(s) in a statistical model explains variations in the dependent variable. It ranges from 0 to 1, where 1 indicates a perfect fit of the model to the data.

**Figure 3: Relationship between SCS-1 Use per Customer and Weather**



2

3 The Figure shows that there is a strong statistical relationship between SCS-1 customer  
4 usage and weather, as indicated by an R-square of 0.9174.

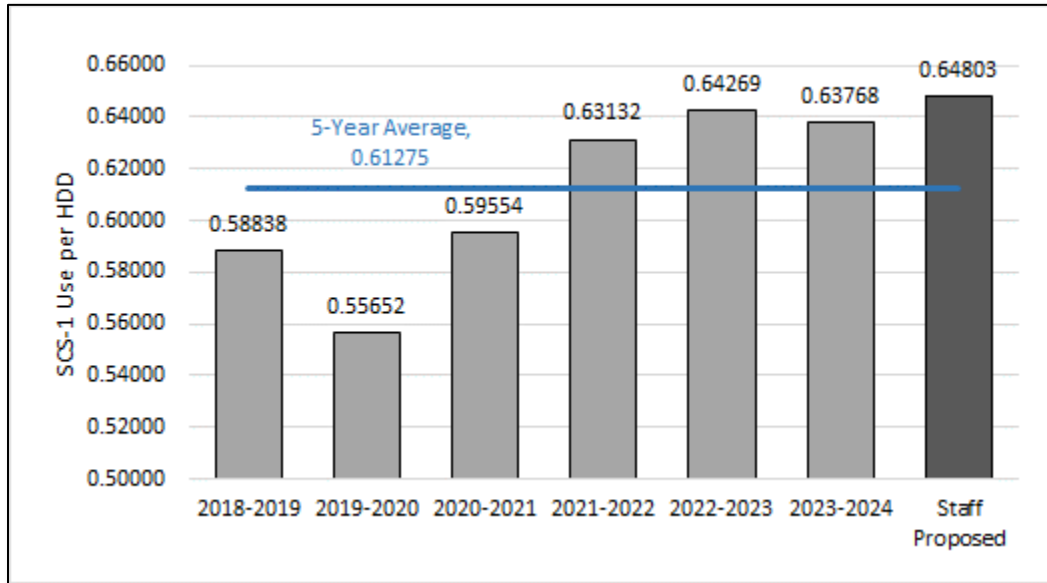
5 **Q. DOES THE COMPANY HAVE ADDITIONAL CONCERNS REGARDING**  
6 **STAFF’S SCS-1 HEATING USE PER HDD?**

7 A. Yes. Staff’s heating use per HDD reflects a “Trended” adjustment that is applied to  
8 the 5-year average of use per HDD. The “Trended” adjustment is based on the relative  
9 increase in SCS-1 use per HDD between 2018-2019 and 2023-2024. Staff does not  
10 provide an explanation or rationale for this adjustment.

11 Staff’s “Trended” adjustment results in an increase in use per HDD of 5.80  
12 percent, as shown in Figure 4 (below).

1

**Figure 4: Staff Proposed SCS-1 Use per HDD**



2

3

The Figure shows Staff's "Trended" adjustment results in a SCS-1 use per HDD of 0.64803 as compared to the 5-year average of 0.61275, or an increase of 5.80 percent.

4

5 **Q.**

**DOES THE COMPANY AGREE WITH STAFF'S "TRENDED" ADJUSTMENT?**

6

7 **A.**

No. Staff does not provide explanation or rationale for the "Trended" adjustment, nor does Staff provide analysis or support on what is driving changes in use per HDD over time and whether such changes will continue in the future.

8

9 **Q.**

**DOES THE COMPANY MAKE AN ADJUSTMENT FOR LOAD GROWTH IN ITS SALES FORECAST?**

10

11 **A.**

Yes. The Company's sales forecast reflects load growth.

12

13 **Q.**

**WHAT IS THE COMPANY'S RECOMMENDATION?**

14

15 **A.**

The Company recommends utilizing the Company's billing determinants since they better reflect the relationship between customer usage and weather, as illustrated in Figures 1 and 3 (above).

16

1           Were the Commission to utilize Staff’s methodology to weather normalize  
2           customer usage, the Company recommends the Commission not include Staff’s  
3           “Trended” adjustment for SCS-1, for which there is no explanation, rationale, or  
4           analysis supporting the adjustment.

5   **Q.   DOES THE COMPANY AGREE WITH STAFF WITNESS SWAIM’S**  
6   **CONCERN REGARDING THE REFERENCED “CAFETERIA STYLE”**  
7   **APPROACH TO ESTIMATE THE EFFECTS OF WEATHER?<sup>7</sup>**

8   A.   No. The Company’s approach measures different impacts. The weather normalization  
9   analysis measures the relationship between customer total usage and weather across the  
10   year, while the demand analysis measures the relationship between customer heating  
11   usage and weather during the November through April heating season.

12           Specifically, the weather normalization analysis measures the impact of  
13   weather (HDD) on customer total usage throughout the year. By comparison, the  
14   demand analysis measures the impact of weather (HDD) on customer heating usage  
15   during the November through April heating season.

16   **Q.   WHAT IS THE COMPANY’S RESPONSE TO STAFF WITNESS SWAIM’S**  
17   **CONCERNS THE COMPANY’S APPROACH “IS INCONSISTENT WITH**  
18   **STAFF’S LONG-STANDING APPROACH OF RELYING ON MULTIPLE**

---

<sup>7</sup> Surrebuttal testimony of Robert H. Swaim, p. 7

1           **YEARS OF DATA TO DETERMINE IF ANY TRENDS ARE EVIDENT IN**  
2           **USAGE PATTERNS OF EACH CLASS OF CUSTOMERS”<sup>8</sup>**

3    A.    To address Staff’s concerns, the Company prepared regression analysis over the past  
4           three years. The regression analysis shows a strong statistical relationship between  
5           LCS-1 heating usage and weather (HDD), as shown in Figure 5 (below).

6           **Figure 5: Statistical Relationship between Heating Usage and HDD (R-Square)**

Regression Analysis (R-Squared)	RS-1	SCS-1	SCS-2	SCS-3	LCS-1	SCS-1 TSO	SCS-3 TSO	LCS-1 TSO
Nov'2020-Oct'2021	97.66%	96.21%	0.06%	34.26%	88.66%	96.63%	3.14%	73.48%
Nov'2021-Oct'2022	97.38%	94.89%	0.17%	0.37%	69.23%	93.96%	0.78%	85.32%
Nov'2022-Oct'2023	97.36%	91.12%	0.12%	32.82%	87.69%	96.89%	76.37%	80.27%

7  
8           The Figure shows for the LCS-1 TSO rate class over the last three years an R-square  
9           of 73.48 percent in November 2020 through April 2021, 85.32 percent in November  
10          2021 through April 2022, and 80.27 percent in November rate class. An R-square  
11          measures the extent to which changes in the dependent variable (in this case, heating  
12          use) can be explained by changes in the independent variable (in this case, weather or  
13          heating degree days.)

