

APSC Docket No. 23-079-U**In the Matter of the Application of Summit Utilities Arkansas, Inc., for a General Change or Modification in its Rates, Charges, and Tariffs**

On January 25, 2024, Summit Utilities Arkansas, Inc., (Summit) filed its application for rate case. The Parties that have participated in the docket include Summit, the General Staff of the Arkansas Public Service Commission (General Staff), Arkansas Gas Consumers, Inc., (AGC), Attorney General of Arkansas (AG), and Hospitals and Higher Education Group (HHEG).

Summit Utilities Arkansas, Inc. (“SUA”, “Applicant”, or “Company”) filed an Application for a General Change in Rates and Tariffs on January 25, 2024, requesting a retail revenue requirement of \$279,949,398, a return on equity of 11.00% and an overall rate of return of 6.74047%, a Total Non-Fuel Revenue Requirement of \$286,660,736 and a Rate Schedule Revenue Requirement of \$279,949,398. In its Application SUA listed the drivers of the requested retail revenue requirement increase as the level of capital investment in its system and the resulting added depreciation expense, its weighted average cost of capital and proposed capital structure, taxes, and the negotiated “interim rates” that understated SUA’s revenue requirement when they were put into place. SUA states that it is also proposing modifications to its SSER, approval of a Billing Determinant Adjustment Rider tariff, a general exemption schedule to its tariffs related to GSR 5.08 Estimated Usage Billing and is making other administrative tariff changes to update the Rate Schedule and Riders and to make minor changes to its telemetry and pooling clauses in applicable riders.

On July 10, 2024, the following Direct Testimonies were filed in response to Summit’s application:

Jonathan Ly, Witness for AGC

Mr. Ly addresses SUA's proposed class cost-of-service study and provides a revised CCOSS for the Commission, correcting its distribution main classification and making other adjustments. They also provide a class revenue allocation based on AGC's revised CCOSS, including revenue requirements adjustments. SUA's proposed class revenue allocation, based on its flawed CCOSS, should not be used to set rates in this proceeding. Instead, the Commission should approve AGC's revised CCOSS, subject to further modification based on other parties' recommendations. Mr. Ly's conclusions are as follows: Reject the results of SUA's CCOSS, as it improperly classifies distribution main costs using a hybrid of the minimum size main and zero-intercept methodologies, contrary to the requirements of Act 725 and, furthermore, is based on an inflated return on rate base and overstates its test-year expenses for maintenance associated with distribution mains, incentive compensation, and Volunteer Time Off. Approve AGC's revised CCOSS (subject to further modification based on reasonable recommendations made by other parties in testimony filed this same date) which appropriately classifies distribution mains using the minimum size main methodology and adjusts SUA's return on rate base as well as expenses for incentive compensation, distribution main maintenance, and Volunteer Time Off. Reject SUA's proposed class revenue allocation based upon its flawed CCOSS. Approve AGC's recommended class revenue allocation based upon its revised CCOSS (also subject to further modification based on reasonable recommendations made by other parties in testimony filed this same date).

Billie LaConte, Witness for AGC

AGC witness Billie S. LaConte claims that SUA's requested 11.00 percent ROE is 140 basis points higher than the 9.60 percent national average authorized ROE for other natural gas utilities in 2023. Ms. LaConte estimates that SUA's projected revenue deficiency would decrease by \$12.8 million if the Commission set SUA's ROE at the RRA national average for 2023. Ms. LaConte testifies that based on her analyses, she has calculated an ROE range of 8.43 percent to 11.07 percent. Ms. LaConte explains that she used two DCF analyses (a Constant Growth and Two-Stage Model), two CAPM analyses, and the Risk Premium method. Ms. LaConte states that her recommended range is based on her quantitative as well as her qualitative analysis. Ms. LaConte testifies that the midpoint and average of her range are 9.75 percent and 9.69 percent, respectively. Ms. LaConte recommends a 9.70 percent ROE based on her analyses. Ms. LaConte contends that SUA's proposed adjustment does not align with the Commission's Order directing the utility to refund its excess ADIT liability to ratepayers. Ms. LaConte claims that the PLR cited by SUA pertains to another (unidentified) utility, yet SUA assumes that the PLR is also directed to SUA. Ms. LaConte recommends that the Commission reject SUA's proposal.

Jeff Hilton, Witness for General Staff

Staff witness Jeff Hilton addresses the Application for Approval of a General Change or Modification in its Rates, Charges and Tariffs (Application) filed Summit Utilities, Arkansas, Inc. ("SUA" or "Company") as modified on February 20, 2024. He testifies concerning Staff's recommendations regarding Revenue Requirement, various Operating Expenses, Other Revenues, the Revenue Conversion Factor (RCF), requested changes to SUA's System Safety Enhancement Rider (SSER), and requested changes to SUA's Tariffs and the Payment Center Report. He provides a list of Staff's witnesses and the topics they address. Mr. Hilton recommends that the Commission: Reject SUA's revenue requirement request and accept Staff's; Reject SUA's proposed SSER Rider and accept Staff's recommended modifications; Accept SUA's update to its Municipal Tax Adjustment Clause; Waive General Service Rule 5.08 for SUA; Accept SUA's revised Rate Schedule No. 3, Large Commercial Firm Service pooling and agency agreement notice requirements; Accept SUA's telemetry language for large commercial and small commercial transportation customers; and Accept SUA's proposal to discontinue filing Payment Center Reports upon meeting the conditions of maintaining the data and including all payment centers on its website, specifying whether they require a fee or not.

Middleton Ray, Witness for General Staff

Staff witness Middleton Ray addresses the application for approval of a general change in rates, charges, and tariffs filed by SUA, discusses expenses and rate base adjustments, specifically staff's adjustments to payroll expense and related taxes, benefits, and Short-Term Incentive Compensation. Mr. Ray explains that SUA's payroll adjustment, which included base pay as of December 31, 2023, and a 4% increase for 2024 merit raises, resulted in a pro forma regular payroll level of \$27,431,438 in its application. Mr. Ray recommends the Commission accept Staff's adjustments to Payroll Expense and related taxes, short term incentive compensation, overtime, volunteer time, and Rate Base Adjustments, as described previously and demonstrated on Table 1, and reject the corresponding amounts proposed by SUA.

Michael Pitts, Witness for General Staff

Mr. Pitts recommends to include in rates a level of Gross Plant-in-Service (GPIS), Accumulated Depreciation (AD), and depreciation expense for rates. He will address Phillip B. Gillam's Direct Testimony and Exhibits filed on behalf of SUA. Mr. Pitts agrees with the Company's adjustments which he listed in Table 1. Additionally, he will discuss issues in Table 2, "Summary of Company Adjustments – Non-Contested," where he differs from the Company. Mr. Pitts recommends the Commission approve my use of updated pro forma amounts based on the actual test year and my pro forma adjustments supported by my testimony as follows: 1. Reduce GPIS by \$2,280,944 for the removal of ARO, as shown in 2 RB-12; 2. Remove STIC from GPIS of \$1,749,525, as shown in RB-13; 3. Remove Volunteer Time Off from GPIS of \$59,943, as shown in 5 RB-14; 4. Remove Rebranding Capital Expenditures from GPIS of \$379,968, as shown in RB-15; 5. Reduce AD by \$228,094 for the removal of ARO, as shown in RB9; 6. Remove STIC from AD of \$66,767, as shown in RB-13; 7. Remove Volunteer Time Off from AD of \$2,286, as shown in RB12; 8. Remove Rebranding Capital Expenditures from AD of \$14,500, as shown in RB-15; 9. Reduce Depreciation Expense by \$38,740, as shown in IS-19; and 10. Reduce Transportation Depreciation Expense by \$888,014, as shown in IS-27.

