

Exhibit No.:
Issue: Revenue Deficiency and Cost of
Service; Rate Base; Depreciation
Expense
Witness: James Fallert
Type of Exhibit: Direct Testimony
Sponsoring Party: Liberty Utilities (Midstates
Natural Gas) Corp.
d/b/a Liberty Utilities
Case No.: GR-2014-0152
Date Testimony Prepared: February 6, 2014

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: GR-2014-0152

DIRECT TESTIMONY

OF

JAMES FALLERT

ON BEHALF OF

**LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP.
D/B/A LIBERTY UTILITIES**

February 6, 2014

Liberty Exhibit No. 9
Date SP 9/22/14 Reporter SP
File No. _____

**DIRECT TESTIMONY
OF
JAMES FALLERT
CASE NO. GR-2014-0152**

TABLE OF CONTENTS

I.	Position and Qualifications.....	1
II.	Purpose of Testimony.....	2
III.	Cost of Service and Revenue Deficiency.....	3
IV.	Operations and Maintenance Adjustments.....	6
V.	Taxes Other Than Income Taxes.....	12
VI.	Depreciation and Amortization.....	12
VII.	Rate Base.....	13
VIII.	Cash Working Capital.....	15
IX.	Income Tax.....	17
X.	Customer Deposit Interest.....	17

1 **DIRECT TESTIMONY**

2 **OF**

3 **JAMES FALLERT**

4 **CASE NO. GR-2014-0152**

5
6 **I. POSITION AND QUALIFICATIONS**

7
8 **Q. PLEASE STATE YOUR NAME, BUSINESS AFFILIATION AND BUSINESS**
9 **ADDRESS.**

10 A. My name is James Fallert. I am doing business as James Fallert Consultant LLC and my
11 business address is 3507 Burgundy Way Dr., St. Louis, MO 63129.

12 **Q. ON WHOSE BEHALF IS YOUR TESTIMONY PRESENTED?**

13 A. Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities (“Company” or
14 “Liberty Utilities”).

15 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
16 **EXPERIENCE.**

17 A. I graduated from Southeast Missouri State University in 1976 with a bachelor’s degree in
18 Business Administration, majoring in administrative management. I received a Master’s
19 in Business Administration in 1981 from Saint Louis University, with a major in Finance.
20 I was employed by Laclede Gas Company from 1976 until February 2012, when I retired
21 as Controller of the Company. In this position, I was responsible for the Company’s
22 accounting, budgeting, management information reporting, and financial planning
23 functions.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC**
2 **SERVICE COMMISSION (“COMMISSION”)?**

3 A. Yes. I provided testimony in numerous cases before the Commission during my
4 employment at Laclede Gas. These include Case Nos. GR-90-120, GR-92-165, GR-94-
5 220, GR-96-193, GR-98-374, GR-99-315, GR-2001-629, GR-2002-356, GT-2003-0117,
6 GO-2004-0443, GR-2005-0284, GC-2006-0318, GR-2007-0208, GU-2007-0138, and
7 GR-2010-0171.

8 **Q. HAVE YOU TESTIFIED ON MATTERS BEFORE OTHER STATE**
9 **REGULATORY COMMISSIONS?**

10 A. No.

11

12

II. PURPOSE OF TESTIMONY

13

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

15 A. The purpose of my testimony is to provide an overview of the revenue requirements as
16 contained in this request, and to present the determination of the Missouri Jurisdictional
17 Revenue Deficiency and Cost of Service. These are supported in schedules COS-1
18 through COS-10 which form the bases for these calculations. My testimony also presents
19 the Company’s rate base calculation and the calculation of depreciation expense.

