BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty's Purchased Gas Adjustment Tariff Filing	)))	**Case No. GR-2023-0128** Tariff No. YG-2023-0089

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission and for its Recommendation, states as follows:

1. On November 4, 2022, Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty ("Liberty") filed a tariff sheet to reflect changes in the company's Purchased Gas Adjustment clause and Actual Cost Adjustment and Refund Factor. Liberty is also seeking to extend the recovery period for its Western Missouri service area relating to extraordinary costs stemming from Winter Storm Uri. Liberty also seeks a carrying charge of 7.4 percent. The tariff sheets bear an effective date of December 4, 2022.

2. The Commission issued an order on November 7, 2022, directing Staff to file a recommendation regarding Liberty's request and corresponding tariff sheet, Tariff File No. YG-2023-0089, no later than November 14, 2022.

3. Staff has reviewed Liberty's filing and within it Liberty is requesting the Weighted Average Cost of Capital ("WACC") be applied in the PGA. The PGA clause is a mechanism authorizing gas cost recovery only, but the Company's use of a WACC in determining appropriate carrying charges is potentially allowing for recovery of an equity return and associated income taxes.

4. Staff would further note that discovery is necessary to inquire as to whether the WACC truly represents the Company's access to debt that could have funded impacts from Storm URI, and whether there were significant over-recoveries

from past ACAs that received the typical prime minus two percent carry costs. Staff recommends that the determination of the appropriate carrying cost rate and WACC be determined with all issues that result from its ACA review in this proceeding, Case No. GR-2023-0128.

5. Staff has reviewed this filing and has determined it was calculated in conformance with Liberty's PGA Clause. Staff does not oppose the approval of this tariff sheet on less than thirty (30) days' notice. Such action is supported by Liberty's Commission-approved PGA clause allowing for notice of ten (10) business days for PGA change (both increases and decreases) filings. Therefore, Staff recommends the Commission approve the tariff sheet (No. YG-2023-0089) on an interim basis, subject to refund, for service on and after December 4, 2022.

6. Due to the limited time available to review the documentation supporting the ACA factors submitted in this filing, the Procurement Analysis Department (PAD) requests permission to submit its results and recommendations regarding the information included in this ACA filing to the Commission on or before December 15, 2023.

WHEREFORE, for the foregoing reasons and those stated in Staff's Memorandum attached hereto, Staff recommends that the Commission issue an order approving the Company's Missouri's tariff sheet in Tracking No. YG-2023-0089 as listed below, on an interim, subject to refund status; and further order Staff to file its recommendation on Liberty's ACA filing no later than December 15, 2023.

P.S.C. MO. No. 2

29th Revised Sheet No. 44 Cancelling 28th Revised Sheet No. 44

Respectfully submitted,

***/s/* Don Cosper**

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Attorney for the Staff of the
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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand delivered, transmitted by facsimile or electronically mailed to all parties and/or counsel of record this 14th day of November, 2022.

***/s/* Don Cosper**

M E M O R A N D U M

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2023-0128, Tariff No. YG-2023-0089
Liberty Utilities

FROM: Michael J. Ensrud, Research/Data Analyst - Procurement Analysis Dept.

/s/ *David M. Sommerer* 11/14/2022 — Financial and Business Analysis Div./Date

/s/ *Jamie Myers* 11/14/2022 — Staff Counsel's Office/Date

SUBJECT: Staff Recommendation for Liberty Utilities (Midstates) Scheduled Winter PGA/ACA Filing Effective Date December 4, 2022

DATE: November 14, 2022

On November 4, 2022, Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty ("Liberty" or "Company"), filed a tariff sheet bearing a proposed effective date of December 4, 2022.[1] In addition, Liberty filed a single page cover letter, testimony, and supporting worksheets. The tariff sheet was filed to reflect changes in Liberty's Purchased Gas Adjustment (PGA) factors as the result of estimated changes in the cost of natural gas for the upcoming winter season and changes in the Actual Cost Adjustment (ACA) factors. The Direct Testimony that Company supplied was of Ms. Dana Liner.

In addition to the requirements of past PGA filings, this PGA contains a continuation of the Storm Uri deferred cost recovery that was authorized by the Missouri Public Service Commission's (Commission) Order in Case No. GT-2022-0079. Case No. GT-2022-0079 allows extension of PGA recovery beyond the 12 month limitation that existed prior to Case No. GT-2022-0079.