Claude Robertson, Witness for General Staff

The testimony discusses the proposal by Summit Utilities Arkansas to change depreciation rates in its Application for Approval of a General Change in Rates and Tariffs. It cites the testimony of Company witnesses Dane A. Watson and Phillip B. Gillam, who support the request and describe its effect in the depreciation expense Adjustment IS-19. The proposed depreciation rates by SUA resulted in a depreciation expense of \$1,599,979. This is higher than the current approved rates, which resulted in a total depreciation expense of \$67,178,561. Mr. Robertson states his recommendations as follows: Accept the Company's proposed depreciation and amortization rates as 3 submitted on Schedule F-1.3 of the Application and the parameters which 4 support them, except for Accounts 3912 Computer Equipment and 3940 5 Tools, Shop, Garage Equipment. Require the Company to request approval of an interim depreciation rate if the Company establishes a new account that is not merely a subaccount of an existing account or adds assets to an account that had a zero balance as of the depreciation study date for which no rate was approved in this Docket. Accept my recommendations for the under accrued Theoretical Reserve 16 and move the under accrued balance to a Regulatory Asset and allow a 17 return of the cost, but not a return on the cost of the assets. Approve the continued use of Vintage Accounting for accounts 3910, 19 3912, 3940, 3970, 3971, and 3980.

Don Malone, Witness for General Staff

Staff witness Don Malone discusses his adjustments to Current, Accrued and Other Liabilities (CAOL), Accumulated Deferred Income Tax (ADIT), Excess Deferred Income Taxes (EDIT), Working Capital Assets, Income Tax Expense, certain Expense adjustments, and other Rate Base adjustments. He states that his adjustments are based on actual test year amounts. He provides three tables comparing his recommended adjustment amounts to SUA's recommended amounts. Mr. Malone testifies that in response to data requests from Staff, SUA stated that no vegetation control expense had been incurred during the first quarter of the pro forma year. He states that the Company did provide the amounts incurred during the test year and for the 12 months ended December 31, 2022, and he averaged those amounts to develop his recommendation to allow \$848,482 for vegetation control expense in the pro forma year. Mr. Malone testifies that he removed the test year costs related to a contract SUA entered into with a contract call center due

to the increased demands on the Company's call center during the conversion from the transition service agreement (TSA). He asserts that these costs were temporary and that the contract was terminated during the pro forma year, therefore he recommends that \$489,252 be removed from test year contract Call Center Expense. Mr. Malone testifies that he analyzed account transactions, and he discusses three non-recurring expenditures that he identified which he recommends be removed from the test year. First, he recommends removal of legal expenses incurred due to SUA's billing errors and the related class action lawsuit. Second, he recommends removal from the test year of Transition Service Agreement expense. Third, he recommends removal of an expense that was paid during the test year to avoid a possible civil action that likely may have resulted in an outcome not favorable to SUA. He testifies that he recommends a disallowance of \$725,985 from the test year ending December 31, 2023, for these non-recurring expenditures.

Dan Daves, Witness for General Staff

Staff witness Dan Daves testifies that his analysis supports a 56 percent to 44 percent DTE ratio, inclusive of 6.23 percent in short-term debt, based on the average DTE ratio of his risk-comparable sample of companies. Mr. Daves testifies that based on the totality of his analysis, 9.75 percent is a reasonable estimate of SUA's ROE. Mr. Daves testifies that his recommendation of the appropriate balances and cost rates for all capital components produces an ROR recommendation of 5.5813 percent, as compared to the Company's updated ROR of 6.8477 percent and the Company's currently approved ROR of 4.4549 percent (as authorized in Docket No. 21-060-U). Mr. Daves asserts that his recommended ROE and overall ROR meet the standards set forth in the *Bluefield* and *Hope* decisions regarding what constitutes a reasonable ROR.

Robert Swaim, Witness for General Staff

Staff witness Robert H. Swaim addresses SUA's proposed: Weather normalized billing determinants (customer counts, Ccf volumes, and Ccf demands); Weather Normalization Adjustment Rider ("WNA") Tariff and its associated Degree Day Factors ("DDF"); Billing Determinant Adjustment ("BDA") Tariff; Rate Schedule Revenue Requirement; and Rate Design. Mr. Swaim recommends that the Commission: Reject SUA's pro forma billing determinants and rate schedule revenues and accept those recommend as presented in Table 1; Reject the Bases and DDFs in SUA's WNA and accept those presented in Table 2; Reject the true-up adjustments for SSER and GMES imbedded in SUA's BDA rider rate design; Reject SUA's design day (i.e., peak load) forecast and accept Staff's peak load forecast; Reject SUA's rate design and accept the design he recommends; and Reject SUA's proposed Rate Schedule Revenue Requirement and accept Staff's mitigated Proposed Rate Schedule Revenue Requirement shown on Line 7 of Table 3 for designing Compliance Rates in this case.

Mark Burdette, Witness for General Staff

Mr. Burdette discusses cost classification and allocation issues in the Application for Approval of a General Change in Rates and Tariffs filed by Summit Utilities of Arkansas, Inc. He sponsors Direct Exhibit MB-1, which presents Staff's Cost of Service Study, revenue requirement, rate design, weather-normalized pro forma year billing determinants, and peak volumes. Mr. Burdette testifies that the Commission should reject the Company's COSS and accept Staff's COSS methodologies, with new rates ensuring each customer class pays its revenue requirement.

Larry Blank, Witness for HHEG

HHEG witness Dr. Larry Blank disagrees with SUA's proposed adjusted capital structure. Dr. Blank asserts that the only component of SUA's capital structure that requires a proxy or hypothetical determination is the long-term debt, the equity, and possibly the short-term debt. Dr. Blank explains that the internal components of SUA's capital structure should be known and can be incorporated into the financing of the *pro forma* rate base of SUA rather than relying on the internal components at the holding company level. Dr. Blank disagrees with SUA's proposed adjustment for the debt associated with the Winter Storm Uri Regulatory Asset. Dr. Blank also disagrees with SUA's proposed adjustment to the debt and equity related to SUA's acquisition premium (goodwill). Dr. Blank states that he is not providing an alternative recommendation to Mr. D'Ascendis' proposed ROE of 11.00 percent. Dr. Blank suggests that the Commission consider the range of cost of equity estimates and recommendations that will eventually fill the record, including those provided by Mr. D'Ascendis. Dr. Blank recommends that the Commission give greater weight to the lower end of this range because of the poor service performance by SUA. Dr. Blank asserts that utilities with performance issues should not be rewarded with higher than necessary returns. Dr. Blank recommends that the billing determinants of transportation customers and sales customers be combined when calculating rate. Dr. Blank further recommends that customer demand and/or usage rates be calculated as one rate class with additional fees for telemetry and administrative cost for transportation customers.

Dante Mugrace, Witness for the AG

AG witness Dante Mugrace reviews and recommends the Arkansas Public Service Commission on Summit Utilities Arkansas, Inc.'s application for approval of a general change in rates and tariffs. He explains that he focused on the Company's incentive compensation plans, specifically its Short-Term Incentive (STI) plan. He states that the Company is not seeking recovery of its Long-Term Incentive (LTI) plan but is seeking to recover retention bonuses and sign-on bonuses. Mr. Mugrace addresses the proposed STI level of \$2,467,783 and allocated STI of \$1,900,300, totaling \$4,368,083 for the test year period. He notes that the company has requested recovery of \$4,542,807 in STI, including a \$174,724 *pro forma* adjustment over test year period costs. Mr. Mugrace notes that the Company provides sign-on bonuses as incentives for new employees to join, aiming to enhance the attractiveness of its compensation package to employees. Mr. Mugrace recommends disallowing sign-on bonuses as the company has not provided evidence of the necessity of these costs and no proof regarding rate treatment in case of employee termination. He states that if the company cannot recover the bonus cost through a repayment agreement, ratepayers should not be expected to absorb the cost. He maintains that while it may be reasonable to provide incentives, the company should be required to pay for these costs.