20 **Q. ARE YOU SPONSORING ANY SCHEDULES IN CONNECTION WITH YOUR**
21 **TESTIMONY?**

22 A. Yes. I am sponsoring Schedules COS-1, COS-4 through COS-8, and COS-10, which are
23 included in the filing behind the Tab, labeled Cost of Service (COS). All of these

1 schedules were prepared by me or under my supervision. Schedules COS-2 and COS-3
2 are sponsored by Company witness Christopher D. Krygier, and Schedule COS-9 is
3 sponsored by Company witness Robert Hevert.
4

5 **III. COST OF SERVICE AND REVENUE DEFICIENCY**
6

7 **Q. WHAT IS THE TEST PERIOD USED IN THE DETERMINATION OF THE**
8 **REVENUE DEFICIENCY?**

9 A. The test period is the twelve months ended September 30, 2013.

10 **Q. WILL LIBERTY UTILITIES BE REQUESTING THAT THE TEST YEAR BE**
11 **UPDATED?**

12 A. Yes. Liberty Utilities is requesting an update through April 30, 2014. It is our belief
13 based on past experience that this should provide sufficient time for Staff to prepare its
14 direct case using April 2014 data. Certain adjustments in this filed case have been
15 prepared based on projections through April 30, 2014 (and in one instance June 1, 2014
16 as discussed in the next paragraph). It will of course be appropriate to replace these
17 projections with actual information as the case progresses.

18 **Q. IS LIBERTY UTILITIES REQUESTING A “TRUE-UP” PROCESS?**

19 A. Yes. The Company’s union employees will receive a wage increase on June 1, 2014
20 pursuant to the currently existing labor contract. At this time, we are requesting a true-up
21 in order to take account of this significant event. We have included the impact of this
22 increase in our filed case. We propose a true-up through July 31, 2014.

1 Q. PLEASE DESCRIBE EACH OF THE SCHEDULES SUPPORTING THE
2 CALCULATION OF THE COST OF SERVICE AND THE REVENUE
3 DEFICIENCY.

4 A. Schedule COS-1, Cost of Service and Revenue Deficiency:

5 This schedule brings together the results of Schedules COS-2 through COS-10 to
6 calculate a Missouri Cost of Service of \$27.4 million and an annual Revenue Deficiency,
7 under current rates, of \$6.3 million.

8 Schedule COS-2, Summary of Normalized Margin Revenue at Present Rates:

9 This schedule calculates the current revenues by tariff class and by rate district. This
10 schedule calculates normalized margin revenue, excluding gas costs, for each district at
11 their respective current rates and tariffs, adjusted customer count and weather normalized
12 consumption volumes. The Billing Determinants Study and adjustments supporting these
13 calculations are sponsored by Company witness Christopher D. Krygier, and are
14 discussed in detail in his testimony.

15 Schedule COS-3, Summary of Normalized Margin Revenue at Proposed Rates and
16 Classifications:

17 This schedule calculates the revenues by tariff class and by rate district. The schedule
18 calculates normalized margin revenue, excluding gas costs, for each district at their
19 respective proposed rates and tariffs, with adjusted customer count and weather
20 normalized consumption volumes. Company witness Krygier discusses these
21 adjustments in his testimony. Liberty has not performed a class cost of service study for
22 this case. As such, the proposed rates preserve the existing rate classes and districts. The
23 proposed increase for each district has been applied on an equal percentage basis to all

1 customer classes and rate elements within the existing districts, as more fully discussed in
2 Mr. Krygier's testimony.

3 Schedule COS-4, Operation and Maintenance Expenses:

4 This schedule shows the test period per-book O&M expenses as well as proposed
5 adjustments. I will discuss these adjustments later in this testimony.

6 Schedule COS-5, Taxes Other Than Income Taxes:

7 This schedule includes all of the taxes other than income taxes that are to be recovered
8 through the cost of service. This schedule also includes the result of any adjustments
9 made to the other taxes as calculated on the supporting work papers. I will discuss these
10 adjustments later in this testimony.

11 Schedule COS-6, Depreciation and Amortization Expense:

12 This schedule shows the depreciation and amortization expenses included in the cost of
13 service. I will discuss later in this testimony the adjustments related to depreciation.

