

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
SUMMIT UTILITIES OKLAHOMA, INC. FOR)
THE APPROVAL OF ITS PERFORMANCE-)
BASED RATE CHANGE PLAN) CAUSE NO. PUD 202 200022
CALCULATIONS FOR THE TWELVE)
MONTHS ENDED DECEMBER 31, 2021)

FILED
MAR 15 2022

COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

DIRECT TESTIMONY

OF

STEVEN E. BIRCHFIELD

ON BEHALF OF

SUMMIT UTILITIES OKLAHOMA, INC.

Filed March 15, 2022

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EXECUTIVE SUMMARY

My name is Steven E. Birchfield. I am an Executive Vice President and Chief Financial Officer for Summit Utilities, Inc. ("Summit") testifying on behalf of Summit Utilities Oklahoma, Inc. ("Summit Oklahoma," "SUO" or the "Company"). In this capacity, I am responsible for overseeing all of Summit's financial activities. I have previously filed testimony with the Oklahoma Corporation Commission ("Commission") in Cause Nos. PUD 201900028 and 202100114.

In my testimony, I provide information about the asset sale transaction between Summit Oklahoma and CenterPoint Energy Resources Corp. ("CERC" or "CenterPoint Oklahoma") and how the Oklahoma assets formerly owned by CERC that were transferred during this transaction are now held in Summit Utilities Oklahoma, Inc. I describe the Company's Oklahoma footprint, which includes approximately 98,890 customers in 36 counties and almost 2,800 miles of distribution main.

In line with the Joint Stipulation and Settlement Agreement ("Settlement Agreement") filed and approved in Cause No. PUD 202100114, included is a discussion of the plant investment strategy of the Company that is designed to operate the system while ensuring the safety of our customers, the general public, and employees. I also explain the procurement process and safeguards in place to assure projects are completed at the lowest reasonable cost while ensuring system integrity and maintaining customer service standards, including the process the Company utilizes to select vendors offering the best price, quality, service, availability, and lead time, while ensuring its goods and services are responsibly sourced. The last item I discuss from the Settlement Agreement is a reconciliation of the Company's legacy Accumulated Deferred Income Tax ("ADIT") and

Excess Deferred Income Tax (“EDIT”) with CERC’s last Performance Based Rate Change (“PRBC”) filing and a description of how the Company is tracking newly created balances. As the transaction approved in Cause No. PUD 202100114 closed on January 10, 2022, SUO’s 2023 PBRC filing will include a reconciliation to the ADIT balance from the 2022 filing.

In the final section, I discuss Summit’s compensation philosophy. SUO follows a compensation philosophy that is focused on maintaining the competitiveness of its compensation plans and levels as measured from a total compensation perspective.

1 **I. INTRODUCTION AND QUALIFICATIONS**

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

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

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

6 A. I am testifying on behalf of Summit Utilities Oklahoma, Inc. ("Summit Oklahoma,"
7 "SUO" or the "Company").

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

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

18 **Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
19 **PROFESSIONAL EXPERIENCE.**

20 A. I graduated from the University of Florida in 1996 with a Bachelor of Science
21 degree in Computer Engineering and received a Master of Business Administration
22 degree from the University of Michigan in 2001. In 2003, I joined Progress Energy
23 (now Duke Energy) as a financial specialist, and remained with Progress Energy

1 until 2007, serving as the Manager of Financial Services at the Harris Nuclear Plant
2 before ultimately serving as Manager of Executive Compensation and Benefits. In
3 2007, I joined the Tennessee Valley Authority as the Senior Manager of Business
4 Planning and Reporting. At the Tennessee Valley Authority, I progressed to serve
5 as Vice President of Finance before finally serving as Vice President and Chief
6 Risk Officer from 2010 to 2013. From 2013 to 2014, I served as Vice President
7 and Chief Financial Officer of Essential Power before joining Summit in 2014 as
8 Executive Vice President and Chief Financial Officer.

