

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GO-2014-0006 / File No. YG-2014-0004– Liberty Utilities

FROM: Roberta Grissum, Auditing Department
Joel McNutt, Tariffs/Rate Design - Energy

/s/ Lisa Hanneken 09/03/2013
/s/ Tom Imhoff 09/03/2013 /s/ John Borgmeyer 09/03/2013
Project Coordinator / Date Staff Counsel's Office / Date

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

DATE: September 3, 2013

BACKGROUND

On August 1, 2011, Atmos Energy Corporation (Atmos) and Liberty Energy (Midstates) Corporation (Liberty or Company) filed in Case No. GM-2012-0037 a Joint Application of Atmos Energy Corporation (Atmos) and Liberty Energy (Midstates) Corp. for Authority to Sell Certain Missouri Assets to Liberty Energy (Midstates) Corporation and, in Connection Therewith, Certain Other Related Transactions (Sale) with Liberty Energy (Midstates) Corporation as the surviving entity. On February 17, 2012, a Unanimous Stipulation and Agreement (S&A) was filed in the case, and on March 14, 2012, the Missouri Public Service Commission (Commission) issued its Order Approving Unanimous Stipulation and Agreement.

In that S&A, Liberty agreed to maintain Atmos' current tariffs and to formally adopt Atmos' tariffs upon Commission approval of the sale.

On July 2, 2012, Liberty filed two tariff sheets requesting approval of its formal adoption notice and title sheet, in compliance with the Commission's Order in GM-2012-0037.

On July 23, 2012, the Commission issued its Order Recognizing Name Change and Approving Tariff Sheets to go into effect August 1, 2012. Liberty Energy (Midstates) Corp. now does business as Liberty Utilities.

THE APPLICATION

On July 2, 2013, Liberty filed an Application and Petition (Application) with the Commission to re-establish its Infrastructure System Replacement Surcharge (ISRS). The filing had a proposed effective date of August 1, 2013.

Liberty also applied for a waiver of the 60 day notice requirement of a "contested" case under 4 CSR 240-4.020, stating it "does not believe this matter would be considered a 'contested case'" 60 days prior to the filing of its Application.

On July 8, 2013, the Commission issued its ORDER DIRECTING NOTICE AND SETTING INTERVENTION DATE with an intervention date of July 29, 2013 and ORDER SUSPENDING TARIFF until October 30, 2013.

On July 30, 2013, the Commission issued its ORDER DIRECTING FILING OF STAFF REPORT no later than September 3, 2013.

The Commission's Rule Natural Gas Utility Petitions for Infrastructure System Replacement Surcharges at 4 CSR 240-3.265 allows Gas corporations to recover certain infrastructure system replacement costs outside of a formal rate case filing through a surcharge on customers' bills. Liberty initially filed a tariff sheet that would generate a total annual revenue requirement of \$650,670.

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.

Liberty proposes that its ISRS rates be based upon the customer-count from its 2012 annual report.

Liberty filed to recover ISRS qualifying infrastructure replacement costs incurred during the period June 1, 2012 through May 31, 2013. This request is consistent with the method used to calculate the ISRS rate approved in Atmos' previous ISRS filings and conforms with Staff's view that the calculation of the ISRS surcharge should closely reflect the revenue requirement that will exist on the effective date of the ISRS rates.

STAFF'S INVESTIGATION

Staff from the Auditing and Energy Units participated in the investigation of Liberty's Application. The investigation included a review of: the Application, all supporting documentation, Missouri statutory sections 393.1009, 393.1012 and 393.1015 RSMo and all additional data provided by Liberty.

While this filing fails to meet the \$1,000,000 threshold requirement set forth in Rule 4 CSR 240-3.265 (2), it does qualify as a valid filing by meeting the alternative requirement of the requested increase exceeding "*one-half of one percent (1/2%) of the natural gas utility's base revenue level approved by the commission in the natural gas utility's most recent general rate case proceeding*".

STAFF REVIEW AND REVENUE CALCULATION

On July 2, 2013, Liberty Utilities (Liberty) filed to recover Infrastructure System Replacement Surcharge (ISRS) qualifying costs. This filing represented Liberty's second ISRS filing since acquiring the assets previously owned by Atmos Energy and since the conclusion of the sale of Atmos Energy assets to Liberty Utilities, Case No. GM-2012-0037. The rates related to

Liberty's previous ISRS Case No. GO-2013-0048 became effective on November 2, 2012. In addition, as part of the agreement in Case No. GM-2012-0037, Liberty adopted the currently effective ISRS authorized for Atmos Energy in Case No. GO-2011-0149, which became effective February 14, 2011.