14 Schedule COS-7, Rate Base and Return Calculation:

15 This schedule summarizes all of the components included in the determination of the rate
16 base and the proposed return to be earned on that rate base. The details to these numbers,
17 rates and calculations will be discussed later in this testimony.

18 Schedule COS-8, Computation of Federal and State Income Taxes:

19 This schedule calculates the federal and state income tax impact after recognizing all
20 adjustments being proposed to the rate base at the proposed overall Rate of Return. This
21 schedule also includes the interest synchronization determination based upon the total
22 rate base and the proposed cost of debt to arrive at the fully adjusted state and federal

1 income tax expense. I will discuss later in this testimony the adjustments reflected on
2 this schedule.

3 Schedule COS-9, Capital Structure and Cost of Capital:

4 This schedule shows the capital structure and overall rate of return calculations proposed
5 in this proceeding. The details and discussions related to components shown on this
6 schedule are discussed in the testimony of Company witness Robert Hevert.

7 Schedule COS-10, Interest Expense on Security Deposits:

8 This schedule shows the calculation of the interest expense as required under the
9 approved tariffs. SHEET NO. 21 of the tariff includes a description of how the interest
10 rate to be paid on customer deposits will be determined. The methodology requires that
11 the company adjust the interest rate annually to equal the prime bank lending rate as
12 published in the Wall Street Journal for the last business day of the preceding year plus 1
13 percent. The prime bank lending rate for December 31, 2013 was 3.25%. Therefore, the
14 interest rate reflected on this schedule is 4.25%. The details supporting this schedule will
15 be discussed later in the testimony.

16
17 **IV. OPERATIONS AND MAINTENANCE ADJUSTMENTS**

18
19 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO LABOR EXPENSE.**

20 **A.** Test year labor expense has been adjusted for changes in wage and salary levels which
21 have occurred or are anticipated to occur prior to the update period. Labor expense has
22 been further adjusted to normalize employee levels as of the update period. These
23 calculations are detailed on WP 4-9.

1 **Q. HOW WERE WAGE AND SALARY LEVELS ADJUSTED?**

2 A. We calculated the annual pay as of April 30, 2014 for each current employee. We then
3 applied the applicable O&M percent to each employee's pay, and, in the instance of
4 Union employees, made a further addition to recognize the impact of the forthcoming
5 June 1, 2014 contracted wage increase. We also included an adjustment to recognize a
6 normal level of overtime pay. The resulting normalized O&M payroll was compared to
7 test year O&M payroll to produce the adjustment. It will of course be appropriate to
8 replace the above projections with actual April 2014 salary levels and employees when
9 known.

10 **Q. PLEASE EXPLAIN THE REASONS FOR THE INCREASE IN O&M PAYROLL**

11 A. Union employees received a 2.5% increase on June 1, 2013 pursuant to the labor contract
12 currently in effect. Another increase of 2.5% is scheduled for June 1, 2014 pursuant to
13 the aforementioned contract. Non-union employees also receive merit salary increases
14 which have been recognized in this adjustment.

15 **Q. PLEASE CONTINUE.**

16 A. As the Commission is aware, Atmos Energy Corporation ("Atmos") provided the
17 Company with certain transition services. During the test year, the Company
18 hired employees in customer service, accounting, human resources and other
19 functions that were expatriated from Atmos' shared services divisions to Jackson,
20 MO and the other areas of the Company's service territory. The hiring of these
21 additional employees also contributed to the wage adjustment in this case.

1 **Q. PLEASE DESCRIBE THE CORRESPONDING EMPLOYEE ADJUSTMENT**
2 **RELATED TO ATMOS CONTINUING SERVICES COSTS.**

3 A. After calculating the wage annualization, the Company reviewed each of the
4 Atmos invoices expensed during the test year and removed the shared services
5 labor that are now being performed by Company employees.

