

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

In the Matter of the Verified Application and	)	
Petition of Liberty Utilities (Midstates Natural	)	
Gas) Corp. d/b/a Liberty Utilities for	)	<b><u>File No. GO-2015-0350</u></b>
Establishment of an Infrastructure System	)	Tariff No. YG-2015-0372
Replacement Surcharge	)	

**STAFF RECOMMENDATION**

**COMES NOW** the Staff of the Missouri Public Service Commission, by and through the undersigned counsel, and in response to the Commission’s July 1, 2015 *Order Suspending Tariff, Directing Notice, Setting Intervention Deadline and Directing Staff to File a Recommendation* (“Order”) submits its *Staff Recommendation* to the Commission as set forth in detail in the attached appendices, and in support thereof respectfully states as follows:

1. On June 30, 2015, Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities (“Liberty” or “Company”) filed its *Verified Application and Petition of Liberty Utilities for Establishment of an Infrastructure System Replacement Surcharge* (the “Application”) pursuant to Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri and Commission Rule 4 CSR 240-3.265<sup>1</sup> which authorize eligible gas corporations to recover certain infrastructure replacement costs through the implementation of an infrastructure system replacement surcharge (“ISRS”).

2. Liberty’s Application also included a contingent motion for waiver from the notice requirement of Commission Rule 4 CSR 240-4.020(2) which requires a utility to

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<sup>1</sup> Liberty’s Application also referenced 4 CSR 240-2.060 and 2.080.

file notice at least sixty (60) days prior to the filing of a case which is likely to be contested.

3. The Commission ordered Staff to file its recommendation regarding Liberty's Application no later than August 29, 2015. Staff's recommendation is attached hereto as Appendix A and Appendix B, both of which are incorporated herein by reference.

4. This case represents Liberty's first ISRS filing since the conclusion of its most recent rate case, Case No. GR-2014-0152. Upon the January 4, 2015 effective date of rates that were ordered by the Commission in that rate case, all ISRS rate surcharge revenues formerly collected through the previous ISRS surcharge by Liberty were reset to zero and became part of Liberty's permanent general retail rates.

5. In its Application, Liberty filed to recover ISRS qualifying infrastructure replacement costs incurred during the period April 1, 2014 through May 31, 2015. As part of the Auditing Staff's examination of Liberty's Application, Auditing Staff reviewed all supporting workpapers, work orders, and other applicable documentation, as well as communicating with Liberty's personnel to gain clarification of Liberty's Application when necessary.

6. As explained in the attachments hereto, Liberty has specific ISRS rates for each of its three districts. Therefore, Liberty needs district-specific revenue requirements in order to calculate those district-specific ISRS rates.

7. As also explained in the attachments, Liberty proposed an overall amount of ISRS revenues of \$414,005. However, based upon its audit and calculations, Staff is recommending that Liberty receive an overall amount of ISRS revenues of \$261,394.

This represents individual increases for each of Liberty's districts WEMO, NEMO, and SEMO of \$44,153, \$202,463, and \$14,779, respectively<sup>2</sup>. The corrections and adjustments made by Staff are described in detail in the attached Appendix A.

8. Staff has developed proposed ISRS rates for Liberty based on the foregoing amounts. Staff's proposed rates are consistent with the methodology used to establish Liberty's past ISRS rates and are consistent with the overall methodology used to establish ISRS rates for other utilities. Staff's proposed ISRS rates are contained in Appendix B, attached hereto and incorporated by reference herein.

9. Staff does not object to Liberty's request for a waiver pursuant to Commission Rule 4 CSR 240-4.020(2).

**WHEREFORE**, Staff recommends the Commission issue an order in this case that:

1. Rejects the ISRS tariff sheet (YG-2015-0372) filed by Liberty on June 30, 2015;
2. Approves Staff's determination of the ISRS surcharge revenues in the amount of annual pre-tax revenues of \$261,394 consisting of \$44,153 for the WEMO district, \$202,463 for the NEMO district, and \$14,779 for the SEMO district;
3. Authorizes Liberty to file an ISRS rate for each customer class as reflected in Appendix B; and
4. Grants Liberty's request for waiver of Rule 4 CSR 240-4.020.

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<sup>2</sup> Any minor difference between the overall amount shown and the sum of the individual district amounts is due to rounding.

Respectfully submitted,

**/s/ Jeffrey A. Keevil**

Jeffrey A. Keevil

Missouri Bar No. 33825

Attorney for the Staff of the

Missouri Public Service Commission

P. O. Box 360

Jefferson City, MO 65102

(573) 526-4887 (Telephone)

(573) 751-9285 (Fax)

Email: [jeff.keevil@psc.mo.gov](mailto:jeff.keevil@psc.mo.gov)

### **CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to counsel of record this 28<sup>th</sup> day of August, 2015.

