

**BEFORE THE
CORPORATION COMMISSION OF THE STATE OF OKLAHOMA**

JOINT APPLICATION OF CENTERPOINT ENERGY)
RESOURCES CORP., SOUTHERN COL MIDCO, LLC,)
AND SUMMIT UTILITIES OKLAHOMA, INC. FOR)
TRANSFER OF JURISDICTIONAL UTILITY ASSETS)
AND CUSTOMER ACCOUNTS PURSUANT TO)
OAC 165:45-3-5)

Cause No. PUD 202100114

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CORPORATION COMMISSION
OF OKLAHOMA

DIRECT TESTIMONY
OF
STEVEN E. BIRCHFIELD
EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER
ON BEHALF OF
SUMMIT UTILITIES OKLAHOMA, INC.

JUNE 24, 2021

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1 **I. INTRODUCTION AND BACKGROUND**

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

3 A. My name is Steven E. Birchfield. My business address is 10825 E. Geddes Ave., Suite
4 410, Centennial, Colorado 80112.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Summit Utilities, Inc. ("Summit") as Executive Vice President and Chief
7 Financial Officer. In this capacity, I am responsible for overseeing all of Summit's
8 financial activities. This includes oversight of all employees involved in preparing
9 financial documentation and reporting and implementing all internal financial policies. I
10 am also charged with arranging financing for the proposed transaction and establishing and
11 implementing cost allocations for the services and goods that Summit provides to its
12 operating subsidiaries. In addition to these activities, I oversee Summit's gas procurement
13 functions.

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

15 A. I am testifying on behalf of one of the Joint Applicants, Summit Utilities Oklahoma, Inc.
16 ("SUO").

17 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND BUSINESS BACKGROUND.**

18 A. I graduated from the University of Florida in 1996 with a Bachelor of Science degree in
19 Computer Engineering and received a Master of Business Administration degree from the
20 University of Michigan in 2001. In 2003, I joined Progress Energy (now Duke Energy) as
21 a financial specialist, and remained with Progress Energy until 2007, serving as the
22 Manager of Financial Services at the Harris Nuclear Plant before ultimately serving as
23 Manager of Executive Compensation and Benefits. In 2007, I joined the Tennessee Valley

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1 Authority as the Senior Manager of Business Planning and Reporting. At the Tennessee
2 Valley Authority, I progressed to serve as Vice President of Finance before finally serving
3 as Vice President and Chief Risk Officer from 2010 to 2013. From 2013 to 2014, I served
4 as Vice President and Chief Financial Officer of Essential Power before joining Summit in
5 2014 as Executive Vice President and Chief Financial Officer.

6 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

7 A. Yes. In 2019 I testified in support of the application brought by Arkansas Oklahoma Gas
8 Corporation (“AOG”) for approval of its Performance Based Rate Plan adjustments in
9 Cause No. PUD 201900028.

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

11 A. My testimony supports the Joint Application, filed by Summit Utilities Oklahoma, Inc.
12 (“SUO”), CenterPoint Energy Resources Corp. (“CERC”) and Southern Col Midco, LLC
13 (“SC MidCo”), seeking an order of the Oklahoma Corporation Commission
14 (“Commission”) authorizing CERC to transfer to SUO its natural gas utility assets located
15 in Oklahoma (the “Utility Assets”) and Oklahoma customer accounts and authorizing SUO
16 to provide utility service utilizing the Utility Assets after the transfer thereof to SUO, under
17 CERC’s existing tariffs on file with and approved by the Commission.

18 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

19 A. I will provide information on financial issues related to SUO's proposed acquisition of
20 certain assets of CERC that are used to provide natural gas utility service in Oklahoma.
21 Specifically, I will describe 1) SUO’s plans to finance the acquisition; 2) SUO's and
22 Summit’s sound financial condition; 3) SUO’s plan to smoothly transition the assets and
23 operations of the Oklahoma utility business to SUO; 4) SUO's position on the ratemaking

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1 treatment of transaction costs, transition costs, and acquisition premiums; and 5) certain
2 post-acquisition protective measures intended to insulate SUO from any adverse impacts
3 from Summit's unregulated activities.