Richard Porter, Witness for the AG

AG witness Richard W. Porter addresses SUA's proposed: expansion of its System Safety Enhancement Rider ("SSER") to include additional costs, including reliability costs; cost allocation methodology with its reliance on factors with a bias toward allocation of costs focused on customer and peak concerns. According to Mr. Porter, SUA's proposals are designed to reduce its financial risk by a) minimizing or eliminating Regulatory Lag associated with unspecified reliability capital spending programs which SUA should perform in compliance with its obligation to provide natural gas in its service territory and b) cost shifting to the residential class as a consequence of a cost allocation methodology biased to customer and peak concerns and which is generally prejudicial to relatively low load factor customers. Based on his review and analysis, Mr. Porter recommends the following: (1) The Commission reject the proposal for a new and expanded SSER to add reliability costs to the SSER, as it is a request for a new rider, it

is unsupported, and it is inconsistent with Commission policy; and (2) SUA should modify its cost allocators to recognize that utility demand or capacity costs are incurred to serve a combination of peak-period and annual customer requirements. Specifically, SUA should modify the DEMAND and MAINS factors.

Marlon Griffing, Witness for the AG

Dr. Griffing testifies that he used a market-oriented approach to determine the common equity cost for the Company. Dr. Griffing states that he analyzed the equity return that investors currently expect to receive from investing in companies with risks similar to the Company's risks. Dr. Griffing notes that his DCF ROE Results were within the 8.80-10.50 percent range of authorized ROEs from January 1, 2021, to December 31, 2023, for U.S. natural gas utilities. Mr. Griffing recommends that the Commission should only consider whether the ROE and overall cost of capital meet the Bluefield and Hope criteria for a fair return. Recounting, these criteria include returns commensurate with returns being earned on other investments with equivalent risks, rate of return sufficient to enable the utility to attract capital and returns sufficient to enable the regulated company to maintain its credit rating and financial integrity. The interpretation of the Hope and Bluefield criteria is that a company should be given the opportunity to earn an ROE and overall cost of capital sufficient to meet these standards. He also recommends an ROE of 9.80 percent and an overall cost of capital of 5.78 percent.

Michael Majoros, Witness for the AG

Mr. Majoros testifies that the purpose of his testimony is to present recommendations on behalf of the Office of the Arkansas Attorney General (AG) regarding Summit Utilities, Inc.'s (SUA) depreciation requests in this proceeding. He has focused on SUA's Distribution Plant accounts. The AG recommends the Commission approve their proposed depreciation rates for the 2022 Distribution Plant, which will reduce the expense by \$26.7 million to \$23.6 million. They also suggest adopting longer lives for the Company's Distribution Mains and Services accounts, stating that replacing a section of Main or a Service does not remove anything as per the FERC Uniform System of Accounts. The author also suggests that the Commission should stop allocating or assigning to accumulated depreciation any portion of project expenditures related to plant replacements, particularly for ground pipes.

On August 7, 2024, the following Rebuttal Testimonies were filed by Summit:

Kurt Adams, Witness for Summit

SUA witness Kurt W. Adams discusses SUA's updated cost of service resulting from SUA's acceptance of certain proposals made by Staff and Intervenor witnesses. He lists the Company's witnesses presenting rebuttal and the topics that are addressed by each. Mr. Adams testifies that the Commission should reject certain adjustments proposed by Staff and the Intervenor witnesses claiming that those adjustments would put SUA on a less firm financial footing than its predecessor, CenterPoint Energy Resources Corp. (CERC). He argues that the adjustments would establish SUA's approved cost of service at a level that does not reflect its current operations or the conditions expected when new rates are implemented following this case and would impact the Company's ability to provide service to its customers at the level expected by the Commission for years to come. Mr. Adams testifies that SUA's updated revenue deficiency is \$101,194,113, a reduction of \$3,485,314 from its Application. He states the Company's current requested revenue requirement is \$26,622,665 greater than Staff's recommended revenue requirement and that 64% of that variance is related to differences in the proposed rate of return. Mr. Adams testifies that since SUI assumed ownership of the Company it has made necessary system investments without a comprehensive rate adjustment mechanism and has experienced the impact of regulatory lag. He states that SUI has hired an additional 301 employees to fill new jobs in Arkansas and there have been no material safety or reliability incidents. He argues that SUI has taken on real financial risk in its efforts and that the results of this case will provide a foundation for SUA to provide safe and reliable natural gas service that meets customer expectations for years to come.

Phillip Gilliam, Witness for Summit

Witness Phillip B. Gilliam responds to proposed adjustments, contentions, and recommendations from Staff, the AG, Arkansas Gas Consumers, Inc. ("AGC"), and the Hospitals and Higher Education Group. Specifically, he addresses: the proposed MBSA, rate base, and related accumulated depreciation adjustments; the proposed expense adjustments; the flow through/attendant impact adjustments; and the tariff proposals. Mr. Gilliam testifies that SUA has updated its Total Non-Fuel Revenue Requirement request from \$286,660,736 to \$289,834,69, which makes the updated revenue deficiency \$101,194,113. Mr. Gilliam explains that SUA's updated revenue requirement was calculated using "rolled-in" revenues for the System Safety Enhancement Rider ("SSER") and the Lost Contribution from Fixed Costs ("LCFC") portion of the Energy Efficiency Cost Recovery ("EECR") Rider, while Staff's revenue requirement does not include the rolled-in revenues. He believes that the inclusion of "rolled-in" revenues gives a better representation of the increase that will be shown on customer's bills going forward. He testifies that with Staff's methodology, the revenue deficiency appears to be \$10,116,449 higher than it really is (using the Company's calculation), and \$11,049,032 higher using the Staff's calculation because of the exclusion of the "rolled-in" revenues. He states that the comparison of revenue deficiency amounts is not apples to apples; however, the revenue requirement under both approaches is the same. Mr. Gilliam testifies that the SUA believes the expanded SSER is the better option at this time because it more closely matches the timing of these expenditures to the actual cost recovery. He states that the gradual change in rates as SSER projects are completed

and included in the cost recovery mechanism can serve to lessen the impact of future rate increases that potentially cause a one-time large increase until the next rate proceeding.

Fred Kirkwood, Witness for Summit

Mr. Kirkwood responds to certain proposed adjustments, contentions, and recommendations in the Direct Testimonies of General Staff witnesses Mr. Malone and Mr. Hilton, and also HHEG witness Dr. Blank. Mr. Kirkwood disagrees with Mr. Malone that the use of a third-party vendor for call center support will be non-recurring. Factors such as high call volume, gas prices, weather, and cost of labor contribute to call center expense levels. The company expects to retain third-party assistance as a cost-effective extension of labor, and currently uses the services of a local vendor located in Little Rock, Arkansas. The scalability offered by third-party vendor also allows the company to efficiently manage its resources, ramping up or down as needed without the long-term commitment associated with hiring full-time employees. As such, Mr. Kirkwood states that the Commission should not adopt Mr. Malone's proposed adjustment to test year call center expense. Mr. Kirkwood testifies that Dr. Blank's suggestion that the Commission should give greater weight to the lower end of rate of returns on equity based on SUA's recent performance lacks any support that SUA was acting imprudently or with poor management and widespread customer dissatisfaction. Mr. Kirkwood testifies that SUA is exceeding all service levels included in Commission Rule 2.05 Call Center Operations – Utility Response Requirements. Mr. Kirkwood emphasizes that the Commission, in Docket No. 23-015-U, found no evidence that SUA violated any of the Commission's General Service Rules and that SUA had corrected all billing errors at issue.

Vernon McNully, Witness for Summit

SUA witness Mr. McNully addresses proposed adjustments, contentions, and recommendations in the testimonies of Arkansas Gas Consumers, Inc. witness Ms. Billie S. LaConte, Staff witness Jeff Hilton, and AG witness Richard W. Porter regarding the Company's requested O&M expense for mains maintenance and the proposed SSER. Mr. McNully states that the company has continued to invest in infrastructure by replacing aging mains, but it is not correct to assume that costs for maintenance should decrease simply because newer mains are being installed. He explains that the argument is based on the expectation that all costs related to maintenance should remain constant as newer mains are installed, as well as the fact that SUA has also absorbed price increases due to inflation. Mr. McNully testifies that Ms. LaConte's 2022 cost comparison shows a 15.7% increase in Maintenance of Mains expenses, but she doesn't acknowledge that inflation has affected the costs the Company incurs for maintaining mains, regardless of the mains' age. He notes that his direct testimony focuses on the impact of inflation and other cost increases on contract labor and materials costs, showing much greater increases than the 15.7% increase the Company plans to recover. Mr. McNully states that the System Safety Improvement Rider (SSER) is designed to adjust base rates for timely recovery of costs for mains and services. He explains that in this case, the Company is seeking approval from the Commission for revisions to allow for more timely recovery of additional capital investment related to its DIMP and TIMP plans. He notes that these plans must be amended due to evolving regulatory requirements and to provide timely cost recovery for reliability improvements, ensuring customers have gas when needed, especially during natural disasters and winter weather events. Mr. McNully believes that the Commission should include reliability-related projects in the SSER, as they are fundamental to utility operations. Mr. McNully states that recovering these costs allows the Company to make necessary investments to improve or maintain its system's reliability, paired with timely cost recovery. He testifies that the Commission should consider the Company's proposal to reduce

regulatory lag associated with investment in projects that meet the reliability goals of Arkansas, as it allows the Company to make ongoing investments.