**/s/ Jeffrey A. Keevil**

## MEMORANDUM

TO: Missouri Public Service Commission Official Case File  
Case No. GO-2015-0350 / File No. YG-2015-0372– Liberty Utilities

FROM: Sarah Sharpe, Auditing Services  
Michael J. Ensrud, Tariffs/Rate Design - Energy

/s/ Lisa Hanneken 08/28/2015

/s/ Tom Imhoff 08/28/2015

Project Coordinator / Date

/s/ Jeff Keevil 08/28/2015

Staff Counsel's Office / Date

SUBJECT: Staff Report and Recommendation Regarding the Verified Application of Liberty Utilities to Re-establish its Infrastructure System Replacement Surcharges

DATE: August 28, 2015

### BACKGROUND

On June 30, 2015, Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities ("Liberty" or "Company") filed its "Verified Application and Petition of Liberty Utilities for Establishment of an Infrastructure System Replacement Surcharge". Liberty asserts its filing is in compliance with Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri and Commission Rule 4 CSR 240-3.265 which authorizes eligible gas corporations to recover certain infrastructure replacement costs through the implementation of an infrastructure system replacement surcharge ("ISRS").

This filing proposes to re-establish Liberty's ISRS after it was taken to zero in Rate Case GR-2014-0152. The initially-filed, proposed effective date was July 30, 2015. Liberty is seeking to re-establish ISRS rates that generate \$414,005 annually. Liberty asserts this Revenue Requirement request is sufficient to recover qualifying costs associated with ISRS activity from April 1, 2014 to May 31, 2015.

On July 1, 2015, the Commission issued its "Order Suspending Tariff, Directing Notice, Setting Intervention Deadline and Directing Staff to File a Recommendation". This order suspended the filing until October 28, 2015, set the intervention date at July 31, 2015, and directed Staff to file its recommendation no later than August 29, 2015.

On July 2, 2015, the Commission issued "Order Directing the Commission's Data Center to Send Notice".

Liberty is unique among Missouri natural gas local distribution companies in that it has specific

ISRS rates for each of its three districts. Therefore, Liberty needs district-specific revenue requirements in order to calculate those district-specific ISRS rates.

On August 10th, 2015, Liberty, Staff, and the Office of the Public Counsel (“OPC”) filed a “Joint Motion To Consolidate Cases”. These parties attempted to consolidate ISRS issues concerning “true-up” from GO-2014-0006 with the pending GO-2015-0350. Case No. GO-2014-0006 was remanded back to the Commission by the Missouri Supreme Court.

On August 11, 2015, the Commission issued “Order Denying Joint Motion To Consolidate Cases”. GO-2014-0006 will be addressed in a separate filing.

### **CONTINGENT MOTION FOR WAIVER**

Liberty sought the following waiver, but questioned its need. Liberty’s application contains the following:

23. Liberty does not believe this matter would be considered a “contested case” under 4 CSR 240-4.020 (Ex Parte and Extra Records Communications Rule). However, to the extent that a 60-day Notice of Filing would otherwise be required under 4 CSR 240-4.020(2), Liberty respectfully requests that the notice requirement contained in 4 CSR 240-4.020(2) be waived for good cause. 4 CSR 240-4.020(2)(B). The ISRS process is authorized by Sections 393.1009, 393.1012 and 393.1015, RSMo, and Commission Rule 4 CSR 240-3.265. Its goal is to provide eligible gas corporations with the ability to recover, on a timely basis, certain infrastructure replacement costs outside of a formal rate case filing via the ISRS. The purpose of these statutes would not be served by the imposition of a 60 day waiting period and, therefore, good cause exists for a waiver. (See, also, Order Regarding Adjusted ISRS Rates, File No. GO-2013-0048 (October 18, 2012).

Staff does not oppose Liberty’s request for the waiver.

### **STAFF REVIEW AND REVENUE CALCULATION**

Liberty’s filing in Case No. GO-2015-0350 represents its first ISRS filing since the conclusion of its most recent rate case, Case No. GR-2014-0152. Upon the January 4, 2015 effective date of rates that were ordered by the Commission in Case No. GR-2014-0152, all ISRS rate surcharge revenues formerly collected through the previous ISRS surcharge by Liberty (as authorized by the Commission in ISRS Case Nos. GO-2011-0149, GO-2013-0048, and GO-2014-0006) were reset to zero and became part of Liberty’s permanent general retail rates.