6 **Q. DID THIS APPLY TO ANY OTHER ASPECTS OF THE COMPANY'S**
7 **EXPENSES?**

8 A. Yes, in similar fashion, the Company implemented various software systems to
9 perform customer service and accounting among other items and included those
10 costs in rate base. To prevent a "double counting" of depreciation expense, the
11 Company reviewed Atmos invoices during the test year and removed all
12 depreciation expense invoiced to the Company. Both of these adjustments are
13 reflected on WP 4-8.

14 **Q. PLEASE DESCRIBE THE COMPANY'S ADJUSTMENT TO BENEFITS**
15 **EXPENSE.**

16 A. The Company's adjustment to per book benefits expense is shown on WP 4-9.
17 This adjustment covers pension and insurance benefits which will generally
18 increase as payroll increases. The pro-forma increase in labor expense from
19 WP 4-9 is multiplied by the benefits experience rate as a percent of payroll The
20 Company has based this rate upon recent actual experience and
21 expects to book expense at this rate in 2014.

22

1 **Q. PLEASE DESCRIBE THE COMPANY'S ADJUSTMENT FOR**
2 **UNCOLLECTIBLE EXPENSE.**

3 A. The Company's adjustment for uncollectible expense is found on WP 4-7. The
4 uncollectible expense adjustment represents the difference between the per book
5 expenses for uncollectible accounts and normalized Missouri write-offs.

6 **Q. HOW WERE NORMALIZED WRITE-OFFS DETERMINED?**

7 A. Liberty's billing and collection practices subsequent to the acquisition of the subject
8 properties in August 2012 have been evolving. Therefore, we do not believe that recent
9 bad debt write-off experience is in any way indicative of a reasonable normalized level
10 going forward. Under the circumstances, we propose the inclusion of bad debts in cost of
11 service equal to the amount of \$480,135 agreed upon in the 2010 Atmos rate case.

12 **Q. WHY DO YOU BELIEVE THAT THIS IS A REASONABLE AMOUNT?**

13 A. We believe that this requested amount as a percent of revenues is in line with the
14 experience of other Missouri gas utilities and is, if anything, somewhat conservative.

15 **Q. ARE THERE ANY ADDITIONAL ADJUSTMENTS TO UNCOLLECTIBLE**
16 **EXPENSE?**

17 A. Yes. We have also included an adjustment to include the impact of the additional
18 revenue requirement requested in this case on write-offs. This adjustment was calculated
19 by first determining a percent of revenues written-off by comparing the normalized write-
20 offs (prior to this adjustment) to normalized revenues. This percentage is then multiplied
21 by the revenue requirement request.

1 **Q. PLEASE EXPLAIN THE ADJUSTMENTS RELATED TO DUES &**
2 **MEMBERSHIPS, MEALS, ADVERTISING, COMMUNICATIONS, AND**
3 **MISCELLANEOUS ITEMS.**

4 A. We reviewed the items removed from cost of service by Staff in the previous 2010 Atmos
5 rate case in order to gain familiarity with the type of expenses moved below-the-line in
6 the past. An analysis was conducted on the accounts in the test year associated with these
7 items. Items in those accounts of the type that were moved below-the-line in the past
8 were treated similarly. The applicable adjustments are shown on WP 4-5.

9 **Q. PLEASE DESCRIBE THE ADJUSTMENT RELATED TO RATE CASE**
10 **EXPENSE.**

11 A. The Company has incurred or will incur certain expenses related to the preparation and
12 filing of this particular rate case. These expenses have been estimated and calculated to
13 amortize over a three-year period for recovery. This adjustment is shown on WP 4-3.

14 **Q. PLEASE DESCRIBE YOUR ADJUSTMENT TO RENT EXPENSE.**

15 A. The Company is building a new central office building and service center in Jackson,
16 MO. This facility will replace offices currently leased in Jackson. We anticipate that the
17 new building will be completed and closed to the plant accounts in March 2014 and
18 therefore have included an adjustment to rate base in this case to recognize this
19 anticipated event. The old leased space in Jackson will no longer be needed so we have
20 removed the rental cost for this space from the test year. This adjustment is shown on
21 WP 4-2.