Paul Schulte, Witness for Summit

The purpose of Mr. Schulte's Rebuttal Testimony is to response to certain recommendations in the Direct Testimonies of Staff witness Mr. Malone and AGC witness Ms. LaConte related to Accumulated Deferred Income Tax and Excess Deferred Income Tax. Mr. Schulte acknowledges that Mr. Malone was correct that EDIT associated with the change in Arkansas' corporate tax rate from 5.3% to 4.3% results in a net regulatory asset that should be returned to SUA. The change in state corporate tax rate occurred after the company filed its rate case application. However, Mr. Schulte disagrees with Mr. Malone's recommendation that EDIT produced by the change in corporate tax rate be collected over five years. Mr. Schulte also states that SUA will likely need to return to the Commission for additional rate relief sooner rather than later, foreshadowing another future rate case. Mr. Schulte recommends collection of EDIT over two years.

Craig Root, Witness for Summit

Summit witness Craig Root testifies that based on updated numbers from the Company's final 2023 audit, the Company is requesting a capital structure of 45.12 percent total debt and 54.88 percent equity, which Mr. Root claims is consistent with the actual capital structure planned for Southern Col Holdco, LLC's (SCHC) as of December 31, 2024. Mr. Root further claims that SCHC's actual planned financing, using an equity ratio of 55 percent, has been relied upon by at least one rating agency in assessing the Company's credit profile and related risk. Mr. Root testifies that an equity ratio of 55 percent ensures that SUA can maintain its current cost of debt based on a target Funds from Operations to Debt ratio of 15 percent. Mr. Root claims that if the Commission approves a lower equity ratio for SUA, there is documented risk that SCHC's current rating of A- by Fitch Ratings (Fitch) could be lowered, thereby increasing the cost of future debt for the Company. Mr. Root testifies that SUA's recommended *pro forma* long-term debt (term debt) and short-term debt (revolving credit facility) cost rates are 3.7079 percent and 6.6074 percent, respectively. Mr. Root explains that the actual pricing for the Company's term debt and revolving credit facility is the exact same, but customers are gaining the benefit of interest rate swaps that the Company put into place on its term debt, which lowers the cost of long-term debt.

Sam Springer, Witness for Summit

Mr. Springer testifies in response to proposed adjustments and recommendations from Ms. LaConte, Mr. Ray, and Mr. Mugrace, all of whom address certain aspects of the company's requested compensation and benefits costs. Mr. Springer addresses why employees are offered the compensation and benefit programs being challenged by the other parties, which supports the reasonableness and necessity of the compensation and benefits costs SUA seeks to recover. Incentive compensation programs, as Mr. Springer says are appropriately named, incentivize employees to achieve high impact results. At SUA, Mr. Springer testifies that these results are aimed at furthering and improving upon the company's mission to safely provide affordable and reliable energy solutions to its customers. Incentive compensation enables the company to compete for talent in a challenging market while ensuring low employee turnover. Mr. Springer says that the company must be financially stable and healthy to maintain operations, continue investing in its system, and have the workforce necessary to meet customer needs and provide quality customer service.

Dylan D'Ascendis, Witness for Summit

Summit witness Dylan W. D'Ascendis testifies that he has updated his ROE analyses as of June 28, 2024. Mr. D'Ascendis states that based on his updated analyses, his range of reasonable ROEs attributable to SUA is between 10.03 percent and 12.48 percent (unadjusted) and 10.08 percent to 12.53 percent (adjusted). Mr. D'Ascendis testifies that he maintains his recommended ROE of 11.00 percent. Mr. D'Ascendis asserts that in view of current markets and the updated results of his ROE models, the recommended ROEs of 9.75 percent (Staff), 9.80 percent (the AG), and 9.70 percent (AGC) are insufficient.

Timothy Lyons, Witness for Summit

Mr. Lyon's aims to address concerns and recommendations regarding the class cost of service study and rate design made by various parties, including Mark Burdette, Robert Swaim, Larry Blank, Richard Porter, and Jonathan Ly, on behalf of Summit Utilities Arkansas, Inc. The Company believes including rolled-in rider revenues alongside base rate revenues accurately represents its proposed rate increase, as a portion of the revenue requirement increase is already recovered through rider revenues. The Tariff in Section 2.4.2 requires SSER revenues to be rolled into base rates. Mr. Lyon opines that the Company's and Staff's cost classification and allocation methods yield consistent results, with the traditional order of COSS operation being used in both studies. Mr. Lyon testified that Staff's COSS uses Mains/Services and Meters/Regulators allocators, which is different from the Company's COSS, based on classification and allocation factors, not operation order. The Company agrees with each customer class's revenue requirement, but also believes in balancing rate changes with rate continuity considerations, requiring a level of judgement in rate development.

Dane Watson, Witness for Summit

Mr. Watson states that the rebuttal testimony discusses the recommendations of Staff witness Claude Robertson and AG witness Michael Majoros regarding changes in service lives and net salvage costs for certain accounts. Both have filed Direct Testimony on depreciation. The rebuttal testimony argues that the recommendations are very close, with Robertson proposing only two life changes and no net salvage changes. The testimony also addresses the inaccuracies, departure from standard depreciation theory, and misinterpretation of longstanding guidance from the Federal Energy Regulatory Commission, Uniform System of Accounts, and authoritative depreciation texts regarding the accounting for asset retirement and associated costs. Majoros' approach is a clear departure from widely held depreciation methodologies, prior approvals, and the majority of Commissions in the country. He aims to refute the Direct Testimony of Staff witness Claude Robertson and Arkansas Attorney General witness Michael Majoros regarding proposed changes to the proposed depreciation rates.

On September 9, 2024, the following Surrebuttal Testimonies were filed in response to Summit's Rebuttal Testimonies:

Jonathan Ly, Witness for AGC

Mr. Ly makes the recommendation that the Commission reject SUA's proposal to average minimum size main and zero intercept methods to determine customer-related and demand-related costs of distribution mains, as it is not supported by Arkansas Act 725 and shifts costs from residential to other customer classes. SUA's regression analysis shows LCS-1 and LCS-1 TSO are non-weather sensitive, so design day demand should be treated accordingly. Correct calculation should divide winter consumption by monthly average customer number. The staff's recommendation to allocate Other Working Capital Assets based on net plant balances is inappropriate, as it consists of cash investments for day-to-day operations. The AG's recommendation to incorporate annual energy consumption into design day demand and distribution main allocation factors should be rejected. Staff's recommendations for changes in allocation factors for Mains and Services Operating Expense, Other Utility Operating Expense and Rents, are reasonable and acceptable. The Residential customer class, which can receive Heating Assistance Funds, should be directly assigned the costs in SUA's CCOSS program. The Commission should approve AGC's revised CCOSS, incorporating changes and additional adjustments, and approve AGC's revised class revenue allocation, incorporating rate smoothing adjustments.