4 **II. SUMMIT'S PLANS TO FINANCE THE TRANSACTION**

5 **Q. PLEASE DESCRIBE THE FINANCIAL TERMS OF THE TRANSACTION.**

6 A. Pursuant to an Asset Purchase Agreement dated April 29, 2021 ("APA"), SC MidCo, as
7 purchaser, will acquire from CERC – through two subsidiaries of SC MidCo, namely SUO
8 and Summit Utilities Arkansas, Inc. ("SUA") – the assets and other rights necessary for the
9 operation of CERC's natural gas distribution systems in Oklahoma and Arkansas,
10 respectively. SC MidCo is a direct, wholly-owned subsidiary of Southern Col Holdco,
11 LLC ("SC HoldCo") which, in turn, is a direct, wholly-owned subsidiary of Summit.
12 Under the APA the \$2.15 billion purchase price is subject to adjustment, including certain
13 adjustments related to gas costs incurred by CERC during the February 2021 winter storm,
14 commonly known as "Winter Storm Uri", if CERC receives reimbursement for such gas
15 costs prior to the closing of the Transaction. Consummation of the proposed transaction is
16 subject to fulfillment of the parties' respective obligations under the APA and satisfaction
17 of specified governmental regulatory requirements, among other conditions enumerated in
18 the APA. SC MidCo will designate, in its capacity as the purchaser under the APA, SUO
19 to receive all of the interests, rights and obligations to the purchased gas distribution assets
20 and business in Oklahoma at or prior to closing, so that effective as of the closing SUO
21 will become the owner thereof as a new regulated gas distribution utility subject to the
22 Commission's jurisdiction.

23 **Q. HOW WILL THE TRANSACTION BE FINANCED?**

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1 A. The purchase price will be funded through a combination of debt and equity. At signing
2 of the APA, \$1.172 billion of Bridge Loan Financing was committed by KeyBank National
3 Association and KeyBanc Capital Markets (collectively, “KeyBank”), and \$978 million of
4 funding was committed by Summit’s existing shareholder, IIF US Holding 2 LP (“US2”).
5 Established in 2006, the Infrastructure Investments Fund (“IIF”), of which US2 forms a
6 part, is a private investment fund with a long-term investment horizon that invests in
7 infrastructure companies, including regulated utilities, transportation infrastructure, and
8 contracted energy assets predominately in developed countries. The funding from IIF will
9 be provided to Summit and, ultimately, to SC HoldCo to SC MidCo and then to each of
10 the operating utilities (SUO and SUA) to fund their respective purchases of the CERC
11 assets. While the bridge financing commitment was obtained primarily to assure CERC
12 that SC MidCo would have access to the necessary financial resources to close on the
13 acquisition, Summit plans to have in place by closing its permanent financing plan for the
14 acquisition. Summit’s permanent financing is expected to take the form of \$350 million
15 of term loans, and \$100 million in unfunded revolving credit facility commitments held at
16 the SC HoldCo level, and approximately \$390 million in private placement notes issued by
17 SC MidCo. The permanent financing for the approximately \$425 million of gas costs
18 associated with Winter Storm Uri has not yet been decided.

19 **Q. WHAT WILL SUO’S CAPITAL STRUCTURE BE AFTER CLOSING?**

20 A. After the closing of the Transaction, we anticipate that SUO's capital structure will
21 have a conservative leverage profile, with capitalization at 51.5% debt and 48.5% equity.

22 **III. TRANSITION SERVICES AGREEMENT AND INTEGRATION**

23 **Q. PLEASE DESCRIBE THE TRANSITION SERVICES AGREEMENT.**

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1 A. At the closing of the proposed Transaction, SC MidCo (or an affiliate) will enter into a
2 Transition Services Agreement (“TSA”), pursuant to which CenterPoint Energy Service
3 Company (“CESC”), an affiliate of CenterPoint Energy, Inc., will provide transition
4 services to SC MidCo, SUO and SUA, for a period of 12 months post-closing. The agreed
5 form of the TSA, which includes the schedule of services as Schedule 2.1, is attached as
6 Exhibit G of the APA, provided as Attachment 1. The scope of CESC’s services under
7 the TSA will include operational support in the areas of gas supply, safety, training,
8 engineering, customer operations, supply chain, finance, accounting, and regulatory,
9 among other services. In connection with providing such services, CESC will assist
10 in migrating assets into SUO (and SUA), including by providing any information and
11 materials and other assistance necessary to transition services to SUO’s systems,
12 equipment, processes and facilities. As part of the TSA, Summit will be identifying
13 assets specific to each of the Oklahoma and Arkansas businesses, as it expects that the
14 allocation to SUO of such assets will be consistent with CERC’s existing allocation.