CARRYING COSTS

This PGA filing (GR-2023-0128) continues to be impacted by the ongoing amortization of Storm Uri costs. Because of the significant impact that Storm URI has on rates, it has been considered appropriate to spread those, unique costs over multiple PGA filings. The process is basically an amortization of high natural gas costs (resulting from unseasonably cold weather, production freeze-offs and related high prices in February 2021). In the submitted filing, the main request is related to the carrying cost rate to be applied to the Storm Uri costs along with a request to extend the Western PGA service area amortization of Storm Uri costs.

In her direct testimony, Ms. Dana Liner states the following:

> ***Q. What are the carrying charges identified in the Company's tariff generally intended for?***

[1] Tariff Sheet 29TH (REVISED) SHEET NO. 44

> *A. Section III of the tariff indicates that monthly carrying charges associated with the normal ACA will be set at the prime interest rate on the first business day of the following month minus two percent. That rate is a carrying charge applicable to normal gas costs recovered over a short-term period of 12-months. These funds come from cash reserves or short-term debt instruments not exceeding 12 months. During normal conditions, Liberty funds its gas supply costs through cash generated from operations.* (Page 6, lines 18-23 to page 7, lines 1 & 2)
>
> ***Q. What makes the extended recovery different from the circumstances contemplated by Section III of the tariff?***
>
> *A. In this proceeding the Company is asking for the recovery of extraordinary gas costs over a long-term period of time. Section III of the tariff provides the necessary flexibility to allow the Company to recover unusually high gas amounts to be extended over longer periods at an appropriate carrying rate. The Company believes the proposed treatment to extend over a longer period is the correct thing to do for customers, but this treatment also has the effect of pushing the obligation past the 12-month short-term expense threshold. In taking this approach* ***the proposed long-term recovery treatment competes with and will be supported by funds that generally are used for capital projects.*** *The opportunity to earn a fair rate of return on capital is a cornerstone of rate regulation.* ***Therefore, WACC is the appropriate rate to apply to the use of long-term capital funds.*** [Emphasis added.] (Page 7, lines 3-15)

Staff disagrees. In the prior PGA case (GR-2022-0128), Staff documented (in its memo) the negative impact on PGA rates that the polar vortex (often called Storm "URI") produced in February 2021:

> The specific tariff language added authorizes recovery periods to be extended (fluctuating up to five (5) years) as the result of the GT-2022-0079 proceeding. Tariff Sheet No. 43 authorizes extended recovery periods under certain circumstances. That Tariff Sheet now contains:
>
>> Upon request by the Company, Staff, or OPC, and for good cause shown, when an extraordinary event has occurred, supported by affidavit, the Commission may permit the Company to divide the cumulative balances of each System's deficit gas cost recovery revenue (ACA account under-recovery) by estimated sales volumes for an extended period which shall not exceed 5 years.

However, contrary to the Company's contention that these extraordinary costs are analogous to capital investments, plant, or costs related to Infrastructure System Replacement Surcharges, they are gas costs subject to the PGA tariff[2].

There is another section of the tariff that indicates some "carrying charge" other than the traditional "prime minus 2%" can be considered. Ms. Liner sites in her testimony (Page 4, lines 6-10) the following:

> ***Q. Is this allowed under the Company's tariff?***
>
> *A. Yes. Section III (Form No. 13, PSC MO No. 2, Original Sheet No. 43a, effective October 22, 2021) allows the Company to "propose a carrying cost, subject to review, appropriate for the length of the extended period" if the Commission allows an extended recovery period, not to exceed five years, for an extraordinary under-recovery ACA balance.* (Page 4, lines 6-10)

The PGA clause is a mechanism authorizing gas cost recovery only, but the Company's use of a WACC[3] in determining appropriate carrying charges is potentially allowing for recovery of an equity return and associated income taxes.

Staff recommends that the determination of the appropriate carrying cost rate be determined with all issues that result from Staff's ACA review that will be conducted later on in this proceeding, Case No. GR-2023-0128.

Staff would further note that discovery is necessary to inquire as to whether the WACC truly represents the Company's access to debt that could have funded impacts from Storm URI, and whether there were significant over-recoveries from past ACAs that received the typical prime minus two percent carry costs.