Billie LaConte, Witness for AGC

Ms. LaConte recommends that the appropriate ROE for SUA is 9.61%. SUA's equity ratio should be 44%. This is similar to the equity ratios of comparable companies and consistent with the Commission's authorization of equity ratios for other utilities in Arkansas. SUA should exclude short-term incentive compensation costs based on the company meeting financial targets. SUA's proposal to include VTO should be rejected. Volunteer time does not benefit ratepayers and should not be included in rates. Reduced recommended reduction to operations and maintenance of mains to \$1.1 million to reflect inflation and to reflect lower maintenance costs associated with newer mains. The proposed expansion of Rider SSER and the true-up of Rider SSER revenues and Rider GMES's revenues via the BDA Rider should be rejected. The expansion of the SSER and the proposed true-ups in Rider BDA would reduce SUA's financial risk by significantly reducing regulatory lag and shifting the risk of recovering these costs onto ratepayers. SUA has approximately \$6.3 million of deferred COVID-19 expenses. The company proposes to amortize the recovery of the expense over three years. The company should recover the expense over five years, to lessen the impact of the proposed rate increase on customers. SUA's revenue conversion factor is incorrect because it includes outdated state income tax and uncollectible rates.

Lary Blank, Witness for HHEG

Dr. Blank testifies that based on the updated Southern Col Holdco, LLC's (SCHC) values provided by the Company, he now recommends 51.82 percent long-term debt and 48.18 percent common equity for external capital ratios. Dr. Blank notes that Mr. Lyons has accepted both Dr. Blank's recommendation to have the transportation customers' and sales customers' billing determinants combined when calculating the rates for the SCS-1 and LCS-1 rate classes as well as Dr. Blank's recommendation to hold SCS-2 and SCS-3 at present rate levels. Dr. Blank contends that the removal of the Winter Storm Uri debt, as proposed by the Company is clearly an attempt to increase cost of capital and base rates and, thereby, circumvent the Commission's decision on appropriate cost recovery for Winter Storm Uri. Dr. Blank recommends that this adjustment be explicitly denied by the Commission.

Jeff Hilton, Witness for General Staff

Mr. Hilton addresses SUA's Rebuttal filing and discusses Staff's recommended Revenue Requirement. He addresses certain Operating Expenses, Other Revenues, the Revenue Conversion Factor (RCF) and SUA's Rider SSER request. He provides a list of Staff's witnesses. Mr. Hilton recommends that the Commission: (1) Reject SUA's revenue requirement request and accept Staff's; and (2) Reject SUA's proposed SSER Rider and accept Staff's recommended modifications. Mr. Hilton states that Staff's recommendations result in a Revenue Deficiency of \$76,201,917 and a non-gas Revenue Requirement of \$256,234,297, or \$24,992,196 and \$33,600,398 less than SUA's proposed Rebuttal amounts, respectively. Mr. Hilton testifies that SUA primarily disagreed with his forfeited discounts revenue because he didn't explain why he considered the 2021 and 2022 years to be anomalous and excluded them from his forfeited discounts revenue determination. He asserts that he supports the use of the most recent five-year average per the MFR Schedule C-4 but he disagrees that it requires blind adherence to the use of the most recent five-year average when the data is not representative of the normal on-going ratios. He provides a table with data that he asserts shows that the ratios for the years 2020 and 2021 clearly deviate from the five-year average of 2019-2023. He argues that COVID significantly impacted the ratios for 2020 and 2021 therefore he excluded them from both the uncollectible accounts expense and the forfeited discounts revenue. He asserts that his Revenue Conversion Factor (RCF) is also impacted. He states that his \$2,187,781 pro forma level of Forfeited Discounts Revenue is \$784,035 less than SUA's pro forma amount. Mr. Hilton testifies that he agrees with SUA regarding the total amount of deferred Covid-19 expense, net of savings, but he continues to support a five-year recovery period based on the number of years between SUA's last two rate cases instead of the three-year period proposed by SUA, especially if the Commission approves a rider in this Docket. Mr. Hilton testifies that he recommends approval of the SSER only if the Company accepts the ratepayer protections that he has outlined and explained and if reliability projects are excluded. He states that he cannot support approval of the SSER as requested by SUA without inclusion of the ratepayer protections.

Don Malone, Witness for General Staff

Staff witness Don Malone addresses the Rebuttal Testimony of SUA witnesses Gillam, Schulte, and Kirkwood regarding Working Capital Assets (WCA), Current, Accrued and Other Liabilities (CAOL), Accumulated Deferred Income Tax (ADIT), Excess Deferred Income Taxes (EDIT), Income Tax Expense, and certain revenue and expense adjustments. Mr. Malone recommends that the Commission accept his: Recommended WCA of \$86,028,019; Recommended CAOL of \$154,497,558 to include in the capital structure at zero cost; Recommended ADIT of \$0 to include in the capital structure at zero cost; Recommended EDIT of \$65,217,129 to include in the capital structure at zero cost; Recommended Income Tax credit amount of (\$6,018,085); and Recommended revenue and expense adjustments as discussed above.

Middleton Ray, Witness for General Staff

Ray discusses staff adjustments to payroll expenses, taxes, benefits, and Short-Term Incentive Compensation. Mr. Ray testifies that his position aligns with his Direct testimony, acknowledging the Commission's recognition of the shared benefits of financial incentives and the lack of ratepayer benefits associated with earnings-based incentives, and allowing 50% of pro forma short term incentive compensation in base rates. Mr. Ray recommends a decrease to the payroll tax expense compared to SUA's due to adjustments to short term incentive

compensation and overtime. Mr. Ray continues to support the \$151,865 reduction to reduce payroll, payroll tax, and benefits expense, eliminating volunteer time-off that doesn't benefit Arkansas ratepayers. Mr. Ray testifies he supports a reduction in plant and related expenses for short term incentive compensation by \$1,749,525 for financially based incentive compensation since 2022. He notes that the Company provided no evidence to refute his assertions.

Michael Pitts, Witness for General Staff

Mr. Pitts discusses updates to Summit Utilities Arkansas, Inc.'s GPIS and accumulated depreciation, rebuttal testimony of SUA witnesses Phillip B. Gillam and Sam Springer, and sponsorship adjustments to depreciation and amortization expense. He notes that the Company presented no evidence or reasoning that would change his recommendations from his Direct Testimony. Mr. Pitts continues to support removal of \$888,014 from the Transportation Depreciation Expense. He explains the adjustment was necessary as transportation depreciation expense is reclassified as part of transportation overhead and applied to both O&M and capital expenditures. He testifies that the adjustment appropriately reduces expense by the capitalized portion and leaves the remainder in expense.

Claude Robertson, Witness for General Staff

The Surrebuttal Testimony discusses Mr. Robertson recommendations for depreciation rate adjustment and unrecovered reserve for Summit Utilities Arkansas, as well as the Company's proposal regarding the life of certain General Account Assets and unrecovered reserve, responding to SUA Rebuttal witness Dane A. Watson and Arkansas Attorney General witness Michael J. Majoros. Mr. Robertson criticizes SUA's excessive depreciation rates and \$191 million depreciation reserve excess in its accumulated depreciation account. However, argues that excess depreciation is not a factor for SUA's assets. He proposes a new depreciation rate, net salvage, and remaining life, which does not consider excess depreciation and calculates any over/under excess depreciation based on their depreciation rates. He recommends the Commission reject Mr. Majoros's proposal related to excess depreciation, and that the Commission use Staff's recommended depreciation 15 rates, net salvage and remaining life. Mr. Robertson recommends that Mr. Watson's recommendation to reduce the life of Account 391.2 be denied and that the Commission approve Mr. Roberts' recommendation to retain the 5- year life for computers. Mr. Robertson recommends that the Commission retain the current life of 15 years for Account 394.0 Tools, Shop, Garage Equipment. The Commission should deny the proposed depreciation rates, unrecovered reserve amount, and approve the depreciation rates as described in Surrebuttal Exhibits CR-1 and CR-2. Accept recommendations for the under accrued theoretical reserve and moved the balance to a regulatory asset. The company is required to request approval for an interim depreciation rate if it establishes a new account or adds assets to an account with zero balance. The company has also approved the continued use of Vintage Accounting for several accounts.