9 **Q. HAVE YOU TESTIFIED BEFORE THE OKLAHOMA CORPORATION**
10 **COMMISSION (“COMMISSION”)?**

11 A. Yes. I filed testimony before the Commission in Cause Nos. PUD 201900028 and
12 202100114.

13 **Q. PLEASE IDENTIFY THE OTHER WITNESSES TESTIFYING ON**
14 **BEHALF OF THE COMPANY.**

15 A. The following witnesses also provide support for this year’s filing:

- 16 • **Burl M. Drews** – provides an overview of the Performance Based Rate
17 Change (“PBRC”) Plan; presents the earned return on equity result of the
18 PBRC plan calculations; presents the base rate adjustments resulting from
19 the Energy Efficiency incentive and true-up; and presents the proposed
20 treatment of the residual amounts remaining from the 2019 Test-Year
21 refund.
- 22 • **Tyson D. Porter** – provides an overview of the PBRC Plan from Summit
23 Oklahoma’s perspective; discusses how the PBRC Plan provides benefits

1 to both customers and the Company and is working as intended; presents
2 the changes to EDIT; provides an overview of the COVID-19 Regulatory
3 Asset; and provides a proposed timeline for the Cost-of-Service Study and
4 Depreciation Study.

5 • **John D. True** – provides a view into the Company’s test-period capital
6 costs compared to the prior year; provides an overview of the major
7 categories of the Company’s capital projects; discusses procurement
8 processes as they relate to system integrity; outlines any changes to the
9 Distribution or Transmission Integrity Plans; and addresses whether SUO
10 can slow the timetable for certain improvement projects without affecting
11 safety and reliability.

12 **II. SCOPE AND PURPOSE OF TESTIMONY**

13 **Q. PLEASE DISCUSS THE PURPOSE OF YOUR TESTIMONY.**

14 A. The purpose of my testimony is to:

- 15 1) Provide updated information about the asset sale transaction between
16 Summit Oklahoma and CenterPoint Energy Resources Corp. (“CERC”
17 or “CenterPoint Oklahoma”); and
18 2) Describe Summit Oklahoma’s service territory.

19 Additionally, the Joint Stipulation and Settlement Agreement (“Settlement
20 Agreement”) filed and approved in Cause No. PUD 202100054 requires SUO to
21 include the following, *inter alia*:

- 22 1) An in-depth description of SUO’s plant investment strategy and any
23 variance from the prior utility’s spending pattern with a discussion of

1 procurement processes that mitigate capital cost and negative effect on
2 customers;

3 2) A discussion of SUO’s procurement process and safeguards in place to
4 assure projects are completed at the lowest reasonable cost while
5 ensuring system integrity and maintaining customer service standards;
6 and

7 3) A reconciliation of the Company’s legacy Accumulated Deferred
8 Income Tax (“ADIT”) and Excess Deferred Income Tax (“EDIT”) with
9 CERC’s last PBRC filing and a description of how the Company is
10 tracking newly created balances.

11 Company witness John True also addresses procurement issues as they relate to
12 system integrity projects. In the final section of my testimony, I discuss Summit’s
13 compensation philosophy.

14 **III. ASSET SALE TRANSACTION UPDATE**

15 **Q. PLEASE PROVIDE AN UPDATE ON THE CLOSING OF THE ASSET**
16 **SALE TRANSACTION.**

17 A. On January 10, 2022, Summit Utilities, Inc. closed on its acquisition of the gas
18 distribution assets of CenterPoint Energy, Inc. in Arkansas, Oklahoma, and

1 Texarkana, Texas.¹ The Oklahoma assets formerly owned by CERC that were
2 transferred during this transaction are now held in Summit Utilities Oklahoma, Inc.

3 **Q. HOW IS SUMMIT OKLAHOMA ACCOMPLISHING ITS TRANSITION**
4 **AS THE NEW OWNER OF THESE ASSETS?**

5 A. As anticipated, Summit Oklahoma and CERC entered into a Transition Services
6 Agreement (“TSA”), whereby CERC is providing transition services to Summit for
7 a period of up to 12 months post-closing. The TSA includes support in the areas of
8 gas supply, safety, training, engineering, customer operations, supply chain,
9 finance, accounting, and regulatory, among other services. During this 12-month
10 period, the Company is hiring resources to cover the services being provided under
11 the TSA. Summit’s main priority is to ensure CERC’s quality of service is
12 maintained or improved during this transition.

13 **Q. ARE THERE ANY TSA COSTS REQUESTED FOR RECOVERY IN THIS**
14 **PBRC FILING?**

15 A. No. The test period for this filing is the 2021 calendar year. Because the closing did
16 not occur until early 2022, there are no TSA impacts in this filing.