In its Application, Liberty filed to recover ISRS qualifying infrastructure replacement costs incurred during the period April 1, 2014 through May 31, 2015. As part of the Auditing Staff’s examination of Liberty’s Application, Auditing Staff reviewed all supporting workpapers, work orders, and other applicable documentation; as well as communicating with Liberty’s personnel to gain clarification of Liberty’s Application when necessary.

Commission Rule 4 CSR 240-3.265 for Natural Gas Infrastructure System Replacement Surcharges sets forth the definitions of natural gas utility plant projects that are eligible for ISRS treatment. As a result of its review, Staff concluded that, with the exceptions discussed below, each of the projects Staff reviewed met the ISRS rule qualifications.

The methodology used by the Auditing Staff allows for consideration of all accumulated depreciation and deferred income taxes on ISRS qualifying infrastructure replacements costs through August 31, 2015. This methodology is consistent with past reviews conducted by the Auditing Staff, and is consistent with Staff's view that the calculation of the ISRS revenue requirement should closely reflect the revenue requirement at the effective date of the ISRS rates.

During its review, Staff identified the use of 'bonus' depreciation for plant assets included in Liberty's ISRS application workpapers. The Internal Revenue Service ("IRS") utilized a tax deduction program to allow for certain assets placed in service during the 2014 tax year to be depreciated at a 'bonus' rate of 50% of their book value. Liberty's ISRS Application appropriately included calculations of bonus depreciation for qualified assets, as defined by the IRS, placed in service in 2014. Liberty also included 'bonus' depreciation on plant placed in service beyond January 1, 2015. Yet, as of the time of this filing, the IRS has not passed any rulings extending these tax programs to assets placed in service beyond January 1, 2015. Therefore, Staff has removed any calculated bonus depreciation for assets placed in service beyond January 1, 2015 from the calculation of the revenue requirement.

During Staff's review of the application, Liberty withdrew several work orders from consideration. At the time of the filing of this Staff Recommendation, Liberty has requested removal of approximately \$372,233 of plant additions previously included in its application. Liberty also corrected the amount of blanket work order No. 8852-0401-14205 to include a customer reimbursement of \$254 which should have been netted against the addition.

Staff's investigation of the costs associated with individual work orders was made difficult by the methodologies utilized by Liberty to account for Single Source Documents ("SSDs"), which are generally referred to as work orders and ISRS projects. Liberty books the total value of blanket project numbers to the applicable plant accounts. However, some blanket project numbers encompass several SSDs which, in some cases, are not related to a single project. These blanket project numbers are used to capture similar types of projects which may occur at different locations and/or points in time. While some of the blanket project numbers submitted in this Application are associated with just a single SSD, several blanket project numbers have numerous SSDs, approximately as many as thirty to forty, associated with one project number. While similar methodologies are used by other utilities seeking ISRS recovery, the difference in this case is the unnecessary difficulty for Liberty to determine any individual SSD amount. This is problematic if an SSD is determined to be ineligible for ISRS recovery and would need

removal from the revenue requirement calculations. Staff recommends that cost detail at the individual SSD level should be more readily available going forward.

Auditing Staff has removed the blanket project numbers associated with the replacement of meters removed for testing. Such meter testing is completed for maintaining standards of quality as defined in 4 CSR-240-10.030(19). Each year Liberty removes a sample of meters to test for defects in the meter's measurement accuracy. When Liberty removes the meter to be tested, they install a new meter in its place. Staff has determined that these meters are not eligible for inclusion in the ISRS application and has removed them from the ISRS calculations. However, at this time, Staff is unable to remove the individual amounts related to meter testing because these amounts are aggregated under the blanket project numbers. This is due to the conditions described above regarding the difficulty in determining the value of individual projects. Until such time that Liberty can provide the detail necessary to determine the individual amounts or another methodology is agreed upon, Staff has removed the total amount of blanket project numbers which contain ineligible meter replacements, totaling \$1,238,647 of plant additions from the application.

### **STAFF RECONCILIATION**

Commission Rule 4 CSR 240-3.265(17) requires a reconciliation of the ISRS revenue Liberty collected from customers in the prior period to account for over or under-collection of ISRS revenue. Therefore, Staff has performed a final reconciliation of the ISRS revenue previously collected by the Company to ensure that either the Company or its customers are made whole for any under-collections or over-collections that may have occurred. Staff performed this reconciliation for the time period from February 14, 2011 through January 3, 2015, which is the period of time the prior ISRS cases (Case Nos. GO-2011-0149, GO-2013-0048, and GO-2014-0006) were in effect. Based upon this reconciliation, the Staff verified that the Company has over-collected ISRS related revenues from its customers by an amount of \$7,852. This overall amount represents an under-collection in the western Missouri ("WEMO") district of \$1,921, and an over-collection of \$6,272 and \$3,501 in Liberty's northeastern Missouri ("NEMO") and southeastern Missouri ("SEMO") districts, respectively. The amount of over-collection has been reflected in an adjustment to Liberty's overall ISRS revenue requirement calculation in this proceeding. However, it should be noted that this amount does not reflect the ISRS revenue refund due to customers as a result of a recent remand to the Commission. The amount of the remanded refund will be addressed through the original case of which it was a part, Case No. GO-2014-0006.