Dan Daves, Witness for General Staff

Staff witness Dan Daves testifies that he has updated Staff's analysis from Direct to utilize an updated information from Value Line. Mr. Daves testifies that after evaluating the Company's rebuttal testimonies, he continues to support a 9.75 percent ROE for SUA. Mr. Daves states that the Company's witnesses provided no substantive argument or evidence which would compel him to deviate from the Commission's long-standing methodology for either ROE estimation or determining the appropriate DTE ratio for ratemaking purposes. Mr. Daves contends that there is not substantial evidence to support a 11.00 percent ROE for SUA, quantitatively or otherwise. Mr. Daves further contends that the Company's requested ROR of 6.9790 percent is not supported by the recent historical data for his proxy group.

Robert Swaim, Witness for General Staff

Staff witness Robert H. Swaim responds to Direct and Rebuttal Testimony regarding the Mains Allocator, Rate Design, the BDA Rider, and Design Day. Mr. Swaim agrees with AGC witness Ly and HHEG witness Blank that SUA's averaging of its minimum size study and its zero-intercept study is not appropriate for the allocation of Mains related costs. He testifies that the classification of distribution mains should be based on the minimum system method rather than the mixed method average. He recommends approval of the BDA Rider as proposed by the Company. Based on his analysis and conclusions, Mr. Swaim recommends that the Commission: Reject SUA's COSS and accept Staff's COSS as presented in Surrebuttal Exhibit MB-1 to the Surrebuttal Testimony of Staff witness Mark Burdette; Reject SUA's pro forma billing determinants and rate schedule revenues and accept those he recommends in his Surrebuttal Testimony; Reject the Bases and DDFs in SUA's WNA and accept those he recommends as presented in Table 1; Accept SUA's BDA rider after it is updated to reflect the DDFs recommended in Table 1; Reject SUA's rate design and accept that which he recommends; and Reject SUA's proposed Rate Schedule Revenue Requirement and accept Staff's mitigated Proposed Rate Schedule Revenue Requirement shown on Line 7 of Table 3 for use in designing Compliance Rates in this case.

Mark Burdette, Witness for General Staff

Mr. Burdette's testimony will cover the Rebuttal Testimony of Summit Utilities Arkansas, Inc. witness Timothy S. Lyons, as well as the Direct Testimonies of Arkansas Gas Consumers, Inc. witness Jonathan Ly, Hospitals and Higher Education Group witness Larry Blank, and Office of the Arkansas Attorney General witness Richard W. Porter. SUA witness Lyons mentions three components of my Direct Testimony: current revenue derivation, cost classification and allocation approach, and cost methodology. Mr. Burdette maintains his position that existing base rate revenues should not be restated as if these rider revenues are part of present base rates. The costs underlying these riders will become part of base rate revenues or "rolled in" when new rates go into effect. Restating existing base rates as if these riders were included in present base rates allows the utility to make its base rate increase appear smaller. Mr. Burdette recommends that rates be designed based on the results of Staff's Surrebuttal COSS incorporating Staff's recommended mitigated distribution of the base rate revenue requirement. Mr. Burdette continues to recommend the Commission reject the Company's COSS and accept as reasonable the cost classification and allocation methodologies embedded in Staff's Surrebuttal COSS.

Marlon Griffing, Witness for the AG

AG witness Dr. Marlon F. Griffing testifies that he updated his ROE analysis. Dr. Griffing states that his updated analysis produced an ROE of 9.63 percent; however, he further states that he reduced this value to 9.59 percent to reflect the poor performance of SUA in billing. Dr. Griffing claims that this reduction is sufficient to penalize SUA for its billing deficiencies and serve as a signal that inadequate SUA operations will result in corrective action.

Michael Majoros, Witness for the AG

Mr. Majoros recommends to discontinue the practice of allocating capital costs to removal costs for replacement projects, as this would resolve most problems. Mr. Majoros recommends that the Commission and Staff consider the totality of the circumstances surrounding these depreciation issues that indicate an update to methodology is warranted.

Dante Mugrace, Witness for the AG

Mr. Mugrace states that while the company has the right to offer market-based comparable total compensation packages to its employees, the company should not assume that all costs will be covered. While incentive programs are important, they should only be recoverable from ratepayers if they provide specific benefits like customer service, satisfaction, safety, and reliability. Mr. Mugrace recommends that the Commission allow only those short-term incentive costs as supported in his surrebuttal testimony and disallow all costs related to employee retention and sign on bonuses. Mr. Mugrace also recommends disallowance of the company's ESG costs, stating that if the company believes there is a value in implementing these costs, the company should bear the burden of funding them.

Richard Porter, Witness for the AG

According to Mr. Porter, SUA fails to substantiate its request for inclusion of reliability costs in a proposed, newly restructured SSER. He states that the Company's proposal does not satisfy the traditional cost controllability criteria of the Commission. Further, he believes that SUA ignores the logical impact of its cost allocation methodology by advocating for cost allocation factors biased to customer and peak concerns. Mr. Porter maintains his recommendations from his Direct Testimony: (1) The proposal to add an entirely new category of costs, reliability costs, to the SSER equates to a request for a new rider. As such, the Commission should reject the Company's proposal and allow it to retain its existing SSER, and (2) SUA should modify its cost allocators to reflect that utilities are built to serve a combination of peak-period and annual customer requirements.

On September 20, 2024, the following Sur-surrebuttal Testimonies were filed by Summit:

Kurt Adams, Witness for Summit

SUA witness Kurt W. Adams discusses SUA's updated cost of service resulting from SUA's acceptance of certain proposals made by Staff and Intervenors. Mr. Adams testifies that the Company has updated its class COS after reviewing the recommendations made by Staff and certain Intervenors but that SUA continues to ask the Commission to reject some of the adjustments proposed by Staff and the Intervenors. He states that SUA's updated revenue deficiency is \$99,177,080 and its updated Total Non-Fuel Revenue Requirement is now \$287,737,044 but SUA continues to seek its original Total Non-Fuel Revenue Requirement of \$286,660,736.

Phillip Gilliam, Witness for Summit

Witness Phillip B. Gillam responds to proposed adjustments, contentions, and recommendations from Staff, the AG, Arkansas Gas Consumers, Inc. ("AGC"), and the Hospitals and Higher Education Group. Specifically, he addresses: the proposed MBSA, rate base, and related accumulated depreciation adjustments; the proposed expense adjustments; the flow through/attendant impact adjustments; and the tariff proposals. Mr. Gillam testifies that SUA's updated Total Non-Fuel Revenue Requirement request is now \$287,737,044, which is an increase of \$1,076,308 from the originally requested Total Non-Fuel Revenue Requirement of \$286,660,736. He testifies that the updated revenue deficiency is \$99,096,462, which is a decrease of \$5,582,965 compared to the originally requested revenue deficiency of \$104,679,427. He states that the Company's updated rate schedule revenue requirement of \$280,658,415 is \$30,718,712 higher than Staff's Surrebuttal rate schedule revenue requirement due to differences in the proposed rate base and the return on that rate base using the Company's proposed WACC. He notes that there are also differences in Revenues, Expenses, and Income Taxes. Mr. Gillam testifies that Staff's vegetation control expense amount of \$817,136 is only representative of seven months of actual vegetation control expense incurred in 2024. He testifies that the Company continues to assert that the test year expense amount of \$1,060,838 is a more accurate reflection of the level of vegetation control expense the Company expects to incur moving forward. Mr. Gillam testifies that the Company has not changed its position on transportation depreciation expense. He believes that witness Pitts is misinterpreting the GL account description. He states that SUA uses GL account 184230 to track labor, materials, and expenses related to vehicle operation and maintenance, but it does not include depreciation expense. He recommends that the Commission reject Staff's proposed adjustment. Mr. Gillam maintains his position regarding the SSER. He testifies that although the riders are similar Staff's recommendations are not consistent with its recommendations regarding the SI Rider proposed in Black Hills recent Docket No. 23-074-U. He states that Staff did not propose: (1) any type of cap on the SI Rider; (2) inclusion of a cumulative level of savings due to the reduction in O&M expenses; or (3) recognition of the additional accelerated depreciation-related ADIT associated with the capital investments being included for recovery by reducing gross plant. He continues that Staff did propose that no additional monthly SI Rider filings should be made once the Company has filed its Application for a general change in rates in future cases, however he notes that this recommendation was not included in the Black Hills Joint Settlement.