14          The regression analysis shows correlation between the LCS-1 TSO heating  
15          usage and HDD.

16    **Q.    WHAT IS THE COMPANY’S RECOMMENDATION?**

17    A.    The Company recommends utilizing the Company’s demand allocator since it better  
18          reflects design day demands.

---

<sup>8</sup> Id., pp. 7-8

1                   **IV.    RESPONSE TO ATTORNEY GENERAL WITNESS PORTER**

2   **Q.    DOES THE COMPANY AGREE WITH AG WITNESS PORTER’S**  
3           **CONCERNS THE COMPANY’S PROPOSAL IS “PURELY THEORETICAL**  
4           **WITHOUT REAL-WORLD APPLICATION”?**<sup>9</sup>

5   A.    No. The Company’s classification of distribution mains into customer and demand is  
6           neither “theoretical” nor “without real-world application” since the Company’s  
7           methodology is consistent with how the Company designs and installs distribution  
8           mains.

9                   **V.    RESPONSE TO HHEG WITNESS BLANK**

10   **Q.    DOES THE COMPANY AGREE WITH HHEG WITNESS BLANK’S**  
11           **CONCERNS THE COMPANY’S APPROACH TO DERIVE DESIGN DAY**  
12           **DEMANDS IS BASED ON “FUNDAMENTALLY FLAWED” LOGIC?**<sup>10</sup>

13   A.    No. As explained earlier, the Company’s approach measures different impacts.

14                   **VI.   RESPONSE TO AGC WITNESS LY**

15   **Q.    DOES THE COMPANY AGREE WITH AGC WITNESS LY’S CONCERNS**  
16           **THAT USING A COMBINED APPROACH OF MINIMUM-SIZE MAINS**  
17           **STUDY AND ZERO-INTERCEPT STUDY IS NOT SUPPORTED BY ACT**  
18           **725?**<sup>11</sup>

19   A.    No. This concern was addressed in the Company’s rebuttal testimony.<sup>12</sup>

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<sup>9</sup> Surrebuttal testimony of Richard W. Porter, pp. 5-6

<sup>10</sup> Surrebuttal testimony of Larry Blank, p. 12

<sup>11</sup> Surrebuttal testimony of Jonathan Ly, p. 5

<sup>12</sup> Rebuttal testimony of Timothy S. Lyons, p. 18

1 **Q. DOES THE COMPANY AGREE THAT USING A COMBINED APPROACH**  
2 **OF MINIMUM-SIZE MAINS STUDY AND ZERO-INTERCEPT STUDY “IS**  
3 **NOT SUPPORTED BY ANY ANALYSIS OR PRECEDENT”?**<sup>13</sup>

4 A. No. As explained earlier, the zero-intercept method is recognized by NARUC, yields  
5 a result that is statistically significant, and represents a meaningful and unique analysis  
6 of distribution mains as compared to the minimum-size mains study.

7 **Q. DOES THE COMPANY AGREE WITH AGC WITNESS LY’S**  
8 **RECOMMENDATION THAT CALCULATION OF THE DESIGN DAY**  
9 **DEMAND FOR EACH NON-WEATHER SENSITIVE RATE CLASS BE**  
10 **REVISED?**<sup>14</sup>

11 A. Yes. The Company’s COSS study provided in sur-surrebuttal testimony reflects a  
12 revised calculation of design day demand for the non-weather sensitive rate classes.  
13 Specifically, the Company’s calculation in rebuttal testimony divided the average use  
14 per bill during the November through April heating season by 181 days. The Company  
15 in this sur-surrebuttal testimony revised its calculation by dividing the average use per  
16 bill during the November through April heating season by 30.17 days, that is 181 days  
17 divided by 6 months. The revised calculation now reflects average use per bill per day  
18 over the heating season.

19 **Q. DOES THE COMPANY AGREE WITH AGC WITNESS LY’S**  
20 **RECOMMENDATION THAT COSTS ASSOCIATED WITH THE HEATING**

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<sup>13</sup> Surrebuttal testimony of Jonathan Ly, p. 5

<sup>14</sup> Id., p. 11

1 **ASSISTANCE FUND BE ASSIGNED DIRECTLY TO THE RESIDENTIAL**  
2 **CLASS?<sup>15</sup>**

3 A. Yes. The Company's COSS study provided in sur-surrebuttal testimony incorporates  
4 the change.

5 **VII. CONCLUSION**

6 **Q. WHAT IS THE COMPANY'S RECOMMENDATION TO THE**  
7 **COMMISSION?**

8 A. The Company recommends the Commission:

9 

- Utilize the Company's billing determinants since they reflect a statistically  
10 significant relationship between customer usage and HDD.

11 

- Were the Commission to utilize Staff's weather-normalization  
12 adjustment, the Company recommends the Commission exclude Staff's  
13 "Trended" adjustment in deriving SCS-1 billing determinants.

14 

- Utilize the Company's approach to functionalize, classify, and allocate costs in  
15 its COSS study. The Company's approach allocates costs to each rate class in  
16 a manner that reflects the underlying cost of service.

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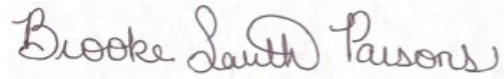
<sup>15</sup> Id., p. 16



- 1 **Q. DOES THIS COMPLETE YOUR SUR-SURREBUTTAL TESTIMONY?**
- 2 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 20th day of September 2024.

A handwritten signature in cursive script that reads "Brooke South Parsons". The signature is written in black ink on a light-colored background.

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Brooke South Parsons

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

SUR-SURREBUTTAL TESTIMONY

OF

DANE A. WATSON, PE CDP

MANAGING PARTNER,

ALLIANCE CONSULTING GROUP

ON BEHALF OF

SUMMIT UTILITIES ARKANSAS, INC.

Date Filed: September 20, 2024

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**LIST OF EXHIBITS**

SUR-SURREBUTTAL EXHIBIT DAW-1      Atmos Energy Docket No. 23-00050, Tennessee  
Public Utility Commission, Order approving  
New Depreciation Rates

1 **I. INTRODUCTION**

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

3 A. My name is Dane A. Watson, and my business address is 101 E. Park Blvd., Suite 220,  
4 Plano, Texas 75074. I am a Partner of Alliance Consulting Group. Alliance Consulting  
5 Group provides consulting and expert services to the utility industry.

6 **Q. ARE YOU THE SAME DANE A. WATSON WHO FILED DIRECT TESTIMONY**  
7 **ON JANUARY 25, 2024, IN THIS PROCEEDING AND REBUTTAL**  
8 **TESTIMONY ON AUGUST 7, 2024?**

9 A. Yes.

10 **II. PURPOSE OF SUR-SURREBUTTAL TESTIMONY**

11 **Q. WHAT IS THE PURPOSE OF YOUR SUR-SURREBUTTAL TESTIMONY?**

12 A. The purpose of my testimony, on behalf of SUA, is to rebut the Surrebuttal Testimony of  
13 Arkansas Attorney General witness Michael Majoros regarding his proposed changes to  
14 the depreciation rates I proposed in the appendices to Direct Exhibit DAW-1 of my  
15 Direct Testimony. I recommend that the Commission approve the annual depreciation  
16 rates presented in the Surrebuttal testimony of Staff witness Claude Robertson, CDP. Mr.  
17 Robertson's recommendations are reasonable.