In its Application, Liberty filed to recover ISRS qualifying infrastructure replacement costs incurred during the period June 1, 2012 through May 31, 2013. However, it should be noted that Liberty's filing included for Staff's review data which included ISRS qualifying infrastructure replacement costs through June 30, 2013. To adhere to Staff's view that the calculations of the ISRS surcharge should closely reflect the revenue requirement that will exist on the effective date of the ISRS rates, Staff has included the June 2013 data in its calculation of Liberty's revenue requirement in this case.

REVIEW, EXPLANATION OF ADJUSTMENTS AND RECONCILIATION

The Auditing Unit Staff ("Audit Staff") has reviewed Liberty Utilities' ISRS application including all supporting workpapers and calculations, an audit sample of work orders, and has communicated with Liberty Utility personnel to gain clarification of Liberty Utilities' Application when necessary. In addition, Staff is currently awaiting further documentation from Liberty regarding the eligibility of the infrastructure replacements costs included in Liberty's application. At this time, Staff has not made any adjustments based on eligibility of the infrastructure replacements costs for this ISRS application. However, should Staff's review of the forthcoming documentation reveal new information which would preclude some of the costs from being included in Staff's calculations, an additional filing by Staff in this case may be made to address those items.

The methodology used by the Audit Staff allows Staff to consider all accumulated depreciation and deferred income taxes on ISRS qualifying infrastructure replacements costs through September 30, 2013. This methodology is consistent with past reviews conducted by the Auditing Unit Staff, and is consistent with Staff's view that the calculation of the ISRS revenue requirement should closely reflect the revenue requirement at the 120-day effective date of the ISRS rates, which, in this case, is October 30, 2013.

For purposes of this filing, the Audit Staff also included the incremental accumulated depreciation and accumulated deferred income tax for the period of November 30, 2012 through September 30, 2013 for replacements associated with the currently effective ISRS authorized in Case No. GO-2013-0048. The total incremental accumulated depreciation included by the Audit Staff is as follows: WEMO – \$12,114; SEMO – \$54,430 and NEMO - \$70,417 for a total reduction to Total ISRS Rate Base in the amount of \$136,961. The total incremental accumulated deferred income tax included by the Audit Staff is as follows: WEMO – (\$1,852); SEMO - (\$9,309); and NEMO - \$5,450 for a total reduction to Total ISRS Rate Base in the amount of \$5,711.

In addition, the Audit Staff included incremental accumulated depreciation and accumulated deferred income tax for replacements associated with the currently effective ISRS authorized for

Atmos Energy in Case No. GO-2011-0149. The incremental accumulated depreciation included by the Audit Staff for the period November 30, 2012 through September 30, 2013 is as follows: WEMO – (\$2,867); SEMO - (\$23,358); and NEMO – (\$58,860) for a reduction to Total ISRS Rate Base in the amount of \$85,085. The incremental deferred income tax included by the Audit Staff for the period November 30, 2012 through September 30, 2013 is as follows: WEMO – (\$5,878); SEMO – (\$7,094); and NEMO – (\$187,792) for a reduction in Total ISRS Rate Base of \$200,764.

The Audit Staff also calculated the change in property tax estimated in Case No. GO-2013-0048 to reflect the current ongoing amount. As such, the Audit Staff made an adjustment on a district specific basis as follows: WEMO - \$5,802; SEMO - \$35,439; and NEMO - \$109,594 for a total increase in property tax liability for eligible replacements approved by the Commission in Case No. GO-2013-0048 in the amount of \$150,835.

The Audit Staff also calculated the change in property tax estimated in Case No. GO-2011-0149 to reflect the current ongoing amount. As such, the Audit Staff made an adjustment on a district specific basis as follows: WEMO – \$1,470; SEMO - \$14,742; and NEMO – \$84,543 for a total increase in property tax liability for eligible replacements approved by the Commission in Case No. GO-2011-0149 in the amount of \$100,755.

In addition to making the above adjustments, during its review, Staff identified several errors and omissions in the data provided by Liberty. Staff has worked with Liberty in an effort to resolve the concerns and believes this recommendation addresses all of the items identified. Staff has listed below the adjustments made to Liberty's application.

Depreciation Rates

During its review, the Staff identified the use of incorrect depreciation rates by the Company for certain cities in its NEMO operating district, specifically, Kirksville, and categorizing certain retirements incorrectly thus resulting in incorrect calculation of depreciation expense. This correction resulted in a reduction to Liberty's calculation of depreciation expense of \$130,372.