Fred Kirkwood, Witness for Summit

Mr. Kirkwood's testimony responds to certain proposed adjustments, contentions, and recommendations of AG witness Griffing and HHEG witness Blank. SUA continues to perform at or above Commission General Service Rule levels in Rule 2.05 D. Call Center Operations - Utility Response Requirements. Neither the AG's witness nor HHEG's witness have provided any reliable evidence that SUA's performance is problematic and warrants a downward adjustment to its ROE.

Vernon McNully, Witness for Summit

SUA Witness Vernon McNully addresses the proposed adjustments, contentions, and recommendations in the Surrebuttal Testimonies of Arkansas Gas Consumers, Inc. witness Ms. Billie S. LaConte, Arkansas Public Service Commission General Staff witness Jeff Hilton, and Attorney General witness Richard W. Porter regarding the Company's requested O&M expense

for mains maintenance and the proposed System Safety Enhancement Rider. Mr. McNully notes that the Commission should not adopt Ms. LaConte's revised position and reduce maintenance of mains costs by \$1.1 million, as the company must perform all necessary maintenance activities for a safe and reliable system, and her claim that newer mains require less O&M activity is unfounded. Mr. McNully explains that the Company cannot fully control reliability costs, as they are influenced by external factors like extreme weather events and customer demands. He states that these events, such as severe weather events like Winter Storms Uri, Elliot, and Gerri, necessitate continuous assessment and enhancement of the system's reliability.

Paul Schulte, Witness for Summit

SUA witness Paul Schulte responds to certain statements in the Surrebuttal Testimony of Staff witness Malone concerning ADIT and EDIT. Mr. Schulte testifies that SUA and Staff agree on the amount of ADIT to be included in the capital structure at zero cost but continue to disagree over the collection period for the COR DTA and collection of the unprotected state income tax deferred asset. He notes that Mr. Malone's recommendations regarding these items also impact his income tax expense position. He argues that customers will continue to see the benefits of a cost reduction related to the TCJA until all protected EDIT balances created by the TCJA have been returned to customers. Mr. Schulte continues to support recovery of SUA's unprotected state income tax deferred asset over two years as reasonable.

Craig Root, Witness for Summit

Summit witness Craig Root disagrees with Mr. Daves' contention that the capital structure imputed to CERC in its 2015 rate case has no relevance. Mr. Root notes that although the current authorized capital structure was originally made in 2015, the Commission imputed the same 51.5 percent debt to 48.5 percent equity capital structure in 2021 in Order No. 11 of Docket No. 21-060-U. Mr. Root claims that the equity ratio authorized in 2021 was in line with its peers in 2021, and that SUA's current recommendation of 45.12 percent total debt and 54.88 percent equity is also generally in line with peers now based on market trends. Mr. Root contends that because Ms. LaConte does not provide any analysis or empirical evidence to support her conclusion, Ms. LaConte's statements regarding capital structure are merely an opinion and should be afforded no weight by the Commission. Mr. Root contends that Mr. Daves' recommended 4.11 percent cost of debt—which Mr. Root notes is based on the proxy group—is inappropriate and is not a significant enough difference to deviate from SCHC's actual cost of debt. Mr. Root testifies that while he agrees with Mr. Malone's inclusion of dividends payable as an adjustment to CAOL, because of Mr. Malone's use of the incorrect legal entity and calculation error, Mr. Root recommends a revised, corrected calculation of \$1,125,479 instead of \$18,896,438, as proposed by Mr. Malone.

Sam Springer, Witness for Summit

Mr. Springer addresses the proposed adjustments and recommendations in the Surrebuttal Testimonies of Arkansas Gas Consumers, Inc., Arkansas Public Service Commission General Staff (Staff), and Attorney General (AG) witnesses regarding the Company's requested compensation and benefits costs. He emphasizes the importance of offering compensation and benefit programs, supporting the reasonableness and necessity of the compensation and benefits costs SUA seeks to recover.

Dylan D'Ascendis, Witness for Summit

Mr. D'Ascendis testifies that in reviewing Mr. Daves' model results, Mr. D'Ascendis discovered that one of Mr. Daves' DCF model results was a statistical outlier. Mr. D'Ascendis claims that removing the outlier from Mr. Daves' analysis results in a range of ROEs from 9.10 percent to

10.52 percent, with average and median results of 9.81 percent and 9.86 percent, respectively. Mr. D'Ascendis notes that Dr. Griffing updated his analysis, reducing his ROE recommendation from 9.80 percent to 9.59 percent. Mr. D'Ascendis claims that if Dr. Griffing derived his ROE recommendation similarly to what he did in his direct analysis (*i.e.*, the average of all mean results), his recommendation would have increased to 10.24 percent. Mr. D'Ascendis claims that eliminating BKH and WEC would increase Ms. LaConte's average ROE result from 9.69 percent to 9.77 percent and the midpoint of her range of results from 9.75 percent to 9.95 percent.

Timothy Lyons, Witness for Summit

The Sur-surrebuttal testimonies of Mark Burdette, Robert Swaim, Richard Porter, Larry Blank, and Jonathan Ly are being addressed on behalf of Summit Utilities Arkansas, Inc. on behalf of the Company. These testimonies are related to the Company's billing determinants and class cost of service study. The surrebuttal testimonies are related to the General Staff of the Arkansas Public Service Commission, the Office of Arkansas Attorney General, Hospitals and Higher Education Group, and Arkansas Gas Consumers, Inc. The Company believes that including rider revenues in current revenues aligns better with customer bill impacts, as a portion of the base rate increase is already reflected in customer bills, minimizing confusion.

Dane Watson, Witness for Summit

The purpose of Mr. Watson's testimony is to rebut the Surrebuttal Testimony of AG witness Majoros regarding his proposed changes to the depreciation rates Mr. Watson proposed in the appendices to Direct Exhibit DAW-1. Mr. Watson recommends that the Commission approve the annual depreciation rates presented in the Surrebuttal Testimony of Staff witness Claude Robertson. Mr. Watson writes that Mr. Robertson's recommendations are reasonable.

On October 4, 2024, all of the parties filed a Joint Motion for Extension of Time. In the filing, the Joint Parties explained that they had reached a settlement agreement in principle, but requested additional time to reduce the agreement to paper and to file supporting Settlement Testimonies. This motion was granted by the Commission.

On October 7, 2024, all of the parties filed a unanimous *Joint Motion to Approve Settlement Agreement*.

Summit Application

Total Increase: \$104,679,427

Percentage Increase: %29.40

Avg/Month Increase: \$18.48

Return on Equity: 11.00%

Settlement Agreement

Total Increase: \$87,684,216

Percentage Increase: 23.42%

Avg/Month Increase: \$15.43

Return on Equity: 9.85%

The following supporting Settlement Testimonies were filed simultaneously:

Michael Marchand, Witness for General Staff

The purpose of Mr. Marchand's testimony is to support the cost of capital including the overall rate of return, capital structure, and return on equity included in the joint settlement agreement. The agreement has its foundation in General Staff's Surrebuttal recommendations and includes only those revisions specified in the Settlement Agreement. The parties have reached agreement on all issues raised in the docket. Mr. Marchand states that the Agreement reflects an updated rate of return of 6.17% and weighted cost of debt of 2.12%. The Parties stipulate that the cost of capital balances in the Agreement optimally balance the interest of ratepayers and investors. Mr. Marchand testifies that the parties agree that a 9.85% rate of return is reasonable in this proceeding. Mr. Marchand states that he supports the Agreement as reasonable and in the public interest, and recommends that the Commission approve the Agreement without modification.