CHANGE IN AMORTATIZATION PERIOD

Ms. Liner testifies to the following on page 4 and 5 of her Direct:

> **Q. *Why is the Company requesting additional time to recover the WEMO area costs related to Storm Uri?***
>
> *A.* ***In Case No. GR-2021-0320 (should be GT-2022-0079 and GR-2022-0128), the Company proposed a three-year extension*** *yielding annual charges of approximately $1 million to be included in the ACA rate calculations. Table 1 documents the total PGA rates calculated by continuing this three-year recovery*

[2] In many cases long-term plant is amortized (depreciated) over periods much longer than 5 years.
[3] WACC – Weighted Average Cost of Capital

versus ***extending the remaining recovery over four additional years*** *as demonstrated in Table 3. Table 2 estimates the amount of a typical PGA bill component using a monthly customer usage of 50 Ccf.* [Emphasis added.]

Table 1: WEMO Midstates Total PGA Rates (RPGA + ACA)

Sales Rates	Current Rates	New Rates with 2-year remaining recovery	New Rates with 4-year remaining recovery
Firm	$0.71708	$1.42163	$1.27897
Interruptible	$0.65999	$1.35759	$1.21493

Table 2: WEMO Midstates PGA Rate Estimated Bill Impact (50 Ccf/ month)

Sales Rates	With 2-year remaining recovery	With 4-year remaining recovery	Percentage decrease
Firm	$71.08	$63.95	10%
Interruptible	$67.88	$60.75	10.5%

Table 3: WEMO Midstates Gas Storm Uri Balances by Year

Date	Beg Bal	Annual Charge	End Bal
9/1/2021	$ 3,161,108	$ 1,053,703	$ 2,107,406
9/1/2022	$ 2,107,406	$ 526,851	$ 1,580,554
9/1/2023	$ 1,580,554	$ 526,851	$ 1,053,703
9/1/2024	$ 1,053,703	$ 526,851	$ 526,851
9/1/2025	$ 526,851	$ 526,851	$ -

The Company requests this additional extension, to a total of 5 years[4] as allowed by the tariff, in order to mitigate customer bill impacts by 10%. [Emphasis added.]

III. CARRYING COST RATE

Q. What carrying charge do you recommend for the deferred ACA balances?

A. The Company ***is requesting a carrying charge of 7.4%, which*** *is equal to the Company's Weighted Average Cost of Capital ("WACC"), which was established by the Commission in Case No. GR-2018-0013 for use in the Company's future ISRS filings.* [Emphasis added.]

[4] The 5 year reference results in 4 future years future impact since the first year (2022) has already, basically, taken place – minus one month.

This testimony documents the benefit to PGA customers having their annual PGA rates reduced 10% simply by allowing Company to amortize the URI costs over additional years – 3 years to 5. What it fails to do is demonstrate is how much more money customers will spend in carrying costs by spreading those costs over a longer period of time.

In short, there is a cost to the customers (cumulative) in order to get the stated 10% decrease in monthly PGA rates.

Staff is not opposed to the change from 3 years to 5 years in relation to Company's initial proposal for the WEMO district's recovery period. However, the issues associated with using the Company's higher WACC, lengthening the amortization period, and isolated the actual Storm Uri effect should be analyzed in the 2021-2022 ACA review.

A related issue is that there are, unlike the traditional PGA, now two (2) under-recovery balances for the rate being proposed. One under-recovery balance is related to the usual carrying cost associated with the tariffed PGA application[5]. The other under-recovery balance relates to the unrecovered URI gas costs. Ultimately there could be two different carrying charges – the traditional prime minus 2% which is the applicable tariffed carrying charge / and the appropriate carrying charge that should be applicable to the URI component.

TRADITIONAL PGA ISSUES

In addition to URI carrying cost recovery issues, there is significant increase related to ACA under-recoveries – traditional issues for a PGA filing. Current increases in estimated natural gas prices as reflected in the Regular PGA estimate have increased significantly over last year's mandatory PGA filing. Customers will be paying both for past price increases from Storm URI and present increases in current natural gas costs.

In its cover letter – for filing GR-2023-0128, Liberty asserts the impact to future Total (Regular PGA plus ACA) PGA rates as follows:

> As a result of this filing, for the Liberty West Area (WEMO), the effect of these changes will increase the firm PGA rate from the current $0.71708 per Ccf (100 cubic feet) to $1.27897 per Ccf. For the Kirksville area, the effect of these changes will increase the firm PGA rate from the current $0.38409 per Ccf to $1.27188 per Ccf. For the Northeast Area (NEMO), the effect of these changes will increase the firm PGA rate from the current $0.59928 per Ccf to $0.97910 per Ccf. For the Southeast Area (SEMO), the effect of these changes will increase the firm PGA rate from the current $0.64267 per Ccf to $0.94475 per Ccf.