22
23

1 **Q. ARE THERE ANY OTHER ADJUSTMENTS ASSOCIATED WITH THE NEW**
2 **BUILDING?**

3 A. It is likely that the move to the new facility will result in some changes to operation and
4 maintenance expense for such items as utility costs, building maintenance, insurance, etc.
5 We have not attempted to quantify these items as this point. However, it would be
6 appropriate to revisit these costs when this case is updated since by that time the new
7 building will be occupied and more information should be available regarding these
8 items.

9 **Q. PLEASE DESCRIBE THE ADJUSTMENT FOR CORPORATE COSTS.**

10 A. This adjustment, detailed on WP 4-4, removes certain allocated corporate costs from cost
11 of service. The Company performed a detailed review of these costs and determined that
12 certain of them are more appropriately excluded for ratemaking purposes.

13 **Q. PLEASE DESCRIBE YOUR ADJUSTMENT FOR RELOCATION COSTS.**

14 A. The Company incurred certain costs during the test year to move needed employees into
15 the area as it developed the workforce necessary to provide service to its customers.
16 These costs are non-recurring and have therefore been removed from cost of service.
17 This adjustment is detailed on WP 4-10.

18 **Q. DO YOU HAVE ANY ADDITIONAL ADJUSTMENTS TO OPERATING &**
19 **MAINTENANCE EXPENSE?**

20 A. Yes. During Calendar 2012, certain gas costs were incorrectly charged to transmission
21 expense, and subsequently moved to the correct account. The original error occurred
22 prior to the test year, but the subsequent corrections occurred during the test year. We

1 have therefore adjusted test year expense to eliminate this item. This adjustment is
2 shown on WP 4-6.

3
4 **V. TAXES OTHER THAN INCOME TAXES**

5
6 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO AD VALOREM TAXES.**

7 A. The Company accrues expense over the year based upon accruals of the actual Ad
8 Valorem taxes that will be assessed on the property on the Company's books. We have
9 included an adjustment which normalizes the taxes paid from the most recent December
10 2013 payment, with an adjustment for known and measureable changes. This
11 adjustment is shown on Schedule COS-5 with the detailed calculations on WP 5-2.

12 **Q. PLEASE DESCRIBE THE ADJUSTMENT MADE TO PAYROLL TAXES.**

13 A. WP 5-1 details an adjustment made to account for the impact of the wage and salary
14 adjustments referenced above on payroll taxes. The adjustment appears on Schedule
15 COS-5.

16
17 **VI. DEPRECIATION & AMORTIZATION**

18
19 **Q. HOW HAVE YOU NORMALIZED DEPRECIATION EXPENSE?**

20 A. Normalized depreciation expense was calculated by applying the currently authorized
21 depreciation rates to projected plant balances as of the update period of April 30, 2014.
22 The resulting normalized expense was compared to test year expense to produce the

1 adjustment to test year expense. These calculations should be updated when actual April
2 30 plant balances become known. The calculations are summarized on Schedule COS-6.

3 **Q. ARE YOU PROPOSING ANY CHANGES TO DEPRECIATION RATES?**

4 A. No.

5 **Q. ARE YOU PROPOSING ANY ADDITIONAL AMORTIZATIONS?**

6 A. Yes. As referenced in Company witness Krygier's direct testimony, the Company
7 adopted the Atmos Energy Conservation and Efficiency Program ("EE Program"). The
8 details and parameters for that EE Program were set forth in the Unanimous Stipulation
9 and Agreement approved by the Commission in Atmos' last general rate case
10 proceeding, Case No. GR-2010-0192. Section 12 of that Stipulation provided in part:
11 "The regulatory asset account shall accrue interest at the Company's short-term debt
12 rate through the Company's next rate case. Program costs in the regulatory asset
13 account that have been prudently incurred will be included in rate base in the
14 Company's next general rate case and amortized over six (6) years". The Company
15 has a rate base addition of approximately \$49,000, which results in an annual
16 amortization of approximately \$8,000, as reflected on WP 7-9.