15 **Q. HOW WILL THE PARTIES TO THE APA ACCOMPLISH A SMOOTH**
16 **TRANSITION OF OPERATIONS FROM CERC TO SUO?**

17 A. Summit has developed exceptional skill and experience in transitioning new operations
18 into its systems and processes and, where appropriate, developing new systems and
19 processes that are best suited to the scale and scope of the platform resulting from a
20 significant acquisition. Notwithstanding the transformative nature of this acquisition, we
21 are confident that our team will be able to ensure a smooth transition. In addition to the
22 TSA, Summit is especially pleased that CERC’s state utilities operations management team
23 located in Little Rock, Arkansas (Regional Vice President, Director of Regional

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1 Operations, Director of Regional Engineering, Manager of Regulatory and Rates, Manager
2 of Technical Field Operations, Manager of Damage Prevention, Manager of Conservation
3 Improvement Program, Director of Regulatory Relations and Government Affairs, and
4 Associate General Counsel of Southern Gas Operations) will have the opportunity to join
5 SUO following close, as will the directors of district operations.

6 **Q. HOW WILL THE PROPOSED TRANSACTION AFFECT THE SUPPLY OF GAS TO**
7 **CERC’S CUSTOMERS?**

8 **A. Pursuant to the APA, the parties will cooperate in good faith to assign or novate certain of**
9 **CERC’s asset management agreements, interstate pipeline service agreements and natural**
10 **gas purchase and sales contracts. This cooperation effort, along with the services provided**
11 **pursuant to the TSA and described above, will allow SUO to preserve access to gas supply**
12 **and capacity on substantially the same economic basis as currently held by CERC.**

13 **Q. HOW WILL THE PROPOSED TRANSACTION AFFECT CERC’S**
14 **EMPLOYEES?**

15 **A. A substantial rationale for the acquisition of CERC’s footprint rests on the expertise CERC**
16 **has demonstrated in its operation of the systems in Oklahoma and Arkansas. CERC’s**
17 **Oklahoma employees have developed and maintained an efficient utility that serves its**
18 **customers and communities well. Synergies were not a value driver of Summit's decision**
19 **to pursue this acquisition. Prior to the closing of the Transaction, Summit will be making**
20 **offers to CERC’s Oklahoma employees to join the Summit team – a legal mechanism made**
21 **necessary because the transaction involves the sale of assets as opposed to the sale of the**
22 **stock of the utility company itself that directly employs all of the Oklahoma employees.**
23 **The benefit plans that CERC’s employees will be provided by Summit will be substantially**

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1 comparable to those currently enjoyed by CERC’s employees. In addition, as reflected in
2 the APA and as a further reflection of Summit’s desire to have CERC’s Oklahoma
3 employees join the Summit team, SC MidCo made certain commitments to, among other
4 things, maintain for 24 months after the closing the compensation of those employees at
5 levels at least equal to those in effect on the closing date.

6 **IV. SUMMIT’S PLATFORM**

7 **Q. PLEASE DESCRIBE SUMMIT.**

8 A. Summit is a privately-held holding company incorporated in Colorado with corporate
9 headquarters located in Centennial, Colorado. Summit and its operating subsidiaries have
10 approximately 400 employees and hold assets of more than \$1.25 billion. Through its
11 regulated subsidiaries, Summit provides natural gas service to over 105,000 customers in
12 Arkansas, Oklahoma, Colorado, Missouri, and Maine. Summit’s primary business is local
13 distribution of natural gas through its subsidiaries AOG, Colorado Natural Gas, Inc.
14 (“CNG”), Summit Natural Gas of Missouri, Inc. (“SNGMO”), and Summit Natural Gas of
15 Maine, Inc. (“SNGME”). Summit also provides wholesale gas services through its
16 unregulated subsidiary, Wolf Creek Energy, LLC. In addition, Summit is developing a
17 renewable natural gas digester facility in Maine, through its unregulated subsidiary Peaks
18 Renewables, Inc.