[5] The rate contains a component that is nothing more than a traditional PGA filing. The rate component should be subject to traditional (prescribed) application as set forth in the tariff.

Staff calculates the magnitude of the proposed PGA to be as follows:

Table 1. Current and Proposed Firm Sales ACA Rates by Service Territory ($/Ccf)

	Current	Proposed	Increase
Kirkville	**0.38409**	**1.27188**	0.88779
Northeast Missouri	**0.59928**	**0.97910**	0.37982
Southeast Missouri	**0.64267**	**0.94475**	0.30208
Western Missouri	**0.71708**	**1.27897**	0.56189

Table 2. Current and Proposed Interruptible ACA Rates by Service Territory ($/Ccf)

	Current	Proposed	Increase
Kirkville	**0.09601**	**0.70330**	0.60729
Northeast Missouri	**0.41138**	**0.83719**	0.42581
Southeast Missouri	**0.48917**	**0.67646**	0.18729
Western Missouri	**0.65999**	**1.21493**	0.55494

Again, these increases are a composite of normal PGA issues and URI impacts. Staff considers the magnitude of the increases to be significant over the increases embedded in last year's PGA rates.

On November 7, 2022 the Commission issued its "**Order Directing Expedited Staff Recommendation and Setting Time for Reponses**". The order directs Staff to file its recommendation no later than November 14, 2022.

Case No. GR-2023-0128, under which these changes were filed, was established to track EDG's natural gas costs to be reviewed in its 2021-2022 ACA filing. These rate changes should be approved on an interim basis, subject to refund pending final Commission decisions in ACA Case Nos. GR-2023-0128 (2021-2022 ACA period) and GR-2022-0128 (2020-2021 ACA period. Due to the limited time available to review the documentation supporting the ACA factors submitted in this filing, the Procurement Analysis Department (PAD) requests permission to submit its results and recommendations regarding the information included in this ACA filing to the Commission on or before December 15, 2023.

The Staff has verified that the Company has filed its annual report and is not delinquent on any assessment. Staff has reviewed this filing and is not aware of any issue currently pending before the Commission that affects or is affected by this filing, other than those mentioned above.

Staff has reviewed this filing and determined that the rates on the proposed tariff sheets were calculated in conformance with Liberty's PGA Clause.

Staff asks the Commission to take notice of tariff language that allows for approval of these tariff sheets on less than thirty (30) days' notice is demonstrated by Liberty's Commission-approved PGA clause allowing for ten (10) business days' for PGA change filings. Therefore, Staff recommends that the following tariff sheets filed on November 4, 2022 be approved on an interim basis, subject to refund.

CONCLUSION

Staff is of the opinion that the carrying charge rate issue is an element relevant to the review in the 2021-2022 ACA proceeding portion of this case and should be included along with any other issue identified for litigation in late 2023. Even the issue of what constitutes the appropriate base, if the Commission were to find merit in the 7.4% rate, is something in need of further investigation.

Specifically, Staff asks the Commission to make a decision, at the time all 2021-2022 ACA issues are decided, as to what constitutes the proper carrying costs on URI costs incurred and amortized over 3 to 5 years. Staff believes the 7.4% carrying costs (which these PGA rates are predicated on) to be excessive. It will also be important to determine if the traditional under/over recovery component of the proposed PGA/ACA rate is subject to the carrying charge prescribed in tariff.

Staff asks the Commission to take notice of Liberty's tariff language that allows for approval of these tariff sheets on less than thirty (30) days' notice is demonstrated by Liberty's Commission-approved PGA clause allowing for ten (10) business days' for PGA change filings. Therefore, Staff recommends that the following tariff sheets filed on November 4, 2022 be approved on an interim basis, subject to refund:

P.S.C.MO. No. 2, 29th Revised Sheet No. 44

The tariff sheet represents the Company's Winter PGA/ACA filing for its four PGA service areas and reflects changes in the PGA factors and the ACA factors. These tariff sheets bear an issue date of November 4, 2022, and a proposed effective date of December 4, 2022.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty's Purchased Gas Adjustment Tariff Filing	)))	Case No. GR-2023-0128 Tariff No. YG-2023-0089

AFFIDAVIT OF MICHAEL J. ENSRUD

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

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
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 14th day of November, 2022.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070

D Suzie Mankin
Notary Public