

Liberty Utilities

Rate Case
GR-2014-0152

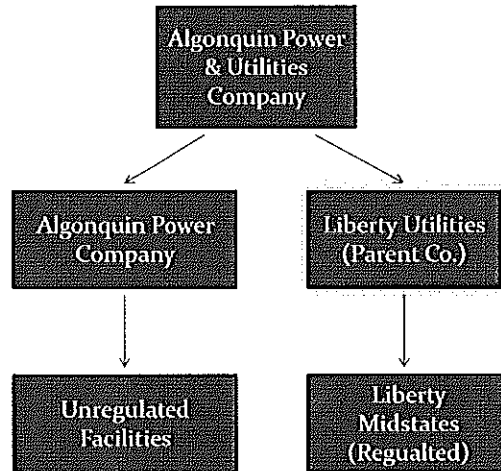
Cost of Capital: Capital Structure

- a. *What capital structure should the Commission use in this case to determine a revenue requirement for Liberty?*

2

OPC Exhibit No. 51
Date 9/8/14 Reporter SSP
File No. _____

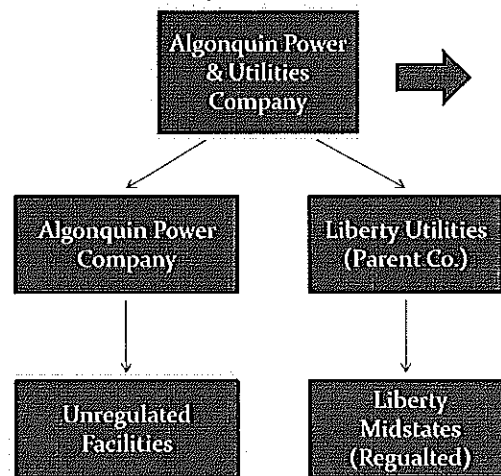
Capital Structure: Facts Will Support Using Capital Structure of Liberty Utilities



- Issues debt/equity.
- Is the basis for rating agency review of risk.
- Has a credit rating.
- Market tested.
- An “investible” capital structure.

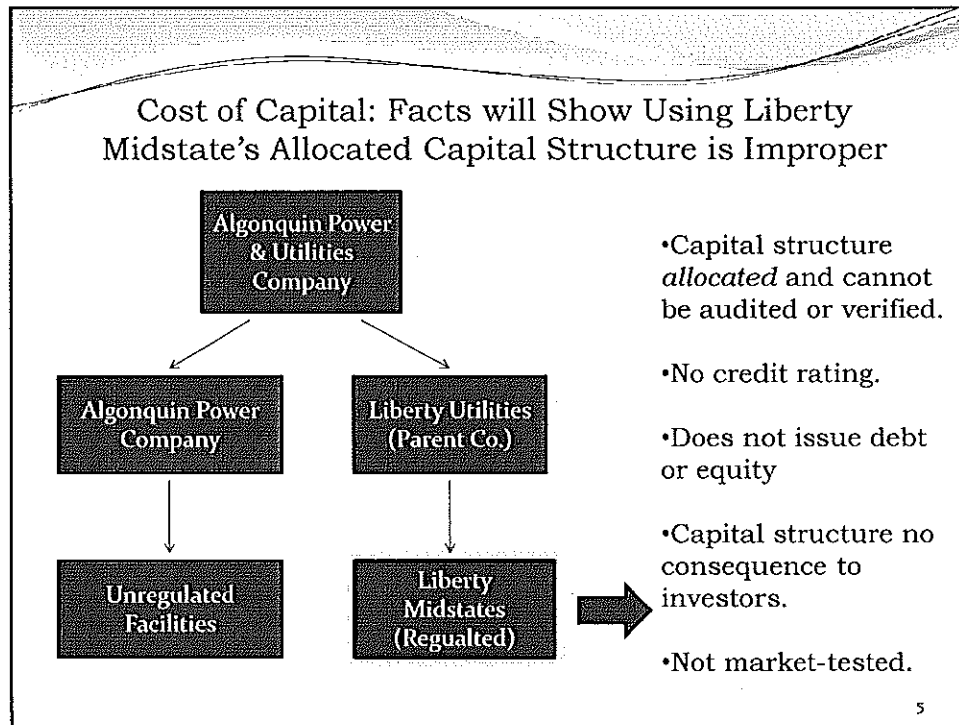
3

Cost of Capital: Facts Will Show it is Improper to Use Capital Structure of Algonquin Power & Utilities Company



- Significant cash flows from *unregulated* operations.
- Risk profile not consistent with regulated operations.