18 **Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR TESTIMONY?**

19 A. Yes, I prepared or supervised the preparation of the exhibit listed in the Table of  
20 Contents.

21 **Q. WAS YOUR SUR-SURREBUTTAL TESTIMONY PREPARED BY YOU OR**  
22 **UNDER YOUR DIRECT SUPERVISION?**

23 A. Yes.

1 **Q. WHAT RECOMMENDATIONS ARE YOU MAKING IN YOUR SUR-**  
2 **SURREBUTTAL TESTIMONY?**

3 A. I recommend that the Commission disregard Mr. Majoros’ recommendations entirely. I  
4 recommend that the Commission approve the annual depreciation rates presented in Mr.  
5 Robertson’s Surrebuttal testimony.

6 **III. RESPONSE TO AG WITNESS MAJOROS**

7 **Q. WHAT POINTS OF MR. MAJOROS DO YOU ADDRESS IN THIS SECTION?**

8 A. Mr. Majoros continues to defend his positions on the theoretical reserve calculation,  
9 average service lives of mains and services, geometric mean turnover (GMT) analysis,  
10 average remaining lives of mains and services, net salvage and cost of removal, replacing  
11 assets and accounting practice for removal cost.

12 **Q. DID STAFF WITNESS MR. ROBERTSON TAKE A POSITION ON MR.**  
13 **MAJOROS’ RECOMMENDATIONS?**

14 A. Yes. Mr. Robertson rejected Mr. Majoros’ recommendations for life and remaining life  
15 for Accounts 376 and 380.<sup>1</sup> Mr. Robertson further rebutted Mr. Majoros’ statements that  
16 the Company’s depreciation rates were excessive when he examined the theoretical  
17 reserve.<sup>2</sup> Mr. Robertson concludes, “Mr. Majoros has recommended depreciation rates  
18 *that are not supported by the data being analyzed* (emphasis added).”<sup>3</sup> Mr. Robertson  
19 rejects Mr. Majoros’ net salvage recommendations. He further states that “excess

---

<sup>1</sup> Robertson, Surrebuttal, p. 3-5.

<sup>2</sup> Ibid, p. 6.

<sup>3</sup> Ibid 6:4-6

1 depreciation is not the case for SUA’s assets.” I concur with Mr. Robertson’s analysis of  
2 Mr. Majoros’ depreciation recommendations.

3 **Q. WHAT ABOUT MR. MAJOROS’ ADVOCATING USE OF THE GEOMETRIC**  
4 **MEAN TURNOVER ANALYSIS (“GMT”)?**

5 A. Mr. Majoros continues to defend his use of the GMT in his depreciation  
6 recommendations. He states, “Turnover analyses are used regularly in business.”<sup>4</sup> Mr.  
7 Majoros does not specify what business environment GMT is used in, but I have not  
8 encountered its use in the utility business. I have spent nearly 40 years in my  
9 professional career as an engineer, property accounting manager, depreciation expert, and  
10 small business owner. I have not used GMT in all that time. I disagree with Mr.  
11 Majoros’ recommendations and conclusions, which Staff witness Mr. Robertson also  
12 rejected in his surrebuttal testimony.

13 **Q. WHAT ABOUT MR. MAJOROS’ RECOMMENDATIONS ON ACCOUNTING**  
14 **POLICY CHANGES REGARDING REMOVAL COST AND CHARGES TO**  
15 **ACCUMULATED DEPRECIATION?**

16 A. Mr. Majoros incorrectly states that the Company shifts replacement costs to cost of  
17 removal in contravention of the FERC Uniform System of Accounts (“USOA”).<sup>5</sup> As I  
18 stated in my Rebuttal Testimony, Mr. Majoros has a unique interpretation of the USOA  
19 and his recommendation is different from the mainstream application of removal cost  
20 accounting by other gas utilities across North America.<sup>6</sup> Additionally, no party in this

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<sup>4</sup> Majoros Surrebuttal, 6:3-4.

<sup>5</sup> Majoros Surrebuttal, page 10, lines 3-6.

<sup>6</sup> Watson Direct, page 2, lines 17-18.

1 case has adopted Mr. Majoros’ recommended changes to the Company’s accounting  
2 policy. Notably Staff, which includes experienced accounting professionals and CPAs  
3 who review the Company’s capital processes, did not join in adopting Mr. Majoros’  
4 recommended changes. My Rebuttal Testimony at pages 39 and 40 provides a more  
5 detailed response on this issue and does not need to be repeated here. Mr. Majoros is  
6 recommending the Commission and Staff to consider that “an update to methodology is  
7 warranted.”<sup>7</sup> Staff and the Company agree that Mr. Majoros’ recommendation should be  
8 rejected by this Commission.

9 **Q. HAS ANOTHER REGULATORY COMMISSION ADOPTED SIMILAR**  
10 **RECOMMENDATIONS BY MR. MAJOROS?**

11 A. No. Mr. Majoros made a similar recommendation in Atmos Energy Docket No. 23-  
12 00050 before the Tennessee Public Utility Commission, but they did not adopt his  
13 positions. I am attaching the Commission decision in that proceeding as Sur-Surrebuttal  
14 Exhibit DAW-1, which details the various witnesses, positions, testimony, and briefs.  
15 After discussing the chronology of the case, the order concludes “the hearing panel voted  
16 unanimously to approve the annual depreciation rates proposed in the Depreciation  
17 Studies attached as exhibits to the Direct Testimony of Ned. W. Allis and found such  
18 depreciation rates just and reasonable. Moreover, Atmos’s treatment of retirements does  
19 not require the Commission to adopt a novel approach to depreciation for which there is  
20 little compelling precedent in other state jurisdictions.”<sup>8</sup> There is no reason for this

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<sup>7</sup> Majoros Surrebuttal, page 11, line 13-14.

<sup>8</sup> Order Approving New Depreciation Rates, Docket No. 23-00050 Atmos Energy Corporation before the Tennessee Public Utility Commission, p. 19.



1 Commission to adopt Mr. Majoros' recommendations on cost of removal accounting  
2 when none of its Staff adopted that stance.

3 **IV. CONCLUSION**

4 **Q. PLEASE SUMMARIZE THE CONCLUSIONS YOU HAVE REACHED AS A**  
5 **RESULT OF YOUR ANALYSIS.**

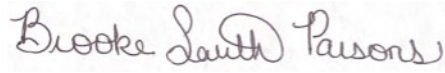
6 A. The depreciation rates recommended by Commission Staff witness Mr. Robertson are  
7 reasonable. I recommend the adoption of Mr. Robertson's depreciation rates, many of  
8 which are the same as those proposed in my Direct Exhibit. Mr. Robertson's position on  
9 two accounts differs slightly from my original recommendation, but they fall within the  
10 range of reasonableness. The Company's depreciation rates should be set at the level  
11 indicated by Mr. Robertson's Surrebuttal testimony to recover the Company's total  
12 investment in property over the estimated remaining life of the assets.