17 **Q. DOES THE TEST YEAR FOR THIS FILING INCLUDE ANY**
18 **TRANSACTION COSTS OR GENERAL INTEGRATION COSTS?**

19 A. No, it does not.

¹ This transaction was approved by the Commission on November 16, 2021, in Cause No. PUD 202100114, Order No. 721657.

1 **Q. IN CAUSE NO. PUD202100114, SUMMIT INDICATED THAT IT**
2 **INTENDED TO HIRE THE FORMER CERC EMPLOYEES WHO**
3 **OPERATED AND SUPPORTED THE OKLAHOMA SYSTEM. HAS THAT**
4 **BEEN ACCOMPLISHED?**

5 A. Yes. On the day following close, Summit onboarded almost 600 former
6 CenterPoint Service Company and CERC employees who supported CERC's
7 Arkansas, Oklahoma, and Texarkana, Texas assets.

8 **Q. HAS THE TRANSITION TO SUMMIT'S OWNERSHIP BEEN SEAMLESS**
9 **FOR CUSTOMERS AS WELL?**

10 A. Yes. Summit Oklahoma submitted its own tariffs that were based on CERC's most
11 recent approved tariffs and, with the TSA, is operating the system in much the same
12 way it was operated prior to the sale of these assets. Summit has oversight of the
13 operations during the TSA and is also working to assure a seamless transition when
14 the TSA timeline ends. To inform customers of the recent acquisition, a welcome
15 email and a bill insert were sent out that introduces the Company as well as informs
16 customers that no immediate action is needed from them.

17 **IV. SUMMIT OKLAHOMA'S SERVICE TERRITORY**

18 **Q. PLEASE DESCRIBE SUMMIT.**

19 A. Summit is a privately-held holding company incorporated in Colorado with
20 corporate headquarters located in Centennial, Colorado. Summit and its operating
21 subsidiaries have approximately 1,000 employees. Through its regulated
22 subsidiaries, Summit provides natural gas service to 625,000 customers in
23 Arkansas, Oklahoma, Texas, Colorado, Missouri, and Maine. Summit's primary

1 business is local distribution of natural gas through its subsidiaries Summit
2 Oklahoma, Summit Utilities Arkansas, Inc. (“SUA”), Arkansas Oklahoma Gas
3 Corporation (“AOG”), Colorado Natural Gas, Inc. (“CNG”), Summit Natural Gas
4 of Missouri, Inc. (“SNGMO”), and Summit Natural Gas of Maine, Inc.
5 (“SNGME”). Summit also provides wholesale gas services through its unregulated
6 subsidiary, Wolf Creek Energy, LLC. In addition, Summit is developing renewable
7 natural gas projects through its subsidiary Peaks Renewables, Inc.

8 **Q. PLEASE BRIEFLY DESCRIBE THE NATURE AND EXTENT OF**
9 **SUMMIT OKLAHOMA’S OPERATIONS.**

10 A. Summit Oklahoma is a local distribution company with approximately 98,890
11 customers in 36 counties in Oklahoma. Summit Oklahoma operates under gross
12 receipt and municipal franchise ordinances in approximately 79 communities
13 across the state. Summit Oklahoma operates almost 2,800 miles of distribution
14 main in Oklahoma.

15 **V. CAPITAL EXPENDITURES FOR SAFETY AND RELIABILITY**

16 **Q. LAST YEAR, CERC WITNESS KEITH THOMAS STATED THAT CERC**
17 **PLACED THE HIGHEST PRIORITY ON PROVIDING SAFE AND**
18 **RELIABLE SERVICE TO ITS CUSTOMERS IN OKLAHOMA. DOES**
19 **SUMMIT OKLAHOMA SHARE THAT PRIORITY?**

20 A. Absolutely. Summit Oklahoma shares those goals and will continue CERC’s
21 commitment to design and operate the system to ensure the safety of our customers,
22 the general public and employees.

1 **Q. DID CERC'S FOCUS ON SAFETY AND RELIABILITY AFFECT**
2 **CAPITAL EXPENDITURES DURING THE 2021 TEST-YEAR?**

3 A. Yes. As discussed further by Company witness John True, in the 2021 Test-Year,
4 CERC made expenditures to improve system stability, safety and reliability. These
5 expenditures were necessary due to both an aging infrastructure and increasingly
6 more stringent natural gas pipeline and safety regulations.