4



- ### Additional Problems With Liberty's Proposed Capital Structure
- 2010: Atmos proposed **50.62% equity/49.38% debt.**
 - 2012: Liberty Midstates acquired Atmos.
 - 2014: Liberty proposing **58.34% equity/41.36% debt.**
 - Increasing Liberty's equity to 58% increases rates for consumers.
 - Rates would increase as a result of the acquisition.
- 6

Cost of Capital: ROE

- c. *What is the appropriate cost of equity that the Commission should apply in this case to determine a revenue requirement for Liberty?*
 - Staff: 8.2%-9.2%
 - Liberty: 10.0%-10.5%

7

Staff's Evidence Shows Liberty's Proposed ROE is Overstated

- It uses projected growth rates that are much higher than published projections for the overall United States economy.
- It assumes equity investors in regulated utilities and unregulated corporations require the *same* equity returns.
- It uses *allowed* ROEs as the basis for computing the equity risk premium. Allowed ROE is typically higher than actual cost of equity.

8

Customer Comment: Rate Increase Hardship

“This is a very small community. It's a lot of retired, there's a lot of farmers, there's a lot of welfare. Most people are in Social Security. I'm a widow, I'm on Social Security, and any little bit that they raise anything, I have to weigh, Okay, is it this medication I can take, or is it maybe I'll have to go next week and get bread. It doesn't sound like a lot, I'm sure, to a lot of people, but when you add this up every month, do it times 12, and that's a year, what are you going to do? What is important to you now? I can't buy milk this week, maybe I can buy bread next week...”

– Marcene Irwin, Butler, Mo.
July 7, 2014 public hearing.

9

Customer Comment: Low-Income

- Virginia, an 86 year old senior citizen from Jackson, Mo.
- She can't afford to pay more.
- She lives on \$846 per month.
- That equals \$27.81 per day $((\$846 \times 12 \text{ mos}) / 365 \text{ days})$

-EFIS Comment No. P201405070

10

Depreciation

What depreciation rates should be ordered by the Commission for corporate plant accounts 399.1, 399.3, 399.4, and 399.5?

Staff/OPC: 4.75% - 5.0%

Liberty: 14.29% - 18.98%

11

Non-Unanimous Second Partial Stipulation and Agreement As To Certain Issues

Issues Resolved between Liberty, Public Counsel, and Division of Energy in September 5 filing:

- Infrastructure System Replacement Surcharge (ISRS)
- Cost of Removal
- Rate Design and Related Issues
- Energy Efficiency and Weatherization

12

Rate Design

- a. *How should rates be designed to reflect any change in rates from the outcome of this case?*
- b. *Should the customer charge in the NEMO and WEMO districts of Liberty be decreased from their current levels?*
- c. *Should Liberty's "foregone delivery charge," which is charged to customers who leave and return to the Liberty system within seven or fewer months, be eliminated?*

13

OPC Testimony Evidence on Residential Rate Design

OPC filed position:

- NEMO: Reduce delivery charge from \$22.68 to \$15.00.
- WEMO: Reduce delivery charge from \$20.17 to \$15.00.
- SEMO: No change to \$13.75 delivery charge.

OPC cost support for reduction in delivery charge:

- NEMO: Costs specific to each customer \$12.75.
- WEMO: Costs specific to each customer \$10.34.
- Customer specific costs include costs for meters, regulators, service lines, associated operating and maintenance expenses, meter reading, and billing expenses.

14

Rate Design Agreement (Liberty and OPC)

	Current Delivery Charge	Stipulated Delivery Charge	Difference
NEMO	\$22.68	\$20.00	-\$2.68
WEMO	\$20.71	\$20.00	-\$0.17
SEMO	\$13.75	\$13.75	\$0.00

15

Low-Usage Sample Bill NEMO

- Usage: 10 Ccfs
-
- **Current Charges:**
- ISRS Charge @ \$3.16 \$3.16
- PGA @ \$0.53588 \$5.35
- Distribution Commodity @ \$0.11546 **\$1.15**
- Delivery Charge @ \$22.68 **\$22.68**
- **Total Current Charges:** \$32.34
-
- **Taxes:** @ 7.5% (estimate) \$2.42
- **Total Amount Due:** **\$34.76**
-
- Source: Liberty Tariff Sheet Nos. 19, 22 and 44.

16

High-Usage Sample Bill NEMO

- Usage: 100 Ccfs
-
- **Current Charges:**
- ISRS Charge @ \$3.16 \$3.16
- PGA @ \$0.53588 \$53.58
- Distribution Commodity @ \$0.11546 **\$11.54**
- Delivery Charge @ \$22.68 **\$22.68**
- **Total Current Charges:** \$90.96
- **Taxes:** 7.5% (estimate) \$6.82
- **Total Amount Due:** **\$97.78**

• Source: Liberty Tariff Sheet Nos. 19, 22 and 44.

17

Higher-Usage Sample Bill NEMO

- Usage: 200 Ccfs
-
- **Current Charges:**
- ISRS Charge @ \$3.16 \$3.16
- PGA @ \$0.53588 \$107.17
- Distribution Commodity @ \$0.11546 **\$23.09**
- Delivery Charge @ \$22.68 **\$22.68**
- **Total Current Charges:** \$156.10
- **Taxes:** 7.5% (estimate) \$11.70
- **Total Amount Due:** **\$167.80**

• Source: Liberty Tariff Sheet Nos. 19, 22 and 44.