Summation Formula Error

An additional error relating to the meter and house regulator replacements for the Southeast Missouri Division occurred and overstated the amount of new plant-in-service. This correction resulted in a decrease to Total ISRS Rate Base in the amount of \$2,684,854.

Deferred Taxes

During the course of its review, the Audit Staff also discovered an error in Liberty Utilities' calculation for deferred income taxes involving a calculation error in net book value for September 2013, as well as inclusion of growth and equipment amounts that should not be included. The Audit Staff's corrected calculation resulted in a decrease in deferred income tax of \$90,049. On a district specific basis, the change in deferred income tax was: WEMO – \$1,796; SEMO – (\$1,479); and NEMO –\$89,732.

Conversion Factor

The Company also failed to utilize the appropriate income tax conversion factor when

determining its Total Revenue Requirement on Capital. This error in the income tax conversion factor, along with the correction to the Total ISRS Rate Base resulted in an overall increase to Total Revenue Requirement on Capital of \$49,694. The impact of the correction to the income tax conversion factor along with the correction to the Total ISRS Rate Base on a district specific basis is as follows: WEMO - \$9,759; SEMO - (\$53,601); and NEMO - \$70,059.

Property Tax

Staff also made a correction for an incorrect property tax rate utilized by the Company to determine property tax on eligible additions/replacements for the WEMO and SEMO districts. Another correction Staff made was to include the retirements identified in this ISRS filing that will result in a lower tax liability for the Company. These two corrections resulted in a change to property tax expense on a district specific basis as follows: WEMO - (\$420); SEMO - (\$131,217); and NEMO - \$1,266 for a total reduction to property tax expense of \$130,372. A final correction necessary to property tax expense involves the removal of eligible replacements placed in service in 2013 that will not be taxed until 2014. This correction results in a disallowance by district as follows: WEMO - (\$3,502); SEMO - (\$19,545); and NEMO - (\$93,409) for a total reduction to ISRS revenues in the amount of \$116,456.

In addition to the omissions and errors described above related to Liberty's current ISRS, GO-2014-0006, during its analysis Staff discovered that omissions and errors were present in Liberty's prior ISRS, GO-2013-0048, both in Liberty's filing and in Staff's recommendation. Below is a discussion of the identified items which overstated the revenue requirement in the last ISRS.

Formula Error

The amount approved for Liberty's first ISRS filing, Case No. GO-2013-0048, was \$475,280 annually. However, there was a formula error in Company's filing for the calculation of Accumulated Depreciation and Deferred Income Tax previously overlooked in Staff's recommendation in Case No. GO-2013-0048. As such, it is necessary for the Audit Staff to account for this error in this proceeding. The correction for accumulated depreciation due to this formula error is as follows: WEMO - \$321; SEMO - (\$503); and NEMO - (\$9,516) for a total reduction in Total ISRS Rate Base in this proceeding of \$9,698. The correction for deferred income tax due to this formula error is as follows: WEMO - \$1,346; SEMO - (\$7,520); and NEMO - (\$56,429) for a total reduction in Total ISRS Rate Base of \$62,603.

Omission of Incremental Accumulated Depreciation and Deferred Taxes

During Liberty's last case, GO-2013-0048 the filed application omitted a calculation to include the incremental accumulated depreciation and deferred taxes relating to the eligible replacements authorized in GO-2011-0149. Staff also omitted this calculation in its recommendation. In order to include the proper current level of costs going forward, Staff has made the following adjustments to its current ISRS calculations.

The incremental deferred income tax included by the Audit Staff associated with the currently effective ISRS authorized in Case No. GO-2011-0149 for the period of March 1, 2011 through November 30, 2012 is as follows: WEMO - (\$9,647); SEMO - (\$158,920); and NEMO - (\$64,389) for a reduction in Total ISRS Rate Base of \$232,956. The incremental accumulated

depreciation included by the Audit Staff for the period of March 1, 2011 through November 30, 2012 is as follows: WEMO – (\$6,020); SEMO – (\$49,051); and NEMO – (\$123,606) for a reduction in Total ISRS Rate Base of \$178,677.

Since adjustments to ISRS revenues for the incremental accumulated depreciation and deferred income tax related to eligible replacements approved in Case No. GO-2011-0149 was omitted from Staff's recommendation in Case No. GO-2013-0048 in addition to a formula error that was present, it is appropriate for these adjustments to be included in this proceeding in order to capture the current level of rate base to use in determining the current costs incurred by Liberty.