### **SUMMARY OF AUDIT RESULTS**

Based upon its review and all of its calculations, Staff is recommending that Liberty receive an overall amount of ISRS revenues of \$261,394. This represents individual increases for each of Liberty's districts WEMO, NEMO, and SEMO of \$44,153, \$202,463, and \$14,779, respectively.



Liberty had proposed an overall amount of ISRS related revenues of \$414,005.

### **THE ISRS RATE SCHEDULES**

Staff's proposed rates are consistent with the methodology used to establish Liberty's past ISRS rates and consistent with the overall methodology used to establish ISRS rates for other utilities. Staff's proposed ISRS rates are contained in Appendix B, attached hereto and incorporated by reference herein. Staff's customer count is based on Liberty's current annual report on file with the Commission and supporting information provided by Liberty to provide the detailed breakdown by district, by rate class that ties to Liberty's annual report.

Staff has verified that Liberty has filed its 2014 annual report and is not delinquent on any assessment. Staff is not aware of any other matter before the Commission that affects or is affected by this filing.

### **RECOMMENDATION**

Based upon the above, Staff recommends the Commission issue an order in this case that:

1. Rejects the ISRS tariff sheet (YG-2015-0372) filed by Liberty on June 30, 2015;
2. Approves Staff's determination of the ISRS surcharge revenues in the amount of annual pre-tax revenues of \$261,394 consisting of \$44,153 for the WEMO district, \$202,463 for the NEMO district, and \$14,779 for the SEMO district;
3. Authorizes Liberty to file an ISRS rate for each customer class as reflected in
4. Appendix B; and
5. Grant the requested waiver of the notice clause in contested cases – under Rule 4 CSR 240-4.020 (Ex Parte and Extra Records Communications Rule).

**Liberty  
Missouri Jurisdiction  
ISRS Rate Design (GO-2015-0350)**

<b>Total ISRS Revenues</b>	<b>\$261,394</b>
Northeast District (NEMO)	\$202,463
Southeast District (SEMO)	\$14,779
West District (WEMO)	\$44,153

**Apr. 2014 - May 2015 ISRS Rate Design**

Rate District & Class	<u>Number of Customers*</u>	<u>Customer Charge</u>	<u>Ratio to Res</u>	<u>Weighted Cust #</u>	<u>Customer %</u>	<u>ISRS Charge</u>	<u>ISRS Revenues</u>
<b>Northeast District</b>							
Firm Residential	15857	\$20.00	1	15857	0.692628735	\$0.74	\$140,231.69
Small Firm GS	2101	\$28.26	1.413	2968.713	0.129672443	\$1.04	\$26,253.87
Medium Firm GS	293	\$124.60	6.23	1825.39	0.079732457	\$4.59	\$16,142.87
Large Firm GS	70	\$623.01	31.1505	2180.535	0.095245078	\$22.96	\$19,283.60
Interruptible Large Volume	2	\$623.01	31.1505	62.301	0.002721288	\$22.96	\$550.96
<b>Total NEMO</b>	<b>18323</b>			<b>22893.939</b>	<b>100.00%</b>		<b>\$202,463.00</b>
<b>Southeast District</b>							
Firm Residential	27,677	\$13.75	1	27677	0.613358929	\$0.03	\$9,064.83
Small Firm GS	3,237	\$17.46	1.26981818	4110.401455	0.091091933	\$0.03	\$1,346.25
Medium Firm GS	454	\$126.99	9.23563636	4192.978909	0.092921959	\$0.25	\$1,373.29
Large Firm GS	193	\$634.95	46.1781818	8912.389091	0.197510331	\$1.26	\$2,919.01
Interruptible Large Volume	5	\$634.95	46.1781818	230.8909091	0.005116848	\$1.26	\$75.62
<b>Total SEMO</b>	<b>31,566</b>			<b>45123.66036</b>	<b>100.00%</b>		<b>\$14,779.00</b>
<b>West District</b>							
Firm Residential	3,253	\$20.00	1	3253	0.771936994	\$0.87	\$34,083
Small Firm GS	525	\$23.80	1.19	624.75	0.148253193	\$1.04	\$6,546
Medium Firm GS	37	\$118.01	5.9005	218.3185	0.051806986	\$5.15	\$2,287
Large Firm GS	4	\$590.03	29.5015	118.006	0.028002827	\$25.76	\$1,236
Interruptible Large Volume	0	\$590.03	29.5015	0	0	\$0.00	\$0
<b>Total WEMO</b>	<b>3,819</b>			<b>4214.0745</b>	<b>100.00%</b>		<b>\$44,153</b>
<b>Total Missouri</b>	<b>53,708</b>				<b>1</b>		<b>\$261,395.00</b>