Jeff Hilton, Witness for General Staff

The purpose of Mr. Hilton's testimony is to support the Joint Motion to Approve Settlement Agreement. The Parties reached an agreement on all matters arising from SUA's filing in this docket. This testimony supports as reasonable the adjustments made to Staff's Surrebuttal Rate Schedule Revenue Requirement, as discussed in Section II of the Agreement; Cost Allocation and Rate Design Issues, as discussed in Section III of the Agreement; and Riders and Tariffs Issues, as discussed in Section IV of the Agreement. The agreed-upon Revenue Requirement is \$267,103,345 and the Rate Schedule Revenue Requirement is \$261,422,002, as shown in Agreement Attachment No. 1. This figure is based on a revenue deficiency of \$87,684,216, excluding expiring revenue. This amount was determined by certain adjustments, totaling \$11,482,297, to Staff's Surrebuttal Rate Schedule Revenue Requirement recommendation of \$249,939,704, based on updated data, additional information, or the correction of an error. The Agreement is based on the recommendations set forth in Staff's Surrebuttal Testimonies, with certain modifications, such as the use of Staff's class cost of service study modified to reflect HHEG's Design Day Demands as the basis for allocating costs to the classes and the use of Staff's methodology for smoothing differences among the classes and lessening customer impact. The SSER is largely consistent with the currently approved tariff, with certain agreed upon modifications, as detailed above. Lastly, my Agreement Testimony discusses the adjustments made to Staff's Rate Schedule Revenue Requirement based upon updates, additional information, or the correction of errors. For these reasons, I recommend the Commission approve the Parties' Agreement as in the public interest.

Phillip Giliam, Witness for Summit

The purpose of Mr. Giliam's Settlement Testimony is to support the Joint Settlement Agreement reached in this docket with all parties. On January 25, 2024, the Company filed its Application, Minimum Filing Requirement schedules and supporting testimony and exhibits proposing a general rate increase based on an incremental revenue deficiency of \$104,679,427. The Company also proposed certain modifications to its System Safety Enhancement Rider and proposed implementation of a Billing Determinant Adjustment Rider. Mr. Giliam notes the primary factor driving the need for this rate filing was the level of capital investment in the system and the resulting increase in depreciation expense, "interim rates" that understated SUA's revenue requirement at the time they were put into effect, weighted average cost of capital and its proposed capital structure, and income taxes. Mr. Giliam states that this increase is largely attributable to the Company's aging infrastructure, as well as increasingly more stringent natural gas pipeline safety and integrity regulations. The Company's filing sought a return on equity of 11.0% and a revenue deficiency of approximately \$104,679,427 for a total non-gas rate schedule revenue requirement of \$286,660,736. The Company utilized a test year ended December 2023, which was composed of six months of actual data, and six months of forecasted data, as permitted under Ark. Code Ann. § 23-4-406 and adjusted for known and measurable changes for the pro forma year ended December 2024. After its review of the direct cases filed on July 10, 2024 by Staff, the AG, AGC, and HHEG, and based on updated information, the Company modified its original request. More specifically, SUA's rebuttal testimony showed a revenue deficiency of approximately \$101,194,113, for a revised total non-gas rate schedule revenue requirement of \$289,834,695. This revised revenue requirement maintained the Company's originally requested ROE of 11.0%.

In the Settlement Agreement, the parties agree as follows:

1. Accept a revenue deficiency of \$87,684,216 for a total non-gas rate schedule revenue requirement of \$261,422,002. This deficiency and revenue requirement were derived by adjusting Staff's Surrebuttal testimony as discussed in further detail below;
2. Accept, for purposes of settlement, the recommended Rate Schedule Revenue Requirements set forth on line 47 of the Settlement Class Cost of Service ("COS") Summary ("Summary"), attached to the Joint Settlement Agreement as Agreement Attachment No. 1, for designing compliance rates in this case. This is based on the COS allocation as recommended by Staff witness Mark Burdette with the following modification: the Settling Parties agree to accept the Design Day Demands as set forth in the Direct Testimony of HHEG witness Dr. Larry Blank;
3. Adjust Staff's Surrebuttal case resulting in a total increase in the Rate Schedule Revenue Requirement of \$11,482,298 from Staff's Surrebuttal case, resulting in a Residential customer charge of \$17.51 per month;
4. Fix the total Debt-to-Equity (DTE) Ratio for use in the external capital structure at 54%/46% with a short-term debt proportion of 6.16%;
5. Update the common equity cost rate to 9.85%; and 6. Accept all riders and tariffs presented by the Company except for a) certain modifications to the SSER Rider as shown in Agreement Attachment 3; and b) the use of Staff's billing determinants in the BDA and WNA Riders.

Clay Layson, Witness for the AG

Mr. Layson testifies that the AG supports the Agreement and considers it to be in the public interest. The Agreement represents a reasonable compromise and satisfactorily addresses the concerns raised by the AG in this proceeding. On that basis, the AG recommends that the Commission approve the Agreement. The Agreement is within the range of reasonable litigation outcomes of the various positions advocated by the Parties and represents a reasonable result that is in the public interest. Mr. Layson states that the Agreement, if approved, will result in a

significantly reduced rate increase for SUA compared to what SUA originally requested. The Agreement further addresses specific issues raised by the AG in the following ways:

1. The Agreement provides that SUA's System Safety Enhancement Rider ("SSER") will not include "Reliability Improvement Projects" as proposed in SUA's Application. The expert testimony filed by the Attorney General in this proceeding strongly opposed the recovery of such costs through the SSER.

2. The Agreement provides that the language of the SSER tariff will be modified to state that SUA is to file its SSER adjustment on the first day of the month with updated rates to go into effect at the beginning of the following month. Further, the tariff is to state that any party may dispute any portion of the SSER adjustment by filing an objection. Any disputed amount will not go into effect until the dispute is resolved. The Agreement sets SUA's return on equity at 9.85%, which is substantially lower than the 11.00% requested in SUA's Application. Regarding capital structure, the Agreement accepts the Attorney General's recommendation of 54% debt and 46% equity for purposes of calculating SUA's authorized rate of return. SUA's Application requested a hypothetical capital structure consisting of 44.4% debt and 55.6% equity. The Agreement significantly reduces SUA's requested level of incentive compensation costs to be included in rates.

Larry Blank, Witness for HHEG

Dr. Blank testifies on behalf of the Hospitals and Higher Education Group in support of the Joint Motion to Approve Settlement Agreement. He states that the Settlement Agreement resolves key disputed issues in this general rate case in a manner that serves the public interest. For the most part, Dr. Blank testifies, the Settlement Agreement resolves HHEG's concerns, as the Agreement utilizes a reasonable return on equity and capital structure that aligns more closely with the capital structure he recommended. The Agreement allocates costs among the rate classes in a manner that more closely aligns with Dr. Blank recommendations, and although it permits certain modifications to SUA's system safety rider, it retains certain language that permits parties to dispute adjustments to that rider before they go into effect. In short, Dr. Blank states that the Settlement Agreement reflects an outcome within the range of outcomes had the matter been fully litigated. If approved, he states, it will result in just and reasonable rates.

Billie LaConte, AGC

Ms. LaConte testifies that the Settlement Agreement, as submitted by all of the parties to this docket, resolves all issues related to SUA's rate case filing. The revenue requirement was developed based on Staff's Surrebuttal Testimony, along with certain adjustments. Ms. LaConte states that the Agreement equitably resolves all issues, and reduces SUA's revenue deficiency from approximately \$104.7 million to approximately \$87.7 million. The total settlement amount is \$17 million fewer than SUA's original request. Ms. LaConte testifies that settling this case required compromise from each of the parties, and that she recommends that the Commission accept the Settlement Agreement in full. Ms. LaConte states that the Agreement resolves AGC's primary issues regarding SUA's return on equity, capital structure, and revenue allocation. The Agreement also reasonably resolves AGC's issues regarding Operation and Maintenance expense, Incentive Compensation, the treatment of excess deferred income tax asset related to Cost of Removal, and the System Safety Enhancement Rider. The Agreement reduces SUA's requested 11% ROE to 9.85% and reduces the equity component of SUA's capital structure to 46%, compared to SUA's proposed 55.59% equity component. Ms. LaConte believes that the Agreement falls within the range of likely outcomes that the Commission could have reached had the Parties chosen to fully litigate the case.

On **October 15, 2024**, the Commission held an evidentiary hearing. The hearing was continued and completed on **October 23, 2024**.

Public comment hearings were held on **October 22, 2024**, and **October 24, 2024**.

The Commission will issue an order no later than **November 22, 2024**.