M E M O R A N D U M

TO: Missouri Public Service Commission Official Case File
Case No. GT-2023-0229 - Tariff No. YG-2023-0173
Liberty Utilities (Midstates Natural Gas) Corp.

FROM: Nathan Bailey, Utility Regulatory Auditor, Auditing Department
Jared Giacone, Utility Regulatory Auditor, Auditing Department
Matthew Young, Utility Regulatory Audit Supervisor, Auditing Department
Michael Ensrud, Research/Data Analyst, Procurement Analysis
David Buttig, Senior Professional Engineer, Procurement Analysis

/s/ David Sommerer June 15, 2023
Procurement Analysis / Date

/s/ Karen Lyons June 15, 2023
Auditing Department / Date

/s/ Carolyn Kerr June 15, 2023
Staff Counsel Department / Date

SUBJECT: Staff Report and Recommendation Regarding the "Verified Infrastructure System Replacement Surcharge Petition" of Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty Utilities to Increase Its Infrastructure System Replacement Surcharge

DATE: June 15, 2023

PROCEDURAL BACKGROUND

On January 16, 2023, Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty ("Company" or "Liberty") filed its *Notice of Intended Case Filing* to comply with Commission Rule 20 CSR 4240-4.020(2) which requires a utility to file notice at least 60 days prior to the filing of a case that may be contested.

On March 17, 2023, Liberty filed its *Verified Infrastructure System Replacement Surcharge Petition* ("Petition") with the Missouri Public Service Commission ("Commission") in order to increase its Infrastructure System Replacement Surcharge ("ISRS"). The Petition contains the following assertions:

> *6. …The Company has continued to make ISRS eligible investments, and Liberty submits this Petition to change its ISRS to reflect these* ***additional investments covering the period November 1, 2021, through February 28, 2023. [Emphasis added.]***

> *7. In accordance with RSMo. §393.1009-393.1015 and Commission Rule 3.265, the revised ISRS rate schedule reflects the appropriate pre-tax ISRS revenues necessary to produce net operating income equal to the weighted cost of capital multiplied by the net original cost of the requested infrastructure replacements during the period that are eligible for the ISRS.*
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> * * *
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> *10. Capital data used for the ISRS filing was reported directly from Liberty's plant accounting system. Utilizing this project-based plant accounting system, each project placed in service in the state of Missouri was reviewed to ensure that it was an eligible "gas utility plant project" as defined in RSMo. §393.1009*
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> * * *
>
> *14. In addition, the infrastructure system replacements listed on Appendix A are also eligible for ISRS treatment because they: a) did not increase revenues by directly connecting to new customers; b) are currently in service and used and useful; c) were not included in rate base in the most recently completed general rate case or as part of the last ISRS filing; and d) replaced and/or extended the useful life of existing infrastructure.*

On March 22, 2023, the Commission issued an *Order and Notice* suspending the ISRS tariff to September 13, 2023, and required Staff to file a report no later than June 15, 2023.

Liberty seeks to increase (company-wide) annual ISRS revenues that will generate a cumulative $2,134,844 revenue requirement. On a per-district basis, the Northeast and West (NEMO & WEMO) district's cumulative revenue requirement being sought is $1,120,244 annually. The Southeast (SEMO) district's cumulative revenue requirement being sought is $1,014,600 annually.

The incremental annual revenue increase being sought – by Liberty – is: Company-wide - $1,244,558 / NEMO & WEMO district - $771,989 / SEMO district - $472,569.

Liberty indicates its Revenue Requirement request is intended to address ISRS eligible investments from November 1, 2021, through February 28, 2023.

In its initial filing on March 17, 2023, Liberty included a tariff sheet that was part of the verified Petition schedules filed in the case file, as well as an identical tariff sheet filed as a separate file in the case file part of EFIS (Electronic Filing Information System). It also filed this same tariff in the tariff-tracking module of EFIS. However, no transmittal letter was initially included in the tariff-tracking module of EFIS. In short, as initially filed, there are three identical tariff sheets, but no cover letter.

The tariff that has been included as part of the verified Petition's schedules is typically viewed as an illustrative or example tariff. Example tariffs should not include an "issue date" or "effective date" and should indicate on the example tariff that it is an illustrative or example tariff[1]. In addition, the proposed tariff should not only be separately filed in the case file, but also included in the tariff tracking system of EFIS with a transmittal letter.

On March 21, 2023, Liberty filed a transmittal letter in Case No. GT-2023-0229 (Tariff Tracking No. YG-2023-0173).

STAFF REVIEW AND PROPOSED REVENUE REQUIREMENT CALCULATION

Based on Staff's review of the Application, Staff proposes a smaller revenue requirement than what Liberty originally requested. Staff's proposed lower revenue requirement ensures that customers pay appropriate ISRS rates that are consistent with Staff's proposed revenue requirement. Based on the support Liberty provided to Staff, and Liberty's customer counts in its workpapers that accompanied its Petition, Staff's calculated "replacement" rates match Staff's proposed cumulative revenue requirement.

As a result of its adjustments, Staff recommends that Liberty receive incremental ISRS revenues of $1,053,758 for this case. Staff's revenue requirement is broken down by district as follows: SEMO is $461,867 and for NEMO & WEMO is $591,891.