7 **Q. WHAT IS SUMMIT OKLAHOMA'S PLANT INVESTMENT STRATEGY**
8 **GOING FORWARD?**

9 A. While CERC worked diligently to identify at risk facilities including bare steel,
10 vintage plastic, and low-pressure systems, and made great strides in such
11 replacement, much work remains. SUO's capital investment strategy is to invest in
12 projects that are focused on ensuring the safety of pipeline infrastructure, and to
13 continue a targeted program to install pressure regulators on the meter settings of
14 customers served from low pressure distribution systems. SUO expects the rate of
15 capital investment to increase as pipeline replacement activities accelerate over the
16 next decade, from 15 to 20 miles per year to 25 to 40 miles per year, with a target
17 of replacing over 800 miles of pipeline over the next 20 years. As such, SUO
18 expects capital spending to increase from the current \$15 to \$20 million per year
19 level to approximately \$30 million per year, during the next five years. In addition,
20 SUO plans to continue to grow the business to provide natural gas to additional
21 customers in Oklahoma.

1 **Q. WHAT PROCUREMENT PROCESSES AND SAFEGUARDS DOES**
2 **SUMMIT OKLAHOMA HAVE IN PLACE TO MITIGATE CAPITAL**
3 **COST AND NEGATIVE EFFECT ON RATEPAYERS?**

4 A. Summit Utilities, Inc. and its subsidiaries abide by its procurement policy to
5 procure any material, supply, or equipment (each, a Good), or labor or services
6 (each, a Service), for, or on behalf of, the Company. The Company uses the policy
7 to establish a prudent procurement system of quality and integrity that (1) complies
8 with the Company’s policies; (2) helps procure Goods and Services efficiently,
9 effectively and at favorable prices; and (3) reinforces the Company’s commitment
10 to responsibly source the Goods and Services it uses in its business. All Goods and
11 Services must be requested, approved and procured in accordance with the policy,
12 and all Company employees involved in the procurement process must be fiscally
13 responsible when expending Company funds.

14 The Company sets forth firm evaluation criteria for Requests for Proposals
15 from vendors for expected purchases of greater than \$500,000. Summit’s
16 Procurement Department strives to obtain at least three quotes for desired Goods
17 and will evaluate pricing, lead time, quality, and ESG performance criteria as
18 described in the policy. In addition, as discussed further in Mr. True’s Direct
19 Testimony, all projects over \$500,000 must be submitted to Summit’s Risk
20 Management Committee for approval. Finally, Summit’s procurement policy
21 requires employees to monitor any conflicts of interest that may arise. Mr. True
22 provides further discussion in his testimony concerning the Company’s

1 procurement policies as they relate to the Company’s system, public improvement
2 and customer addition projects.

3 **Q. DO THESE PROCUREMENT PROCESSES AND SAFEGUARDS HELP**
4 **ENSURE PROJECTS ARE COMPLETED AT THE LOWEST**
5 **REASONABLE COST WHILE ENSURING SYSTEM INTEGRITY AND**
6 **MAINTAINING CUSTOMER SERVICE STANDARDS?**

7 A. Yes. Under the policy, the Company seeks vendors offering the best price, quality,
8 service, availability and lead time, while ensuring its goods and services are
9 responsibly sourced. By following the procurement process, the Company is able
10 to make prudent decisions to ensure projects are completed at the lowest reasonable
11 cost while maintaining system integrity and customer service standards.

12 **VI. ADIT AND EDIT**

13 **Q. DOES THE ADMINISTRATIVE LAW JUDGE (“ALJ”) REPORT**
14 **ADOPTED BY THE COMMISSION IN CAUSE NO. PUD202100114**
15 **INCLUDE ANY REQUIREMENTS RELATED TO ADIT AND EDIT?**

16 A. Yes. The ALJ Report requires Summit Oklahoma to “reconcile its legacy ADIT
17 and EDIT with CERC’s last PBRC filing in a subsequent filing by SUO with SUO
18 separately tracking newly created ADIT balances due to uncertainty of whether tax
19 normalization rules apply to SUO legacy ADIT, EDIT balances.”²

20 **Q. IS IT POSSIBLE TO PROVIDE THIS RECONCILIATION IN THIS**
21 **FILING?**

² Cause NO. PUD202100114, Final Order No. 721657 at 5.