19 **Q. WHAT IS SUMMIT’S OPERATING PHILOSOPHY?**

20 A. Safety is a top priority for Summit and its employees. Summit’s operating entities have
21 put a particular emphasis on reviewing and updating their operation manuals and safety
22 plans to ensure all operating companies are providing the safest service possible. For
23 example, due to the age of AOG’s infrastructure, Summit has prioritized the replacement

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1 of outdated facilities to better and more safely serve AOG customers. Since Summit
2 acquired ownership of AOG, AOG has updated its DIMP and TIMP programs, replaced
3 approximately 147 miles of distribution pipeline, and developed a meter relocation
4 program to ensure the safety of our customers and communities. These pipeline safety
5 initiatives have resulted in a significant reduction in third party damages to meter sets and
6 in leaks detected on the system. In addition, for the third year in a row, Summit received
7 an “Industry Leader Accident Prevention Award” from the American Gas Association for
8 its excellence in personnel safety performance.

9 **Q. PLEASE DESCRIBE SUMMIT’S REGULATED UTILITY OPERATIONS IN**
10 **OKLAHOMA.**

11 A. In 2017, the Commission approved the acquisition by Summit of 100% of the shares of
12 AOG’s parent, A.O.G. Corporation. AOG is a natural gas public utility with operations in
13 both Oklahoma and Arkansas. In Oklahoma, AOG provides service to residential and
14 business customers in Sequoyah, LeFlore, Haskell, and Latimer Counties; each of which
15 are within (approximately) a 50-mile radius of the company’s headquarters in Fort Smith,
16 Arkansas, as well as Delaware County, Oklahoma, located west of Siloam Springs,
17 Arkansas. Between Oklahoma and Arkansas, AOG operates approximately 120 miles of
18 transmission main. In Oklahoma, AOG operates approximately 754 miles of distribution
19 main, serving approximately 12,280 customers.

20 **Q. DO ANY UNREGULATED AFFILIATES OF SUMMIT OPERATE IN**
21 **OKLAHOMA?**

22 A. No.

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1 **Q. WHAT IS SUMMIT'S EXPERIENCE IN ACQUIRING AND INTEGRATING**
2 **NEW ASSETS?**

3 A. Summit acquired and integrated AOG in 2017. This was the first time Summit began
4 operating a regulated utility in Oklahoma. The result of that acquisition was improved
5 customer service, technology, billing and safety performance. AOG has expanded its
6 pipeline safety initiatives as a result of its acquisition by Summit and improved on the
7 operational excellence AOG was previously known for.

8 **Q. PLEASE DESCRIBE THE SUCCESSES AOG HAS EXPERIENCED SINCE IT**
9 **WAS ACQUIRED BY SUMMIT.**

10 A. The acquisition of AOG was instrumental in furthering Summit's corporate strategy of
11 investing in systems with the prospect for customer growth and the potential for
12 distribution system expansion. The acquisition has provided AOG with increased access
13 to capital to pursue growth and development in areas where AOG had identified
14 opportunities that it had been unable to pursue under its prior ownership. During the period
15 following the 2017 acquisition, AOG replaced approximately 147 miles of bare steel pipe
16 with modern high density polyethylene pipe, and in 2020 alone relocated more than 750
17 at-risk meters. Also, during the integration period following the AOG transaction,
18 Summit consolidated its platform-wide customer service and dispatch operations and a
19 portion of its engineering/drafting services department in Fort Smith, Arkansas. Mr.
20 Kirkwood, in his Direct Testimony, will describe the significant achievements of AOG in
21 the areas of customer service and billing. In addition, I believe that AOG has maintained
22 its historic reputation as a trusted partner with the Commission, the Public Utility Division
23 Staff, the Attorney General, and other stakeholders concerned with the operation of public

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1 utilities in Oklahoma. And most importantly, AOG has demonstrably continued, and
2 improved upon, its standing with customers, businesses, and the communities in which it
3 serves. For instance, as Mr. Kirkwood explains in his Direct Testimony, AOG routinely
4 achieves exceptional scores on customer service and customer satisfaction surveys.