17
18 **VII. RATE BASE**

19
20 **Q. PLEASE DESCRIBE THE CALCULATION OF RATE BASE.**

21 A. Schedule COS-7 shows the calculation of the adjusted test year rate base for the NEMO,
22 SEMO and WEMO rate regions and total Missouri. The rate base includes net plant,

1 accumulated deferred income tax ("ADIT"), customer advances, customer deposits,
2 storage gas, prepayments, cash working capital requirements, the aforementioned Energy
3 Efficiency regulatory asset, and a reduction pursuant to the order authorizing Liberty's
4 purchase of its Missouri properties. The resulting total adjusted rate base is \$87 million as
5 reflected on COS-7. Net plant is calculated using the projected balances as of the April
6 30, 2014 update period for gross plant and accumulated depreciation. ADIT is also
7 calculated using these projected balances. These items should be updated when actual
8 April balances become known. Cash working capital requirements are calculated as
9 described later in this testimony. Most of the other components of Rate Base are
10 calculated as the 13 month average test period balance without adjustment.

11 **Q. PLEASE DESCRIBE THE ADJUSTMENTS RELATED TO ACCUMULATED**
12 **DEFERRED INCOME TAXES (ADIT).**

13 A. ADIT results from timing differences between the accrual of tax expense for book
14 purposes and tax payments. These differences necessitate an adjustment to rate base to
15 account for the difference between taxes provided in rates based on the book depreciation
16 rates and the accelerated depreciation elected for tax purposes. We have included in rate
17 base an estimate of the ADIT balance as of the proposed April 2014 update period.
18 Liberty's ADIT balances include only amounts accumulated since the acquisition of the
19 properties in August 2012. Since this was an asset purchase, prior balances stayed with
20 the seller.

21 **Q. ARE RATEPAYERS COMPENSATED FOR THE LOSS OF THESE PRIOR**
22 **ADIT BALANCES?**

1 A. Yes. The order authorizing Liberty's purchase of these assets specified a reduction to rate
2 base of \$16.34 million effective with the August 2012 acquisition and to be amortized
3 over 10 years. I have included in this case a reduction to rate base of the remaining
4 unamortized balance of this item as of the proposed April 2014 update period, as
5 reflected on WP 7-8.

6

7

VIII. CASH WORKING CAPITAL

8

9 **Q. PLEASE DESCRIBE THE CALCULATION OF CASH WORKING CAPITAL**
10 **INCLUDED IN RATE BASE.**

11 A. Rate base is the value of invested capital, including all items used to provide utility
12 service. Cash working capital is the capital investment in addition to other rate base
13 items that is required to bridge the gap from when cash is paid for expenses
14 necessary to provide service and when cash is received from customers for that service.
15 This amount of required investment is included in rate base. Analysis of the timing lags
16 in collecting cash from revenues and paying cash for expenses is one method of
17 measuring the amount of cash working capital necessary to provide utility service. This
18 analysis compares the lag from the provision of service to customers to the collection of
19 cash from customers to the lags from the incurring of expenses to the payment of cash by
20 the Company for those expenses.

21 **Q. HAVE YOU PERFORMED A LEAD/LAG CASH WORKING CAPITAL STUDY**
22 **FOR THIS CASE?**

1 A. No, we have not. As mentioned earlier, Liberty's billing and collection practices have
2 been evolving since purchase of the properties in August 2012. Additionally, the test
3 period in this case was billed under two different billing systems since billing was
4 handled by Atmos until March 1, 2013. Under the circumstances, we were concerned
5 that performing a full cash working capital study would not provide results that could
6 reasonably be expected to be indicative of normal operations going forward.