Furthermore, Staff is recommending that any overpayment by customers due to this oversight be included in the calculation of the current ISRS so as to not just correct the mistake going forward, but also make the customers whole. Staff has determined that since the effective date of the ISRS on November 2, 2012 through September 30, 2013 the aforementioned errors resulted in \$50,699 of revenue requirement. On a district specific basis this over-collection is as follows: WEMO – (\$1,467); SEMO – (\$22,629); and NEMO – (\$26,604). Staff has discussed its proposed adjustment for this item with Liberty and understands that Liberty does not take issue with Staff's recommendation. As with all ISRS surcharges, in accordance with the timelines in Commission Rule 4 CSR 240-3.265 (17) Staff reconciles the ISRS revenue Liberty collects from customers to account for over or under-collection of ISRS revenue. Therefore, this ISRS will be reconciled in a future proceeding, to determine any differences between what Liberty will be authorized to collect and the revenues resulting from this ISRS. Staff's proposed adjustment will be reconciled as part of this process.

Based upon the aforementioned corrections and adjustments to the Company's filing, the Audit Unit has determined that the Total Incremental ISRS Revenue Requirement for Liberty Utilities in this proceeding should be set at \$606,978. This proposed revenue requirement on a district specific basis is as follows: WEMO - \$31,863; SEMO - \$188,304; and NEMO - \$386,811.

Therefore, Staff presents the active ISRS rates for Liberty below, summarized on a cumulative basis and projected to be recovered on an annual basis as follows:

Cumulative ISRS Revenue Requirement	
ISRS Revenue Requirement #1	
(GO-2011-0149, Atmos Energy, Eff. Date 2/14/2011)	
WEMO	\$ 11,116
SEMO	\$ 100,568
NEMO	\$ 165,397
Subtotal of ISRS Revenue	\$ 277,081
ISRS Revenue Requirement #2	
(GO-2013-0048, Liberty Utilities, Eff. Date 11/2/2012)	
WEMO	\$ 58,221
SEMO	\$184,335
NEMO	\$232,723
Subtotal of ISRS Revenue	\$475,280
ISRS Revenue Requirement #3	
(GO-2014-0006, Liberty Utilities)	
WEMO	\$ 31,863
SEMO	\$188,304
NEMO	\$386,811
Subtotal of ISRS Revenue	\$606,978
Total ISRS Revenue	\$1,359,339

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.

Liberty has deviated from Staff’s accepted methodology in computing ISRS rates. Liberty has added its rates computed from this filing to the rates computed in its previous ISRS filings (GO-2011-0149 and GO-2013-0048). Liberty’s procedure of adding the current effective ISRS rates to the separately computed ISRS rates from this case has resulted in slightly different “composite” rates than the “composite” rates that would be calculated under the Staff method. The Staff method computes the ISRS rates from the “composite” revenue requirement, and not, as Liberty has done, by adding the separately computed ISRS rates that are derived from GO-2011-0149, GO-2013-0048, and GO-2014-0006 revenue requirements.

The differences between these methods is illustrated below:

NEMO Customer Classes	Staff’s Composite Methodology	Liberty’s Composite Methodology	Difference
Residential	\$3.23	\$2.72	\$0.51
Small Gen. Service	\$3.23	\$2.72	\$0.51
Medium Firm Serv	\$14.24	\$12.01	\$2.23
Large Firm Service	\$71.19	\$60.04	\$11.15
Interr Lrg Vol	\$71.19	\$60.04	\$11.15

SEMO Customer Classes	Staff’s Composite Methodology	Liberty’s Composite Methodology	Difference
Residential	\$1.06	\$1.48	(\$0.42)
Small Gen. Service	\$1.06	\$1.48	(\$0.42)
Medium Firm Serv	\$7.72	\$10.76	(\$3.04)
Large Firm Service	\$38.60	\$53.81	(\$15.21)
Interr Lrg Vol	\$38.60	\$53.81	(\$15.21)

WEMO Customer Classes	Staff’s Composite Methodology	Liberty’s Composite Methodology	Difference
Residential	\$2.00	\$1.76	\$0.24
Small Gen. Service	\$2.00	\$1.76	\$0.24
Medium Firm Serv	\$9.92	\$8.74	\$1.18
Large Firm Service	\$49.62	\$43.70	\$5.92

Staff has verified that the Company has filed its 2012 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.