5 **Q. PLEASE DESCRIBE SOME WAYS IN WHICH THE ACQUISITION OF AOG**
6 **HAS BENEFITTED SUMMIT'S PLATFORM.**

7 A. When Summit acquired AOG it expected sharing of best practices across all operating
8 companies, including from AOG given AOG's considerable tenure as a local distribution
9 company. The reality has exceeded those expectations. In the operations area, for instance,
10 each of Summit's utilities have adopted the Work Order Field Application ("WOFA")
11 originally developed by AOG's information technology group. WOFA provides an elegant
12 solution for recording detailed specifications of individual components of the system (e.g.,
13 size, length, type, manufacturer, production lot number, depth, and installation date) using
14 3-dimensional bar codes, or QR's, and Global Positioning System data to record the precise
15 location of new facilities as they are installed above and below ground. Summit received
16 the SGA's Engineering and Innovation Award in recognition of the development and
17 deployment of WOFA. In addition, and perhaps most significantly, Summit has benefited
18 greatly from the professional talent that AOG had already nurtured prior to the acquisition.
19 For instance, Mr. Kirkwood brought over 30 years of experience in the gas industry. At
20 the time of Summit's acquisition of AOG, Mr. Kirkwood was AOG's Senior Vice President
21 of Customer Development and has since taken on a national senior executive role as
22 Summit's Chief Customer Officer with responsibility across the entire Summit platform of
23 operating companies. Likewise, Jeremy Schreckhise, formerly AOG's Vice President of

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1 Information Technology, was instrumental in coordinating the transition and integration of
2 information technology systems after the AOG acquisition and now serves under Mr.
3 Kirkwood as Summit's Vice President of Information Technology with oversight
4 responsibilities for company-wide information systems. Summit's corporate culture
5 demands, and its success depends on, an ability to attract and retain exceptional leaders
6 and Summit anticipates that the incorporation of CERC's expertise will result in yet further
7 opportunities for professional advancement for employees joining the Summit platform.

8 **Q. HOW WILL SUO FIT INTO SUMMIT'S EXISTING UTILITY OPERATIONS?**

9 A. The proposed transaction is consistent with Summit's strategy of customer growth through
10 identifying areas with potential for distribution system expansion. Also, CERC has
11 particular areas of excellence developed over its long history of providing natural gas
12 service in Oklahoma and Arkansas that can benefit Summit's other operating subsidiaries.
13 Under Summit, we believe SUO will enjoy access to capital to allow for growth and
14 development in areas not previously pursued. In addition, Summit is committed to system
15 modernization throughout its platform, and efforts to decarbonize those systems. For
16 instance, since 2013, AOG has reduced its methane emissions by 20% due to its pipeline
17 replacement program. Similar initiatives are ongoing at other Summit operating
18 companies. Summit's subsidiary, Peaks Renewables, Inc., is developing a renewable
19 natural gas facility that will be both a customer of SNGME and also a supplier of natural
20 gas. Summit is also pursuing a green hydrogen pilot program to power a power-to-gas
21 facility. We expect that under Summit's ownership, SUO will similarly engage in
22 initiatives to help decarbonize and increase resilience of the Oklahoma distribution system.

23 **Q. PLEASE DESCRIBE THE BENEFITS OF THE PROPOSED TRANSACTION.**

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1 A. Summit's primary business is the delivery of safe and reliable natural gas service at
2 reasonable rates. Summit's experience in this industry will complement the existing
3 expertise of CERC's Oklahoma employees. Furthermore, Summit's access to capital
4 and experience in growing and constructing natural gas distribution systems will help
5 SUO expand its delivery of natural gas service, increase the availability of natural gas
6 within its service territory, and modernize its system. Each of Summit's subsidiaries
7 operates under a model that encourages strong connections to the communities we serve.
8 Summit comes from a tradition of employees giving back in their local communities. As
9 such, we are committed to delivering safe and reliable gas service at reasonable rates. For
10 most of our employees, what happens at work happens in their hometowns. We see a
11 similar culture at CERC. These similarities between Summit and the people SUO will
12 employ will strengthen the implementation of their shared values of safe and reliable
13 service, community connection, and reasonable rates.

14 **Q. IS SUO KNOWLEDGEABLE IN OKLAHOMA NATURAL GAS OPERATING**
15 **SAFETY STANDARDS INCLUDING THE GAS & HAZARDOUS LIQUID**
16 **PIPELINE SAFETY RULES AND THE OKLAHOMA UNDERGROUND**
17 **FACILITIES DAMAGE PREVENTION ACT?**

18 A. Yes, SUO will continue to be managed by operations personnel and subject matter experts
19 who currently operate the Oklahoma business for CERC, in combination with the
20 leadership and operations teams at Summit, whose safety commitment I have described
21 above. Summit leadership is familiar with the Gas & Hazardous Liquid Pipeline Safety
22 Rules and Oklahoma Underground Facilities Damage Prevention Act and will continue to

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1 provide safe and reliable service to the approximately 100,025 customers served by the
2 CERC assets in Oklahoma.