13 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

14 A. Yes, it does.

**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 on this 20th day of September 2024.

A handwritten signature in cursive script that reads "Brooke South Parsons". The signature is written in black ink on a light-colored background.

Brooke South Parsons

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

SUR-SURREBUTTAL EXHIBIT  
OF  
DANE A. WATSON, PE CDP  
MANAGING PARTNER,  
ALLIANCE CONSULTING GROUP  
ON BEHALF OF  
SUMMIT UTILITIES ARKANSAS, INC.

Date Filed: September 20, 2024

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION**

**NASHVILLE, TENNESSEE**

**February 29, 2024**

**IN RE:**

**ATMOS ENERGY CORPORATION NOTICE OF  
FILING DEPRECIATION STUDY AND REQUEST  
FOR APPROVAL OF NEW DEPRECIATION RATES**

)  
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)  
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**DOCKET NO.  
23-00050**

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**ORDER APPROVING NEW DEPRECIATION RATES**

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This matter came before Chairman Herbert H. Hilliard, Commissioner Clay R. Good, Commissioner David Crowell, Commissioner Kenneth C. Hill, and Commissioner John Hie of the Tennessee Public Utility Commission (the “Commission” or “TPUC”), the voting panel assigned to this docket, during a regularly scheduled Commission Conference held on December 11, 2023, to consider the *Notice of Filing of Depreciation Study and Request for Approval of New Depreciation Rates* (“Notice”) filed by Atmos Energy Corporation (“Company,” “Atmos,” or “Atmos Energy”) on June 29, 2023.

**NOTICE AND RELEVANT BACKGROUND**

As part of the authorization of the Company’s Annual Rate Review Mechanism (“ARRM”) in Docket No. 14-00146, the Commission approved a settlement agreement between Atmos and the Consumer Advocate Division of the Office of the Tennessee Attorney General (“Consumer Advocate”) which authorized the Company to submit depreciation studies to update depreciation rates used in ARRM calculations subject to the scrutiny of the Consumer Advocate through a

contested case.<sup>1</sup> The Company's ARRM Tariff approved in Docket No. 14-00146 provides that if Atmos performs a depreciation study recommending new rates, it must obtain Commission approval prior to using the new rates to compute depreciation expense in its subsequent Annual Rate Review Mechanism ("ARRM") filing.<sup>2</sup> On June 29, 2023, Atmos filed the *Notice* and sought approval of new depreciation rates to be included in the Company's next ARRM filing due on February 1, 2024.

Atmos is a public utility engaged in the business of transporting, distributing, and selling natural gas in areas of Tennessee, as well as certain other states. Depreciation rates should not be confused with utility base rates. In general, the utility industry is capital intensive and involves substantial investments in capital assets; thus, depreciation is typically a large expense component because it is designed to recover the cost of the plant and equipment needed to provide utility services over the useful life of the property. Depreciation is a noncash expense that is recovered dollar-for-dollar from ratepayers and, consequently, can have a material impact on base service rates.

Depreciation rates are based on depreciation conventions and refer to the mathematical percentage at which annual depreciation expense is recognized over the life of a capital asset or group of similar assets. For example, if a service truck is determined to have a useful life of eight years, its depreciation rate is 12.50% (100/8); and if a natural gas line is determined to have a service life of thirty years, its depreciation rate is 3.33% (100/30). Due to the voluminous investments in capital assets, depreciable plant and equipment are gathered into homogenous groups for depreciation purposes; and depreciation rates are generally calculated and applied to

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<sup>1</sup> See *In re: Petition of Atmos Energy Corporation for a General Rate Increase Under T.C.A. 65-5-103(a) and Adoption of an Annual Rate Review Mechanism Under T.C.A. 65-5-103(d)(6)*, Docket No. 14-00146, *Order Approving Settlement*, Exh. A, pp. 18-19 (November 4, 2015).

<sup>2</sup> *Notice*, p. 1 (June 29, 2023).

groups of assets based on the average depreciation characteristics of the individual groups, as opposed to applying the rates to specific assets.

In support of its request for new depreciation rates, Atmos filed the testimony of Ned W. Allis, Vice President of Gannett Fleming Valuation and Rate Consultants, LLC (“Gannett Fleming”).<sup>3</sup> Atmos hired Gannett Fleming to perform the depreciation studies for its Tennessee Direct Property and Kentucky Mid-States General Office, which are sponsored by Mr. Allis’s testimony as Exhibits NWA-1 and NWA-2, respectively. In addition, Mr. Allis sponsored the depreciation study of Atmos’s Shared Services Unit (“SSU”) conducted by Alliance Consulting Group (“Alliance”), as Exhibit NWA-3. Mr. Allis reviewed the SSU Depreciation Study (SSU Study”) performed by Alliance and agrees with its analysis.<sup>4</sup> In total, the Company filed three studies with the *Notice* (Exhibits NWA-1, NWA-2, and NWA-3 together, “Depreciation Studies”).

The Depreciation Studies were performed using the Company’s depreciable property and reserve balances as of the fiscal year ended September 30, 2022.<sup>5</sup> According to Mr. Allis, the depreciation studies use the same methods, procedures, and techniques as used in the past by Atmos, as well as other companies appearing before the Commission.<sup>6</sup> The Depreciation Studies utilized the straight-line method and remaining life technique to compute proposed depreciation rates.<sup>7</sup>

For each study, historical plant data was collected and analyzed to estimate the service life and net salvage characteristics of each depreciable group.<sup>8</sup> Under both the Average Life Group (“ALG”) and Equal Life Group (“ELG”) procedures, the remaining lives were calculated

---

<sup>3</sup> Ned W. Allis, Pre-Filed Direct Testimony, p. 2 (June 29, 2023).

<sup>4</sup> *Id.* at 3.

<sup>5</sup> *Id.* at 4.

<sup>6</sup> *Id.* at 5-6.

<sup>7</sup> *Id.* at 6.

<sup>8</sup> *Id.* at 7-8.

according to group expectancy techniques using the Iowa Survivor Curves (“Iowa Curves”).<sup>9</sup> The Iowa Curves are the industry standard system of survivor curves that contain the survivor characteristics experienced by industrial companies, including public utilities.<sup>10</sup> The Company’s actual historical data, as well as net salvage estimates for other gas companies, were utilized for estimating the studies’ net salvage percentages.<sup>11</sup> Cost of removal studies performed in 2014 and 2016 were considered when estimating net salvage values (“Alliance Studies”).<sup>12</sup>

After the service life estimates and salvage characteristics were determined, the annual depreciation rates were computed based on plant in service as of September 30, 2022.<sup>13</sup> For each plant account, the difference between the surviving investment, adjusted for estimated net salvage, and the allocated book depreciation reserve, was divided by the remaining life to yield the annual depreciation expense. The annual depreciation expense divided by the sum of the original plant cost yields the annual depreciation rate.<sup>14</sup>

The Tennessee Direct Property study resulted in a composite depreciation rate for all plant of 2.30% (43.48 years), with proposed depreciation rates by plant account shown on Exhibit NWA-1, Part VI, page 4. The Kentucky Mid-States General Office study computed a composite depreciation rate of 7.55% (13.25 years), with rates by plant account shown on Exhibit NWA-2, Part VI, page 4. The Shared Services Unit study shows a composite rate of 7.46% (13.40 years) with individual plant account rates listed in Exhibit NWA-3, Appendix A. The depreciation rates proposed by Atmos in this case would generate annual depreciation expense of approximately \$19.2 million based on the Company’s investment in depreciable property as of September 30,

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<sup>9</sup> *Id.* at 9-10; Exh. NWA-3, pp. 4-6.