\*Average customers period ending December 31, 2014; per Atmos annual filing at 12/31/14.

Firm Residential	46,787
Small Firm GS	5,863
Medium Firm GS	784
Large Firm GS	267
Interruptible Large Volume	<u>7</u>
	<u><u>53,708</u></u>

\* Due to rounding to the nearest penny, the designed ISRS rates will under-collect by \$94.39 annually. However, it should be noted that the total amount collected will be true-up at a later date.

The district-specific sub-totals for rounding differences: NEMO: (\$45.29) / SEMO: (\$58.82) / WEMO: \$9.72

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

In the Matter of the Verified Application and            )  
Petition of Liberty Utilities (Midstates Natural        )  
Gas) Corp. d/b/a Liberty Utilities (MNG) for            )  
Establishment of an Infrastructure System                )  
Replacement Surcharge

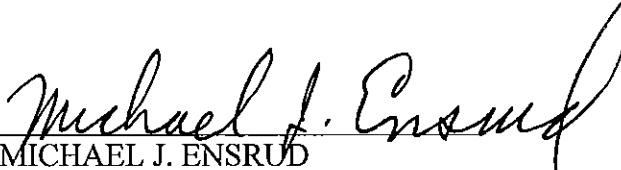
Case No. GO-2015-0350

**AFFIDAVIT OF MICHAEL J. ENSRUD**

STATE OF MISSOURI        )  
  )  
COUNTY OF COLE         )        ss.

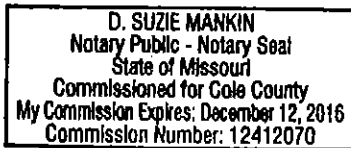
**COMES NOW** MICHAEL J. ENSRUD and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Staff Recommendation in Memorandum form; and that the same is true and correct according to his best knowledge and belief.

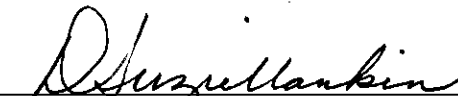
Further the Affiant sayeth not.

  
MICHAEL J. ENSRUD

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 27<sup>th</sup> day of August, 2015.



  
Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of the Verified Application and )  
Petition of Liberty Utilities (Midstates Natural ) Case No. GO-2015-0350  
Gas) Corp. d/b/a Liberty Utilities (MNG) for )  
Establishment of an Infrastructure System )  
Replacement Surcharge )

**AFFIDAVIT OF LISA K. HANNEKEN**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

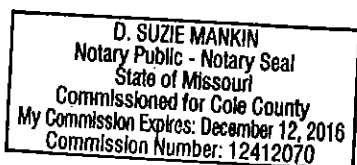
COMES NOW LISA K. HANNEKEN and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Staff Recommendation in Memorandum form; and that the same is true and correct according to her best knowledge and belief.


Further the Affiant sayeth not.

  
LISA K. HANNEKEN

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, on this 26<sup>th</sup> day of August, 2015.



  
Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION**  
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In the Matter of the Verified Application and        )  
Petition of Liberty Utilities (Midstates Natural    )  
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Replacement Surcharge

Case No. GO-2015-0350

**AFFIDAVIT OF SARAH SHARPE**

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

COMES NOW SARAH SHARPE and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Staff Recommendation in Memorandum form; and that the same is true and correct according to her best knowledge and belief.

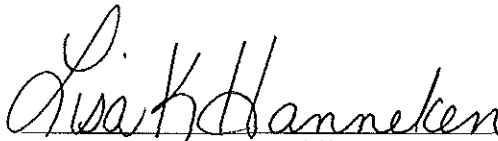
Further the Affiant sayeth not.

  
\_\_\_\_\_  
SARAH SHARPE

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of St. Louis, State of Missouri, at my office in St. Louis, on this 26<sup>TH</sup> day of August, 2015.

LISA K. HANNEKEN  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Franklin County  
My Commission Expires: April 29, 2018  
Commission Number: 14967138

  
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Notary Public