3 **Q. DO YOU BELIEVE SUMMIT'S PAST EXPERIENCE WITH OTHER**
4 **ACQUISITIONS WILL BE HELPFUL IN THIS TRANSACTION?**

5 A. Yes. As mentioned above, SUO will have the benefit of its parent company already
6 understanding the laws and regulations in Oklahoma. SUO's parent company also has
7 experience with developing new entities and expanding its current business plan and
8 practices to include new utilities. Summit's history of being a growth utility already
9 operating within the state of Oklahoma will allow for a seamless transition and a familiarity
10 that will benefit both customers and regulators.

11 **Q. IS SUO PROPOSING ANY CHANGES TO EXISTING OPERATIONAL**
12 **FUNCTION, MAINTENANCE POLICIES OR SAFETY POLICIES CURRENTLY**
13 **IN PLACE?**

14 A. Not at this time. However, SUO will continue to evaluate its policies and make adjustments
15 and changes that may be necessary to provide or enhance the safe and reliable service to
16 the customers in these areas.

17 **Q. HOW DO YOU PLAN TO EXPAND SUMMIT'S OPERATIONS TO INCLUDE**
18 **CERC ASSETS?**

19 A. Summit has created SUO, a newly formed company within Oklahoma, to acquire the
20 CERC natural gas assets in Oklahoma under the APA. SUO will share leadership with
21 AOG and Summit's other subsidiaries and benefit from the existing expertise of both
22 Summit and AOG. However, SUO will employ its own staff as necessary to service and
23 operate the newly acquired assets, starting with the dedicated employees located in

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1 Oklahoma and operating the system in the field today. This will allow the newly formed
2 company to develop its own operations team and provide the same responsive and qualified
3 operations as AOG and CERC have demonstrated.

4 **Q. ARE THERE ANY NEW OR UNUSUAL OPERATIONAL, MAINTENANCE, OR**
5 **SAFETY CHALLENGES SUO OR SUMMIT WILL FACE AS A RESULT OF THE**
6 **ASSET ACQUISITION?**

7 A. No, Summit is very familiar with the CERC assets, having undertaken extensive due
8 diligence review, including site visits. CERC's significant planned investments in
9 infrastructure and pipeline safety will continue to be a priority under SUO's ownership.

10 **Q. DO YOU BELIEVE SUMMIT AND SUO ARE EXPERIENCED AND ABLE TO**
11 **EFFECTIVELY AND EFFICIENTLY OPERATE THE ADDITIONAL ASSETS?**

12 A. Yes. Summit and SUO will have the necessary funding, qualified staff, assets, policies,
13 and experience to operate a natural gas system that will effectively and efficiently continue
14 to serve customers.

15 **Q. ARE ANY OF THE UTILITY ASSETS PARALLEL TO OR IN COMPETITION**
16 **WITH ANY CURRENT FACILITIES OF SUO OR ITS AFFILIATES?**

17 A. No.

18 **V. SUMMIT'S FINANCIAL CONDITION**

19 **Q. PLEASE DESCRIBE SUMMIT'S FINANCIAL CONDITION.**

20 A. Summit and its subsidiaries are financially sound. A copy of Summit's consolidated
21 audited financial statements for December 31, 2020, and 2019 and 2018 as attached as
22 Attachment 4, and of its unaudited financial statements for the quarter ended March 31,
23 2021 are attached as Attachment 5. As noted above, Summit operates a diversified natural

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1 gas platform with a robust rate base growth profile driven by strong customer additions.
2 Summit serves approximately 105,000 customers across five states with assets of more
3 than \$1.25 billion. Since 2009, Summit has grown its customer base by more than 20%
4 per year while growing revenues at approximately 22% per year. Summit had net revenues
5 of \$98 million in 2020 and a debt-to-capitalization ratio of 42%. Summit is expected to
6 have consistent access to capital through its shareholder, IIF.