18

Residential Bill Comparison to Liberty's Other LDCs

State	Delivery Charge	Commodity Charge
Missouri (NEMO)	\$22.68	\$0.11546
Missouri (WEMO)	\$20.17	\$0.10672
Missouri (SEMO)	\$13.75	\$0.08735
Illinois	\$9.90	\$0.2015
Iowa	\$7.95	\$0.2911 (first 50 Ccfs) \$0.1717 (all other Ccfs)

Source: http://www.libertyutilities.com/central/saving/gas_rates.html

19

Residential Bill Comparison to Liberty's Other LDCs

Service Area	Delivery Charge	Commodity Charge	Low Usage 10 Ccfs	High Usage 100 Ccfs	Higher Usage 200 Ccfs
Missouri (NEMO)	\$22.68	\$0.11546	<u>\$23.83</u>	\$34.22	\$45.77
Missouri (WEMO)	\$20.17	\$0.10672	<u>\$21.23</u>	\$30.84	\$41.51
Missouri (SEMO)	\$13.75	\$0.08735	<u>\$14.62</u>	\$22.48	\$31.22
Illinois	\$9.90	\$0.2015	<u>\$11.91</u>	\$30.05	\$50.20
Iowa	\$7.95	\$0.2911 (1st 50 Ccfs) \$0.1717 (all other)	<u>\$10.86</u>	\$31.08	\$48.25

Source: http://www.libertyutilities.com/central/saving/gas_rates.html

20

Customer Response to High Delivery Charge

“This month my bill was \$31.85, of that \$22.68 was delivery charge, \$4.29 was actual usage charge, \$3.16 was ISRS charge and the rest was taxes. This is ridiculous! The [sic] charge more for “other things” than actual usage.”

- Vicky, Hannibal, Mo
EFIS Comment No. P201405167

21

Customer Comment: High Delivery Charge

“My husband and I are newly-wed full-time college students and have been using Liberty Gas for the two months since we got married and moved into our new home. We use less than ten dollars worth of the utilities for which we our billed, yet have to pay an extra over twenty dollars just for using Liberty. On a tight budget, this rate seems highly unfair. It would make more sense from our perspective if our service charge was a fraction of what we spend for the utilities we use, not usually three times as much as what we pay for our usage.”

- Alicia
EFIS Comment No. P201405490

22

Customer Response to High Delivery Charge

“My biggest complaint is the delivery charge. If they need to raise rates OK. But not the delivery charge.”

- Andrew

EFIS Comment No. P201500077

23

Delivery Charges for Missouri LDCs

LDC	Delivery Charge
MGE	\$23.00*
Liberty (NEMO)	\$22.68
Liberty (WEMO)	\$20.17
Laclede	\$19.50
Empire	\$16.50
Ameren	\$15.00
Summit	\$15.00*
Liberty (SEMO)	\$13.75
Laclede – Fidelity Area	\$8.00
Laclede – Fidelity Area Optional	\$0.00

24

Why is a low delivery charge just and reasonable?

1. Satisfies customer expectations: Customer's consistently complain about high fixed charges.
2. Promotes Conservation: Recovering more costs through volumetric rates promotes conservation.
3. Mimics a Competitive Environment: LDCs facing significant competition have low delivery charges (consistent with *Hope* and *Bluefield* cases).
4. Promotes Safety: Helps reduce the bills of residential and business low-usage customers. Affordable home heat energy is especially important for low-income customers because of the additional risks poorly heated homes pose for children and the elderly, especially the sick.
5. Helps summer disconnects by reducing the incentive to disconnect in summer.

25

Low Delivery Charge Support Attached to Public Counsel Testimony

2009 Residential Energy Consumption Survey, U.S. Energy Information Administration

Affordable Home Energy and Health: Making the Connections, by Dr. Lynne Snyder, **National Energy Assistance Director's Association**, and Christopher Baker, **AARP Public Policy Institute**, July 2010.

Customer Incentives for Energy Efficiency Through Electric and Natural Gas Rate Design, A Resource of the National Action Plan for Energy Efficiency, U.S. Environmental Protection Agency and U.S. Department of Energy, September 2009.

26

**Customer Comment: Low Delivery Charge
Increases Incentive to Conserve**

"I would like to ask that if a rate increase is granted, that consideration be given to put the increase in the commodity rate and keep the monthly delivery charge as low as possible. I feel that gives an incentive to people to use less of the utility and I just think trying to get people to conserve is probably a good thing. I'd rather the rates not increase, but if an increase is granted, I would rather see it in that charge and not the monthly charge."

- David Johnson, Hannibal, Mo.
July 1, 2014, local public hearing