7 **Q. WHAT DO YOU PROPOSE FOR THIS CASE?**

8 A. While it is not uncommon to use lags calculated in a previous study, we believe that it
9 would be problematic to do so in this case because of the numerous changes in systems
10 and practices associated with a change-over in ownership. We have noted that some
11 jurisdictions use a "1/8 rule" as a proxy to simplify the calculation of a cash working
12 capital adjustment. The "1/8 rule" multiplies the operating expenses (excluding gas costs,
13 depreciation, and taxes) in a case by 1/8 to produce an estimated cash working capital
14 adjustment. The 1/8 multiplier is based on observations that detailed cash working
15 capital studies frequently produce results consistent with its results. The "1/8 rule" would
16 result in cash working capital of about \$1.25M in this case, as reflected on WP 7-7.
17 While we don't necessarily propose the adoption of this rule in Missouri, we believe that
18 it provides a useful alternative in this case where a full study is impractical, and previous
19 studies may no longer be relevant.

20 **Q. HAVE YOU PERFORMED ANY ADDITIONAL ANALYSIS?**

21 A. Yes. We noted that the "1/8 rule" proposed above resulted in a higher cash working
22 capital amount than those proposed in the Atmos 2010 rate case. We reviewed the

1 results of the previous study used in Atmos' 2010 rate case, and performed a rough
2 comparison of revenues and accounts receivable balances during the test year in the
3 previous case to this current case. This rough analysis indicated that payment lags appear
4 to have increased markedly, providing directional support for the increase from 2010.

5 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING CASH**
6 **WORKING CAPITAL?**

7 A. Yes. It is Liberty Utilities' intention to perform a full lead lag study for its next rate case
8 filing.

9
10 **IX. INCOME TAX**

11
12 **Q. PLEASE DESCRIBE THE CALCULATION OF PRO FORMA INCOME TAX.**

13 A. Schedule COS-8 provides the calculation of pro forma income tax. Income tax is based
14 on a 38.39% composite rate (which results from the 35% federal rate and 6.25% state
15 rate) applied to the equity portion of the required return on rate base.

16
17 **X. CUSTOMER DEPOSIT INTEREST**

18
19 **Q. PLEASE DESCRIBE THE CALCULATION OF INTEREST ON CUSTOMER**
20 **DEPOSITS.**

21 A. The Company pays interest to its customers on the balances of customer deposits held,
22 pursuant to its tariffs. This adjustment includes this interest expense in cost of service.
23 The appropriate amount is calculated by determining average deposits for the test year

1 based on the 13 month average, and multiplying this balance by the current deposit
2 interest rate of 4.25%. These calculations appear on Schedule COS 10.

3

4 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY IN THIS**
5 **PROCEEDING?**

6 A. Yes.

7

8

9

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Liberty Utilities)
(Midstates Natural Gas) Corp. d/b/a)
Liberty Utilities' Tariff Revisions Designed)
To Implement a General Rate Increase)
For Natural Gas Service in the Missouri)
Service Areas of the Company.)

Case No. GR-2014-0152

AFFIDAVIT OF JAMES FALLERT


STATE OF MISSOURI)
) ss
COUNTY OF ST. LOUIS)

James Fallert, being first duly sworn on his oath, states:

1. My name is James Fallert. I am doing business as James Fallert Consultant LLC and my business address is 3507 Burgundy Way Dr., St. Louis, Missouri 63129.

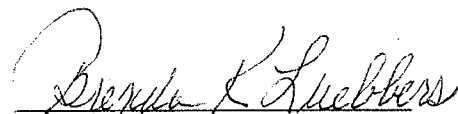
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities consisting of eighteen (18) pages and Schedules COS-1, COS-4 through COS-8 and COS-10, all of which having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.



James Fallert

Subscribed and sworn before me this 6th day of February, 2014.



Notary Public

My commission expires: June 15, 2015



BRENDA K. LUEBBERS
My Commission Expires
June 15, 2015
St. Louis County
Commission #11421805