7 **Q. HOW WILL SUO'S FINANCIAL CONDITION IMPACT ITS CUSTOMERS?**

8 A. There will be no adverse effect on the quality of utility service, or any increase in the cost
9 thereof, subject of course to any future rate increases that may be approved by the
10 Commission. SUO's capital structure will remain essentially as it is today under CERC.
11 Over time, SUO and its customers will benefit from access to capital for both expansion
12 and capital repair and replacement on SUO's system. SUO's acquisition represents the
13 desire by Summit to increase its capital investment in Oklahoma.

14 **VI. RATEMAKING ISSUES**

15 **Q. PLEASE DESCRIBE THE CERC ASSETS THAT SUO WILL ACQUIRE.**

16 A. The assets that SUO will acquire include: real and personal property interests, together
17 with buildings, structures, pipelines, other improvements and fixtures located thereon;
18 natural gas distribution utility assets installed; inventory of natural gas and natural gas
19 products; parts and other inventory; information technology and communications
20 equipment; motor vehicles, trailers and similar rolling stock; furnishings, fixtures,
21 machinery, equipment, materials and other tangible personal property; billed and unbilled
22 revenues as described in the APA; certain business agreements and shared contract rights
23 including certain asset management agreements, interstate pipeline service agreements and

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1 natural gas purchase and sale agreements; environmental and other permits; documents,
2 warranties and business intellectual property; claims and defenses of CERC as they relate
3 to the business and assets acquired and other general assets and property related to the
4 operation of the natural gas utility business in Oklahoma. The purchased assets do not
5 include certain excluded assets, as defined in the APA. Though structured as an asset
6 purchase, pursuant to the APA, SUO will also acquire regulatory assets and liabilities and
7 other corporate assets and liabilities for the Oklahoma business as would be included in a
8 stock acquisition of a regulated utility.

9 **Q WHAT IS THE NET BOOK VALUE OF THE ASSETS THAT WILL BE**
10 **ACQUIRED BY SUO?**

11 A. The net book value of the assets to be acquired by SUO, as of March 31, 2021, was
12 approximately \$113 million.

13 **Q.**

14 **Q. WHAT IS SUMMIT'S POSITION ON RECOVERY OF ANY DIFFERENTIAL**
15 **BETWEEN THE PURCHASE PRICE AND SUO'S BOOK VALUE?**

16 A. In the requested approval of the proposed transaction, SUO is not seeking to adjust the
17 net book value of the acquired assets for ratemaking purposes. However, consistent
18 with generally accepted accounting principles and regulatory accounting standards,
19 SUO does propose to record the difference between the purchase price and the book
20 value of the assets as goodwill for such accounting purposes.

21 **Q. WHAT IS SUO'S POSITION ON RECOVERY OF TRANSACTION COSTS AND**
22 **ACQUISITION PREMIUM?**

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1 A. SUO will not seek recovery of its transaction costs in this or any future proceeding.
2 Additionally, SUO will not seek recovery of any acquisition premium for regulatory
3 or rate-making purposes; however, SUO will record an acquisition premium on its
4 books for accounting purposes.

5 **Q. WHAT IS SUO'S POSITION ON RECOVERY OF INTEGRATION COSTS?**

6 A. SUO will seek recovery for capital expenditures that deliver post acquisition and
7 ongoing ratepayer benefit such as IT investments, vehicles, and office space. SUO,
8 however, will not seek recovery for general integration costs, such as travel for
9 meetings during the integration process. The costs of the services to be provided by
10 CESC under the TSA will be recovered as operations and maintenance costs.

11 **Q. HOW WILL THE TRANSACTION AFFECT THE ALLOCATION OF O&M
12 COSTS TO SUO?**

13 A. The common costs currently allocated, for ratemaking purposes, to CERC's operations in
14 Oklahoma are approximately \$8.8 million according to CERC's 2021 forecast. Following
15 integration, common costs will be allocated to SUO in a manner consistent with generally
16 accepted accounting principles and the Commission's rules. At present, Summit estimates
17 that the common costs allocable to SUO will be consistent with the historical amounts
18 allocated by CERC.

19 **Q. HOW WILL THE TRANSACTION AFFECT ADIT AND EDIT BALANCES?**

20 A. Although SUO's post-close ADIT and EDIT balances will be zero (because the
21 transaction involves the sale of assets and not shares of a company, thus resulting in
22 the elimination of the deferred tax balances due to the tax realization event resulting
23 from the asset sale), SUO proposes that for ratemaking purposes in Oklahoma the

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1 existing Oklahoma-related ADIT and EDIT continue to be treated as a reduction to
2 rate base.