<sup>10</sup> *Id.* at 9.

<sup>11</sup> *Id.* at 11.

<sup>12</sup> *Id.* at 12.

<sup>13</sup> *Id.*

<sup>14</sup> *Id.* at 7-8, 14-16.

2022; and the aggregate effect of all three depreciation studies is an increase in annual depreciation expense of approximately \$755,000.<sup>15</sup>

#### POSITION OF THE CONSUMER ADVOCATE

On August 1, 2023, the Consumer Advocate filed a *Petition to Intervene* seeking to intervene, which was subsequently granted.<sup>16</sup> The Consumer Advocate initially made two broad objections to the proposed depreciation rates. The first objection dealt with the service lives of certain plant accounts. After discussions with the Company, the Consumer Advocate withdrew the objection but did not concede the issue.<sup>17</sup> The remaining objection centered around the calculation and accounting for net salvage values. After the Consumer Advocate withdrew its objections to the service lives of certain plant, both parties requested a hearing on the issues concerning net salvage values.<sup>18</sup>

The Consumer Advocate retained Michael J. Majoros, Jr., President of Snavelly King Majoros & Associates, to review Atmos Energy's Depreciation Studies. In pre-filed direct testimony, Mr. Majoros addressed the Company's Tennessee Direct Property study.<sup>19</sup> With respect to cost of removal, Mr. Majoros opined that the Company should only charge the cost of removal associated with final, unreplaced retirements to the cost of removal of the unreplaced asset, and that in cases where a retired asset is being replaced with another asset, replacement cost additions should include the cost of removal of the replaced assets. Additionally, Mr. Majoros contended that the studies performed by Alliance that Atmos used to allocate cost of removal in asset replacement projects are flawed and should not be used because they improperly allocate

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<sup>15</sup> *Id.* at Exhs. NWA-4, NWA-5 & NWA-6.

<sup>16</sup> *Order Granting the Petition to Intervene Filed by the Consumer Advocate*, p. 4 (August 21, 2023).

<sup>17</sup> Michael J. Majoros, Jr., Supplemental Pre-Filed Direct Testimony, pp. 2-3 (October 26, 2023); Ned W. Allis, Supplemental Pre-Filed Direct Testimony, pp. 2-3 (October 26, 2023).

<sup>18</sup> *Id.*

<sup>19</sup> Michael J. Majoros, Jr., Pre-Filed Direct Testimony, p. 13 (September 22, 2023).



replacement costs to cost of removal.<sup>20</sup>

Mr. Majoros testified that increasing the cost of the removal ratio increases the calculated depreciation rate, and that if the cost of removal is not supportable, the depreciation rate is excessive.<sup>21</sup> Mr. Majoros asserted that Mr. Allis's approach is flawed because the Alliance Studies inappropriately compare cost of removal expressed in current dollars to retirements expressed in historic dollars; and more significantly, Mr. Allis did not correct the Company's arbitrary, unnecessary, and inappropriate accounting for replacements.<sup>22</sup>

Mr. Majoros claimed that the cost of removal proposed by the Company is arbitrary because it allocates a percentage of the replacement costs to cost of removal when such costs should be included in the total cost of replacement projects and recorded as new plant additions.<sup>23</sup> To support his position, Mr. Majoros relied on Uniform System of Accounts ("USOA") Definition 32, which states "Replacing or replacement, when not otherwise indicated in the context, means the construction or installation of gas plant in place of property retired, together with the removal of the property retired."<sup>24</sup> According to Mr. Majoros, this definition means that the original cost of a replacement addition is one hundred percent of the total project cost, which includes the cost of removing the existing item. As such, he argued that the Company's accounting for replacements does not comply with this USOA requirement.<sup>25</sup>

Mr. Majoros argued that the Company's allocation of part of the original cost of the replacement project to the cost of removal of the existing asset is unnecessary and arbitrary and concluded that all allocations are arbitrary.<sup>26</sup> According to Mr. Majoros, the allocation is

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<sup>20</sup> *Id.* at 2.

<sup>21</sup> *Id.* at 12.

<sup>22</sup> *Id.* at 18.

<sup>23</sup> *Id.*

<sup>24</sup> *Id.* at 19.

<sup>25</sup> *Id.*

<sup>26</sup> *Id.*

unnecessary because under the Federal Energy Regulatory Commission (“FERC”) accounting system, rate base remains the same after the allocation is done as it was before the allocation because the remaining life technique keeps the depreciation rate the same before and after the allocation. Thus, Mr. Majoros concluded that the only purpose of the allocation was to feed cost of removal amounts into studies such as Mr. Allis’s so that the Company can charge inflated cost of removal ratios to ratepayers.<sup>27</sup>

Mr. Majoros testified that Pennsylvania and New Jersey do not allow utilities to include future net salvage ratios in depreciation rates, and that Maryland requires utilities to discount their future net salvage estimates to their present value.<sup>28</sup> According to Mr. Majoros, these techniques address expressing estimates of future net salvage as percentages of the surviving plant in service, which was done by Mr. Allis.<sup>29</sup> Mr. Majoros asserted that Mr. Allis’s reliance on the Alliance Studies enabled Mr. Allis to propose higher cost of removal ratios, and that the intent of the Alliance Studies was to pass more costs of removal into Mr. Allis’s net salvage studies.<sup>30</sup> Further, Mr. Majoros stated the Alliance Studies support his assertion that the Company’s accounting approach is arbitrary and unnecessary, because the study results are used to allocate removal costs for replacement projects and because the allocation factors are used to charge a portion of overall labor costs to removal costs for various capital replacement activities.<sup>31</sup>

Mr. Majoros relied in part on statements and discovery responses made by Atmos. According to Atmos, if a replacement project is cost of removal eligible, then the install/removal split for contractor labor, contractor services, and Company labor defaults to a 95%/5% split, and

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<sup>27</sup> *Id.*

<sup>28</sup> *Id.* at 21.

<sup>29</sup> *Id.* at 20 (internal citations omitted).

<sup>30</sup> *Id.* at 22.