REQUESTED WAIVER

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

RECOMMENDATION

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

1. Rejects the ISRS tariff sheet (YG-2014-0004) filed by Liberty on July 2, 2013;
2. Approves Staff's determination of the incremental ISRS surcharge revenues in the amount of annual pre-tax revenues of \$606,978, consisting of \$31,863 for the WEMO district, \$188,304 for the SEMO district, and \$386,811 for the NEMO district;
3. Authorizes Liberty to file an ISRS rate for each customer class as reflected in Appendix B; and
4. Approves Liberty's request for waiver of the 60 day notice requirement for contested cases.

Liberty Utilities
Missouri Jurisdiction
ISRS Rate Design (GO-2014-0006)

Total ISRS Revenues	\$1,359,339
Northeast District (NEMO)	\$784,931
Southeast District (SEMO)	\$473,206
West District (WEMO)	\$101,200

August 2013 ISRS Rate Design

Rate District & Class	Number of Customers*	Customer Charge	Ratio to Residential C	Weighted Customer N	Customer Percentage	ISRS Charge	ISRS Revenues
Northeast District							
Firm Residential	16,314	22.68	1	16,314	80.54%	3.23	\$632,201
Small Firm GS	2,107	22.68	1	2,107	10.40%	3.23	81,651
Medium Firm GS	321	100	4.4092	1,415	6.99%	14.24	54,847
Large Firm GS	11	500	22.0459	243	1.20%	71.19	9,398
Interruptible Large Volume	8	500	22.0459	176	0.87%	71.19	6,835
Total NEMO	18,761			20,255	100.00%		\$784,931
Southeast District							
Firm Residential	28,629	13.75	1	28,629	77.06%	1.06	\$364,638
Small Firm GS	3,375	13.75	1	3,375	9.08%	1.06	42,986
Medium Firm GS	543	100	7.2727	3,949	10.63%	7.72	50,298
Large Firm GS	16	500	36.3636	582	1.57%	38.6	7,410
Interruptible Large Volume	17	500	36.3636	618	1.66%	38.6	7,874
Total SEMO	32,580			37,153	100.00%		\$473,206
West District							
Firm Residential	3,389	20.17	1	3,389	80.43%	2	\$81,399
Small Firm GS	517	20.17	1	517	12.27%	2	12,418
Medium Firm GS	42	100	4.9579	208	4.94%	9.92	5,001
Large Firm GS	4	500	24.7893	99	2.35%	49.62	2,382
Interruptible Large Volume	-	500	24.7893	0	0.00%	0	0
Total WEMO	3,952			4,213	100.00%		\$101,200
Total Missouri	55,293			61,622	100.00%		\$1,359,337

*Average Annual Customers per Liberty Utilities Annual Report.

Firm Residential	48,332
Small Firm GS	5,999
Medium Firm GS	906

Large Firm GS	31
Interruptible Large Volume	25
	55,293

*** Due to rounding to the nearest penny, the designed ISRS rates will under collect by \$450. However, it should be noted that the total amount collected will be true-up at a later date.**

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Verified Application and)
Petition of Liberty Energy (Midstates) Corp.) Case No. GO-2014-0006
d/b/a Liberty Utilities to Change Its)
Infrastructure System Replacement Surcharge)

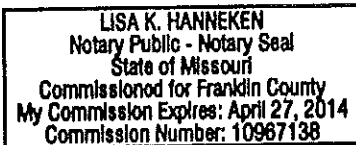
AFFIDAVIT OF ROBERTA A. GRISSUM

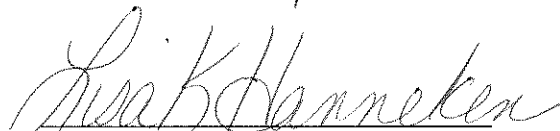
STATE OF MISSOURI)
) ss.
COUNTY OF ST. LOUIS)

ROBERTA A. GRISSUM, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by her; that she has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of her knowledge and belief.


ROBERTA A. GRISSUM

Subscribed and sworn to before me this 3rd day of September, 2013.




Notary Public

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


In the Matter of the Verified Application)
and Petition of Liberty Energy)
(Midstates) Corp. d/b/a Liberty Utilities)
to Change Its Infrastructure System)
Replacement Surcharge)

Case No. GO-2014-0006

AFFIDAVIT OF JOEL McNUTT

STATE OF MISSOURI)
) ss
COUNTY OF COLE)


Joel McNutt, of lawful age, on oath states: that he participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was provided to him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true to the best of his knowledge and belief.



Joel McNutt

Subscribed and sworn to before me this 3rd day of September, 2013.

LAURA BLOCH
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: June 21, 2015
Commission Number: 11203914



Notary Public