3 **Q. WHAT RATES WILL SUO CHARGE FOR UTILITY SERVICE?**

4 A. SUO will offer the same utility services that CERC currently provides to its customers
5 under CERC's existing tariff. SUO anticipates that the estimated total revenues expected
6 from the acquisition of the CERC facilities will be similar to the revenues produced by
7 CERC's tariffs, and that its total fixed charges and operating expenses will likewise be
8 similar to those currently incurred by CERC.

9 **Q. IS SUO PROPOSING TO ASSUME CERC'S TARIFF?**

10 A. Yes. SUO proposes to adopt CERC's tariff (with ministerial changes to reflect the new
11 company, contact information and the like). This will ensure (i) transparent,
12 understandable, and reasonable rates for customers without confusion or disruption; (ii)
13 maintenance of the existing pace of necessary capital expenditures to improve the system
14 and enhance safety and reliability; and (iii) an opportunity for SUO to recover its costs and
15 earn a fair return on its investments. Despite being an asset purchase, SUO is essentially
16 taking over CERC's Oklahoma business, using the same equipment, local employees,
17 inventories, assets, customers, liabilities, and business relationships. The goal in this
18 Transaction is to maintain as much continuity as possible for all stakeholders.

19 **Q. WILL THE COMMISSION RETAIN THE SAME JURISDICTION OVER THE
20 OPERATIONS OF SUO AS IT DOES OVER CERC?**

21 A. Yes. SUO will operate as a public utility subject to the Commission's regulatory authority,
22 its rules and its orders.

23 **Q. WHAT OTHER APPROVALS WILL BE REQUIRED FOR THE TRANSACTION?**

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1 A. In addition to the instant filing, the Joint Applicants will be making filings required by the
2 Hart-Scott-Rodino Antitrust Improvements Act of 1976. Additionally, the Joint
3 Applicants will seek such waivers and approvals from the Federal Energy Regulatory
4 Commission to allow for the release and transfer, to SUO and SUA of interstate pipeline
5 capacity that CERC currently uses to obtain gas supply to serve customers in Arkansas and
6 Oklahoma¹. Finally, SUA and CERC have filed a Joint Application with the Arkansas
7 Public Service Commission in which SUA seeks authorization to provide utility service in
8 Arkansas and approval of the sale of CERC's utility assets used to provide service in
9 Arkansas.

10 **VII. SEPARATION OF REGULATED AND UNREGULATED ACTIVITIES**

11 **Q. PLEASE DESCRIBE SUMMIT'S POSITION ON SEPARATION OF CERC'S**
12 **ASSETS FROM SUMMIT'S UNREGULATED ACTIVITIES.**

13 A. Summit's primary business is operating regulated natural gas systems. The activities of
14 Summit's competitive subsidiaries generally support Summit's primary business and
15 contribute less than 1% of Summit's consolidated revenue. Nevertheless, Summit's holding
16 company structure serves to inoculate its operating subsidiaries from the activities of
17 Summit's competitive affiliates. Furthermore, Summit will provide shared administrative
18 services to SUO with costs allocated consistent with generally accepted accounting
19 principles and the Commission's rules. Any affiliate transactions will be conducted in
20 accordance with all applicable regulatory rules and will only occur in the regular course of
21 business. Following the acquisition, SUO will maintain its own books and records,

¹ CERC Arkansas and SUA will also seek such waivers and approvals from the Federal Energy Regulatory Commission necessary for SUA to acquire and operate certain cross-border assets.

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1 separate and apart from Summit and its other subsidiaries. Finally, Summit will not permit
2 SUO to pledge its assets as security for non-SUO debt, and lenders for Summit's non-SUO-
3 related financings will have no recourse to the assets, properties or business of SUO.

4 **VIII. CONCLUSION**

5 **Q. DO YOU HAVE A RECOMMENDATION TO THIS COMMISSION?**

6 A. Yes. I urge the Commission to approve the Joint Application and find the proposed
7 transaction to be consistent with the public interest. I also urge the Commission to
8 authorize SUO to operate the assets to be acquired and find that such authorization is also
9 consistent with the public interest.

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

11 A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that on the 24th day of June, 2021, a full, true, and correct copy of the above and foregoing instrument was served on the following persons by electronic mail to the following at the email addresses noted:

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