<sup>31</sup> *Id.* at 23 (internal citations omitted).

the Alliance Studies support the use of the 95%/5% split.<sup>32</sup> However, Mr. Majoros noted the Company's actual replacement split was 78% in FY22 and 74% in FY 23.<sup>33</sup> Mr. Majoros testified that Mr. Allis's net salvage costs are inflated because Mr. Allis applied a removal ratio of 100%, rather than a figure in the range of 74% to 78%.<sup>34</sup> Mr. Majoros used the 76% average of the FY22 and FY23 replacement plant percentages to limit the amount of future net salvage included in depreciation rates to the portion of the plant that will not be replaced (*i.e.*, retirements without replacements). Mr. Majoros then applied the Alliance Studies' 5% allocation ratio for removals to the 24% of future retirements that he contends are cost of removal eligible. Based on these assumptions, Mr. Majoros calculated a cost of removal ratio for eligible plant retirements of 1.2%.<sup>35</sup> Mr. Majoros then used the computed net cost of removal ratio to recommend the Consumer Advocate's proposed alternative depreciation rates.<sup>36</sup>

#### **ATMOS ENERGY REBUTTAL TESTIMONY**

Mr. Allis filed rebuttal testimony on behalf of Atmos on October 11, 2023. According to Mr. Allis, asset retirements may occur with replacements (meaning that a new asset is added to replace the retiring one) or without replacement (meaning no new asset is added to replace the retiring one). In either case, the net salvage value should be included in the depreciation study.<sup>37</sup>

Mr. Allis testified that including net salvage in depreciation is consistent with general principles of accounting. In particular, the matching principle is satisfied by matching the cost of capital assets, including net salvage, with the periods over which the assets generate revenues. Thus, the full cost of the assets, including their end-of-life costs associated with retirements, may

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<sup>32</sup> *Id.* at 24.

<sup>33</sup> *Id.* at 24.

<sup>34</sup> *Id.* at 25.

<sup>35</sup> *Id.*

<sup>36</sup> *Id.* at 26.

<sup>37</sup> Ned W. Allis, Pre-Filed Rebuttal Testimony, p. 3 (October 11, 2023).

be recovered over their service lives. In support of his testimony, Mr. Allis referenced page 157 of the National Association of Regulatory Utility Commissioners' publication *Public Utility Depreciation Practices* (1996), which discusses this matching principle concept and states in part that “[h]istorically, most regulatory commissions have required that both gross salvage and cost of removal be reflected in depreciation rates.”<sup>38</sup>

Mr. Allis testified that including net salvage values in depreciation is a ratemaking principle that accomplishes the goal of intergenerational equity because each generation of customers pays their fair share of the costs to provide service. Mr. Allis testified that not recognizing costs of removal through depreciation rates over the lives of the related assets, would cause customers to pay these costs after the assets are retired and create intergenerational inequity.<sup>39</sup> Further, Mr. Allis claimed that Mr. Majoros's argument to decrease depreciation expense in the short-run fails to recognize the impacts to ratepayers. Lower depreciation today not only means higher depreciation in the future, but it also has the effect of computing a higher rate base and associated higher rate of return requirement. Thus, according to Mr. Allis, lower depreciation expense can lead to higher customer rates because the higher rate base eventually exceeds the impact of lower depreciation expense.<sup>40</sup>

Mr. Allis asserted that Mr. Majoros's proposed accounting for net salvage value is inconsistent with the USOA and industry practices.<sup>41</sup> Mr. Allis cited USOA Plant Instruction 10(B)(2) which he testified provides that retirements of depreciable gas plant shall be charged to accumulated depreciation for such plant and that “[t]he cost of removal and the salvage shall be

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<sup>38</sup> *Id.* at 4.

<sup>39</sup> *Id.* at 4-5.

<sup>40</sup> *Id.* at 5.

<sup>41</sup> *Id.* at 6.

charged or credited, as appropriate, to such depreciation account.”<sup>42</sup> Additionally, Mr. Allis cited in his testimony that the USOA’s description of Account 108, Accumulated Provision for Depreciation of Gas Plant, states “[a]t the time of retirement of depreciable gas utility plant, this account shall be charged with the book cost of the property retired and the cost of removal and shall be credited with the salvage value and any other amounts recovered, such as insurance.”<sup>43</sup> Mr. Allis concluded that the USOA is clear that whether or not a retirement occurs due to a replacement, the cost of removal and gross salvage shall be charged or credited to accumulated depreciation; and that recording cost of removal as part of a plant addition as suggested by Mr. Majoros would not comply with the USOA.<sup>44</sup>

Mr. Allis asserted that Mr. Majoros’s reliance on USOA Definition 32 regarding plant replacements is erroneous. Definition 32 provides that a plant replacement “when not otherwise indicated in context, means the construction or installation of gas plant in place of property retired, together with removal of the property retired.”<sup>45</sup> According to Mr. Allis, the definition is not explaining that cost of removal should be a cost of the new plant addition, but is merely explaining what a replacement is. Mr. Allis testified that the additional sections of the USOA that he cites confirm that Mr. Majoros’s interpretation of Definition 32 is incorrect.<sup>46</sup>

Based on his review of the depreciation studies for Piedmont Natural Gas Company submitted in Docket No. 20-00086 and Chattanooga Gas Company submitted in Docket No. 18-00017, Mr. Allis noted that both companies included net salvage estimates in depreciation rates and that both recorded the cost of removal to accumulated depreciation for replacement projects.<sup>47</sup>

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<sup>42</sup> *Id.* at 9.

<sup>43</sup> *Id.* at 10.

<sup>44</sup> *Id.* at 9-10.

<sup>45</sup> *Id.* at 8 (internal citations omitted).

<sup>46</sup> *Id.*

<sup>47</sup> *Id.* at 7.

Of the hundreds of depreciation studies that he has worked on, Mr. Allis testified that he could not recall any utility being required to account for cost of removal in the way Mr. Majoros suggested.<sup>48</sup>

Mr. Allis contended that if Mr. Majoros was correct, virtually every utility in the country would be violating the USOA.<sup>49</sup>

With respect to determining the cost of removal for plant retirements that are associated with replacement projects, Mr. Allis testified that there are two primary methods by which these types of costs may be recorded in plant in service or removal. First, is the incremental method, in which only costs associated with retirement that are incremental to the project (i.e., that occur in addition to the cost of placing the new asset in service) are recorded as cost of removal. The second is the common cost sharing method in which costs common to both tasks are allocated between plant in service and cost of removal in proportion to the directly assigned costs (primarily labor) associated with each task. Mr. Allis testified, that the method implemented by Atmos Energy follows the incremental method recommended by the Alliance Studies.<sup>50</sup>

Mr. Allis asserted that using the incremental method results in less cost of removal being allocated for replacement projects than the common cost sharing method. Since the Company's implementation of the incremental method in late 2015 and late 2016, the Company's recorded cost of removal has decreased, which can be seen in the three-year moving averages for Account 380.00, Services, which had exceeded -20% in prior years but declined to the -10% to -15% range after adoption of the incremental method.<sup>51</sup>

Mr. Allis disputed Mr. Majoros's claim that there are substantial increases in cost of removal after the Alliance Studies were implemented. While the dollar levels of cost of removal

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<sup>48</sup> *Id.* at 6.

<sup>49</sup> *Id.* at 7.

<sup>50</sup> *Id.* at 11.