1 A. No. While CERC and Summit had expected to close by the end of 2021, the close
2 did not occur until early 2022. Accordingly, SUO has included the actual ADIT
3 balance as of December 31, 2021, in this year’s PBRC filing. SUO’s 2023 PBRC
4 filing will include a reconciliation to the ADIT balance from this 2022 filing. As it
5 relates to EDIT, SUO is committed to continuing to return the net regulatory
6 liability related to EDIT to customers; however, as discussed in further detail in the
7 testimony of Company witness Tyson D. Porter, due to an Internal Revenue Service
8 (“IRS”) private letter ruling, the Company has had to reclassify EDIT associated
9 with the cost of removal embedded in depreciation rates to unprotected EDIT.

10 **VII. COMPENSATION PHILOSOPHY**

11 **Q. WHAT IS SUO’S COMPENSATION PHILOSOPHY?**

12 A. SUO follows a compensation philosophy that is focused on maintaining the
13 competitiveness of its compensation plans and levels as measured from a total
14 compensation perspective. That is, SUO measures the value of all of the components
15 that make up employees’ total compensation (meaning base pay, incentive
16 compensation, and benefits) and compares that value against competitor companies
17 to ensure that its compensation plans and levels are sufficient to recruit, retain and
18 motivate the quality workforce and leadership needed to serve our customers. The
19 objective of this approach is to approximate the median (50th percentile) of the
20 market for total compensation represented by the companies included in the market
21 compensation surveys or studies SUO uses to assess the competitiveness of its
22 compensation and benefits. This philosophy is applied consistently to SUO’s
23 business units, including the Company.

1 **Q. HOW WILL SUO ENSURE THAT EMPLOYEE PAY IS MARKET-**
2 **BASED?**

3 A. SUO uses a process referred to as Market Pricing to determine the components of
4 its compensation program and the market value of total compensation compared to
5 target for its employees. Market Pricing is a process of determining the
6 compensation amounts provided by other employers for jobs in which people are
7 performing essentially the same duties and requiring similar qualifications that are
8 comparable to employee positions at SUO.

9 More specifically, pay data is reported to participating companies through
10 surveys based on a process of matching jobs of similar core duties and
11 qualifications. Depending on the position being analyzed, SUO's Human
12 Resources ("HR") staff uses a variety of national, regional, and local survey data
13 that is refreshed annually to monitor and determine market pay values. Most jobs
14 are matched to multiple surveys. HR analyzes these multiple survey sources to
15 determine various statistical pay values represented by the survey data, including
16 median, average, and percentiles.

17 The market-based values are then annually compared to actual pay levels of
18 SUO employees to determine whether adjustments are needed to maintain a
19 competitive position relative to pay levels of other survey participants. For any
20 individual employee, pay will be below, equal to, or above market rates depending
21 on many factors such as compensation levels necessary to hire qualified candidates,
22 time in the job, experience, skills, and individual performance.

1 **Q. HOW DOES THE TOTAL COMPENSATION OF SUO'S EMPLOYEES**
2 **COMPARE TO THE TOTAL PAY LEVELS FOUND IN THE MARKET?**

3 A. SUO's employees are compensated competitively for the job duties they perform in
4 the markets where we operate.

5 **VIII. CONCLUSION**

6 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

7 A. In my testimony, I provide updated information around the asset sale transaction
8 between Summit Oklahoma and CERC and describe the Oklahoma footprint of the
9 Company. Additionally, I discussed items from the Settlement agreement such as
10 SUO's plant investment strategy, procurement process and safeguards in place to
11 assure projects are completed at the lowest reasonable cost while ensuring system
12 integrity and maintaining customer service standards. Due to the close occurring
13 early 2022, the reconciliation of the Company's legacy ADIT and EDIT with
14 CERC's last PBRC filing will be presented in 2023. Finally, I describe SUO's
15 compensation philosophy that is focused on maintaining the competitiveness of its
16 compensation plans and levels as measured from a total compensation perspective.

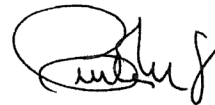
CERTIFICATE OF SERVICE

I hereby certify that on the 15th day of March, 2022, a full, true, and correct copy of the above and foregoing instrument was served on the following persons by **ELECTRONIC MAIL** and by **UNITED STATES CERTIFIED MAIL**, postage prepaid to:

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