<sup>51</sup> *Id.* at 12.

have increased, the reason for the increase is the volume and cost of the work performed. In other words, due to capital improvements and replacements, the Company is retiring more assets and, therefore, the cost of removal has increased overall. According to Mr. Allis, a comparison of the percentage of cost of removal, as expressed in relation to capital expenditures, shows that cost of removal has declined, rather than increased.<sup>52</sup> Mr. Allis testified that Mr. Majoros's claim that the intent of the Alliance Studies was to pass more cost of removal into the net salvage studies is inflammatory and reflected Mr. Majoros's misunderstanding of the Alliance Studies, since they had the opposite effect than what Mr. Majoros implied.<sup>53</sup>

Mr. Allis testified that the percentage of capital replacement costs assigned to cost of removal is based on a detailed study of the tasks involved for replacement projects and a sample of specific projects and the associated costs and tasks.<sup>54</sup> Mr. Allis disputed Mr. Majoros's contention that the allocation is arbitrary, contending that the cost of removal allocations based on the studies are thorough and reasonable.<sup>55</sup> Further, Mr. Allis claimed that Mr. Majoros's calculations are incorrect because (1) his assumed 5% allocation factor understates costs of removal since it is applied to the original cost of the asset and (2) because the 5% allocation is based on the incremental method that excludes common costs and, therefore, understates costs of removal for retirement-only assets (retirements without replacements).<sup>56</sup>

Finally, Mr. Allis claimed that the alternatives Mr. Majoros proposes – such as excluding net salvage from depreciation rates and instead recovering those costs when expended, and discounting future net salvage costs to present value – are not widely accepted. Mr. Allis asserted

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<sup>52</sup> *Id.* at 12-13.

<sup>53</sup> *Id.* at 13.

<sup>54</sup> *Id.* at 14.

<sup>55</sup> *Id.*

<sup>56</sup> *Id.* at 14-15.

that these methods lead to higher base rates than the traditional methods employed by the Company and would in turn lead to higher rates for customers in the long run.<sup>57</sup> Mr. Allis testified that the majority of regulatory jurisdictions utilize the traditional method, and that only three states (Maryland, New Jersey, and Pennsylvania) use Mr. Majoros's proposed alternative methods for net salvage value.<sup>58</sup> Finally, Mr. Allis maintained that the FERC also recently rejected the alternative approaches recommended by Mr. Majoros.<sup>59</sup>

### THE HEARING

The hearing in this matter was noticed by the Commission on October 26, 2023, and held during the regularly scheduled Commission Conference on November 6, 2023. Appearances were made by the following:

Atmos Energy Corporation, – Erik C. Lybeck Esq., 3322 West End Ave., Suite 200  
Nashville, Tennessee 37203.

Consumer Advocate Division – Vance Broemel, Esq., Consumer Advocate  
Division of the Office of the Tennessee Attorney General and Reporter, Post Office  
Box 20207, Nashville, Tennessee, 37219.

Mr. Allis presented testimony on behalf of the Company and Mr. Majoros testified on behalf of the Consumer Advocate. Prior to the hearing, the parties were authorized to submit post hearing briefs on November 22, 2023, in lieu of giving closing arguments at the hearing, and the parties anticipated the Commission would deliberate this matter in December of 2023.<sup>60</sup> During the hearing, members of the public were given an opportunity to offer comments, but no one sought recognition to do so.

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<sup>57</sup> *Id.* at 15.

<sup>58</sup> *Id.*

<sup>59</sup> *Id.* at 16.

<sup>60</sup> *Pre-Hearing Order*, p. 3 (November 3, 2023).



## POST-HEARING BRIEF OF THE CONSUMER ADVOCATE

In its Post-Hearing Brief, the Consumer Advocate contended that the Commission's authority allows it to consider, follow, or depart from accounting principles established by other entities. The Commission, therefore, has the same broad powers and discretion in this case to adopt a simplified method of accounting for cost of removal and is not bound by any self-imposed limitation on its ratemaking authority in general or in depreciation cases. The Commission may consider alternative methods or accounting principles that may result in just and reasonable rates.<sup>61</sup>

According to the Consumer Advocate, the recommendation to adopt Mr. Majoros's method of accounting for cost of removal does not require the Commission to depart from prior ratemaking policy or the USOA, and it does not require the Commission to disregard Commission Rule 1220-04-01-.11 that requires utilities to follow a uniform system of accounts. The Consumer Advocate asserted that while the rule requires the Company to keep its books in a certain manner, it does not bind the Commission in determining how depreciation rates should be computed to arrive at just and reasonable rates.<sup>62</sup>

The Consumer Advocate argued that its recommendation on the accounting for cost of removal comports with a more holistic reading of the USOA. The Consumer Advocate relied upon Definition 32.A, which states that replacements include "the construction and installation of gas plant in place of property retired, together with the removal of the property retired."<sup>63</sup> According to the Consumer Advocate, the Company's allocation of a percentage of costs associated with retirement-replacement assets to cost of removal is at odds with the USOA's definition of replacements.<sup>64</sup>

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<sup>61</sup> Consumer Advocate Post-Hearing Brief, pp. 3-4 (November 22, 2023).

<sup>62</sup> *Id.* at 4-5.

<sup>63</sup> *Id.* at 7.

<sup>64</sup> *Id.* at 6-7.

The Consumer Advocate asserted it was in agreement with the Company that USOA Gas Plant Instruction 10.B.(2) is controlling but argued that the Company has misapplied the USOA in this case. Gas Plant Instruction 10.B.(2) states that when “a retirement is retired from gas plant, with or without replacement, the book cost thereof shall be credited to the gas plant account in which it is included .... The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account.”<sup>65</sup> The Consumer Advocate argued that the phrase “as appropriate” denotes that there are projects where cost of removal should not be booked to the depreciation account. Thus, according to the Consumer Advocate, when Gas Plant Instruction 10.B.(2) is read in conjunction with Definition 32.A, the USOA supports its contention that it is not appropriate to place the cost of removal into the depreciation account for replacement assets, but that such costs should already be included with the cost of the replacement project.<sup>66</sup>

Finally, the Consumer Advocate argued that its recommendation to account for cost of removal as plant additions for replacement assets is more objective and, therefore, just and reasonable. According to the Consumer Advocate, the 5% allocation of replacement costs as incremental cost of removal is not an exact figure, but rather is based on estimates contained in the Alliance Studies. The Consumer Advocate claimed these Studies are opinions that may be well-informed and detailed, but which are nonetheless opinions that involve examination of many variable elements with opportunities for excessive allowances present.<sup>67</sup> Rather than using estimated cost of removal, the Consumer Advocate recommended waiting until the end of the life of the asset, when the cost to remove is known and objectively measurable, and book that cost of removal wholly to the new plant account. The Consumer Advocate contended that this simplified

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<sup>65</sup> *Id.* at 7-8.

<sup>66</sup> *Id.*

<sup>67</sup> *Id.* at 8-9.

method is both more objective in the present when determining actual cost of removal, and in the future because looking at actual cost at the time of removal negates the risk of over or under depreciation of any particular asset group. The Consumer Advocate concluded that the Commission should not credit subjective opinions when an alternative method of employing objective standards is available and recommended.<sup>68</sup>

### **POST-HEARING BRIEF OF ATMOS**

The Company asserted that it is conceptually appropriate to include cost of removal for replacement projects as part of depreciation expense; and it points out that the Consumer Advocate did not object to including cost of removal in depreciation as a general matter.<sup>69</sup> The Consumer Advocate objected only when cost of removal is incurred as part of retiring an asset that is being replaced with a new asset. Even when replacing an asset, however, there are still certain steps and associated costs that are only required to remove the existing asset from service. It is these “incremental costs” only incurred in connection with removing the old asset from service that would need to be incurred whether it is a retirement-only or a replacement project. Atmos argued there is no conceptual justification for treating incremental costs of removal for replacement projects any differently than the same costs incurred with a retirement-only project, as the Consumer Advocate proposes.<sup>70</sup>

According to Atmos, including cost of removal for replacement projects in depreciation is supported by the USOA, which the Company is required to follow under Commission Rule 1220-04-01-.11. Most significantly, the USOA’s Gas Plant Instruction 10.B.(2) states:

When a retirement unit is retired from gas plant, with or without replacement, the book cost thereof shall be credited to the gas plant account in which it is included, determined in the manner set forth in paragraph D, below. If the retirement unit is

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<sup>68</sup> *Id.* at 9-10.

<sup>69</sup> Atmos Energy Corporation’s Post-Hearing Brief, p. 2 (November 22, 2023).

<sup>70</sup> *Id.* at 3-4.

of a depreciable class, the book cost of the unit retired and credited to gas plant shall be charged to the accumulated provision for depreciation applicable to such property. The cost of removal and salvage shall be charged or credited, as appropriate, to such depreciation account.

The Company argued that Gas Plant Instruction 10.B.(2) is clear that cost of removal should be included in depreciation, and there is no indication from the instruction that it does not apply to replacement projects. The instruction expressly states that this step is appropriate when a retirement occurs with or without replacement. The Company asserted that the Consumer Advocate's proposal is directly contrary to the express terms of the USOA.<sup>71</sup>

Atmos stated that inclusion of cost of removal for replacement projects in depreciation is consistent with the precedent of the Commission. The prior depreciation studies approved by the Commission for Atmos, as well as other companies, have included cost of removal for replacement projects. Atmos cited its previous depreciation study approved in Docket No. 15-00089, as well as the last depreciation studies of Piedmont Natural Gas Company in Docket No. 20-00086 and Chattanooga Gas Company in Docket No. 18-00017, as including cost of removal allocations in both replacement and retirement-only projects.<sup>72</sup> By contrast, the Consumer Advocate, according to the Company, has cited no precedents in support of its proposal, and instead relies only on USOA Definition 32.A and "common sense."<sup>73</sup>

Atmos contended, with respect to the Consumer Advocate's reliance on Definition 32.A, that the definition itself defines replacement as "when not otherwise indicated in context, means the construction or installation of gas plant in place of property retired, together with the removal of the property retired."<sup>74</sup> The Company argued that the separate listing of the (i) construction of

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<sup>71</sup> *Id.* at 4-5.

<sup>72</sup> *Id.* at 6.

<sup>73</sup> *Id.* at 6-7.

<sup>74</sup> *Id.* at 7.

a new asset and (ii) the removal of the old asset in the definition supports different accounting treatments, rather than the same treatment as argued by the Consumer Advocate. Atmos also claimed the Consumer Advocate's reliance on the definitions section of the USOA rather than the instructions section does not provide any useful guidance. While the definitions section merely defines certain terms, it does not provide guidance on what to do with those terms. Rather, the guidance on how to apply the terms comes from the instructions section of the USOA. Those instructions, according to Atmos, direct utilities to record cost of removal to depreciation for all retirement projects, with or without replacement. The Company urged rejection of the Consumer Advocate's attempt to create a wholly novel approach to cost of removal accounting based on an implausible interpretation of a single definition, read in isolation of the rest of the USOA.<sup>75</sup>

Atmos claimed that the Consumer Advocate's contention that overall cost of removal has increased due to the Alliance Studies is incorrect. While the dollar amount of cost of removal has increased because of more money being spent on replacement activity, the incremental methodology adopted as a result of the Studies has decreased cost of removal as compared to what the costs would have been absent the Studies.<sup>76</sup> Although the 5% cost of removal ratio was criticized by the Consumer Advocate for being based on the estimates, the Consumer Advocate did not dispute that the estimates were based on the results of a detailed study, nor did the Consumer Advocate raise any objections to the methods used in the Depreciation Studies and Alliance Studies. Further, Mr. Majoros used the 5% figure in his own model.<sup>77</sup>

Finally, the Company asserted that the Consumer Advocate's proposed alternative is not workable because under its model, the cost of removal would only be recorded for retirement only

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<sup>75</sup> *Id.* at 7-8.

<sup>76</sup> *Id.* at 9.

<sup>77</sup> *Id.* at 9-10.

projects and would result in an artificially low cost of removal. Thus, according to the Company, the Consumer Advocate's proposal should be rejected, even if the Commission disagrees with the Company's approach.<sup>78</sup>

## FINDINGS & CONCLUSIONS

Based on the presentations of the parties, the arguments in the post-hearing briefs, and the evidentiary record in its entirety, the hearing panel voted unanimously to approve the annual depreciation rates proposed in the Depreciation Studies attached as exhibits to the Direct Testimony of Ned W. Allis and found such depreciation rates just and reasonable. Based on the evidence in this docket, the cost of removal for retirements of all depreciable assets, including retirements associated with asset replacements, should be accounted for as a charge to the accumulated depreciation reserve of the retired asset and should be incorporated into the calculation of depreciation rates in accordance with the methodologies proposed by Atmos in its Depreciation Studies. The hearing panel found that accounting for retirements in this manner is reasonable, complies with the definitions and requirements of the USOA, reflects previous Commission decisions, and does not infringe upon the matching principle of ratemaking or impose undue costs on future generations of ratepayers. Moreover, Atmos's treatment of retirements does not require the Commission to adopt a novel approach to depreciation for which there is little compelling precedent in other state jurisdictions.

Therefore, the hearing panel voted unanimously to adopt the proposed annual depreciation rates for Tennessee Direct Property set forth in Exhibit NWA-1, Part VI, page 4; approved the annual depreciation rates for Kentucky Mid-States General Office set forth in Exhibit NWA-2, Part VI, page 4; and approved the annual depreciation rates for Shared Services Unit set forth in

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<sup>78</sup> *Id.* at 11.

Exhibit NWA-3, Appendix A. The Company was further directed to calculate depreciation expense using the newly approved rates in its subsequent Annual Rate Review Mechanism filings.

**IT IS THEREFORE ORDERED THAT:**

1. The *Notice of Filing of Depreciation Study and Request for Approval of New Depreciation Rates* filed by Atmos Energy Corporation on June 29, 2023, is APPROVED.

2. Any party aggrieved by the Commission's decision in this matter may file a Petition for Reconsideration with the Commission within fifteen (15) days from the date of this Order.


3. Any party aggrieved by the Commission's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from the date of this Order.

**FOR THE TENNESSEE PUBLIC UTILITY COMMISSION:**

**Chairman Herbert H. Hilliard,  
Commissioner Clay R. Good,  
Commissioner David Crowell,  
Commissioner Kenneth C. Hill, and  
Commissioner John Hie concurring.**

None dissenting.

**ATTEST:**



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**Earl R. Taylor, Executive Director**