Staff's proposed revenue requirement will increase the cumulative revenue requirement for Liberty to $1,944,044. Staff's district cumulative revenue requirements for NEMO and WEMO is $940,146, and is $1,003,898 for SEMO.

The table below shows the Staff's proposed revenue requirement, both incremental and cumulative amounts that result from adoption of Staff' proposal:

	Current ISRS GT-2023-0229	**Previous ISRS GT-2022-0118**	**Previous ISRS GT-2021-0073**	**Cumulative ISRS Total**
ISRS Revenues (Cumulative)	**$1,053,758**	**$373,979**	**$516,307**	**$1,944,044**
Northeast / West Districts (NEMO/WEMO)	$591,891	$38,172	$310,083	$ 940,146
Southeast District (SEMO)	$ 461,867	$335,807	$206,224	$1,003,898

[1] The "illustrative" tariff sheet does have both an issue date (March 17, 2023) and an effective date (August 1, 2023). There is no notation that this 2nd tariff sheet is considered either an "illustration" or an "example" tariff.

STAFF REVIEW OF LIBERTY'S ISRS APPLICATION

In its Application, Liberty filed to recover ISRS qualifying infrastructure replacement costs for the period of November 1, 2021, through February 28, 2023. As part of its examination of Liberty's Application, Auditing Staff reviewed supporting workpapers, invoices, work order authorizations, responses to data requests, and other applicable documents. Staff also held a meeting with the Company on April 25, 2023, to discuss the ISRS application.

Commission Rule 20 CSR 4240-3.265(18), Natural Gas Utility Petitions for Infrastructure System Replacement Surcharges, states:

> The Commission shall reject an ISRS petition after a Commission order in a general rate proceeding unless the ISRS revenues, requested in the petition, on an annualized basis, will produce ISRS revenues of at least the lesser of 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 or one (1) million dollars, but not in excess of ten percent (10%) of the subject utility's base revenue level approved by the Commission in the utility's most recent general rate proceeding.

Liberty's requested ISRS revenues for this filing exceeds one-half of one percent of the natural gas utility's total company base revenue level as approved by the Commission in Liberty Utility's most recent general rate case (Case No. GR-2018-0013), when the Company's ISRS rates were reset to zero. Additionally, the ISRS revenues requested in this case do not exceed 10% of the base revenue levels approved by the Commission in the aforementioned rate case.

Commission Rule 20 CSR 4240-3.265 for Natural Gas Infrastructure System Replacement Surcharges set the definitions of natural gas utility plant projects that are eligible for ISRS treatment.

ISRS Rate Base

In this Application, Liberty seeks recovery for $9,905,635 of ISRS investment. During its review, Staff discovered $96,324 of costs included in Liberty's Application that were not eligible for ISRS recovery. The following table reconciles the amount of Staff's recommended rate base.

Liberty Requested Plant	$ 9,905,635
O&M costs related to sewer lines	($25,000)
Invoice markups for subcontracting	($23,200)
Overhead adjustment	($48,124)
Staff ISRS Plant	$9,809,311

Support for ISRS Additions

In Data Request 10, Staff requested cost details supporting each project included in the current ISRS request. In its response, Liberty provided a spreadsheet for each project addition defined by Liberty as an "SSRS" report, showing the journal entries booked to each ISRS project. Each SSRS summed the total cost recorded to each project prior to unitizing to various plant accounts (e.g. mains, services, regulator stations, etc.). Out of the plant accounts that received total project costs, Liberty's current application only requests ratemaking treatment for additions booked to account 376 – Mains.

Staff's adjustments to ISRS additions are on a "total project" basis. However, only a portion of the total project is included in Liberty's current request. For each SSRS adjusted by Staff, Staff calculated a ratio using costs Liberty included in its ISRS filing and the total costs for the same report. Staff utilized these project specific ratios to calculate its adjustments described below.

Customer Inspections and Repairs Adjustment

During its review, Staff discovered that Liberty had included invoices for customer sewer inspections and sewer line repairs, which are not ISRS eligible activities because they are not gas utility plant projects that replaced or extended the useful life of existing gas infrastructure per section 393.1009(d), RSMo. Staff applied the applicable project specific ratios described above to calculate an adjustment for customer sewer inspections and sewer line repairs.

Invoice Markup Adjustment

Additionally, Staff discovered various projects that included invoice markups on cost. For example, there were contractor invoices for marking up subcontractor invoice amounts by 15% or 20% with no other explanation other than markup of subcontractor invoice amounts. While the work detailed on the invoices appear to be eligible for inclusion, markups on cost, administrative or otherwise, are not an eligible infrastructure system replacement as defined in section 393.1009, RSMo. Staff applied the applicable project specific ratios described above to calculate an adjustment for invoice markup costs.

Overhead Adjustment

Liberty allocated a portion of its corporate overheads to each project included in the current ISRS Petition utilizing various allocation methodologies (discussed below). Generally, Liberty's capitalization methodologies use directly charged project costs to assign a proportional amount of total overheads to that project. Liberty represented to Staff in discussions of overheads that typically invoices are direct costs. Invoices removed by Staff from total eligible ISRS additions should therefore reduce included overheads by an amount proportional to both the project specific percentage of invoices removed and the project specific ratios described above.

Revenue Requirement

In Liberty's Application, accumulated depreciation (aka depreciation reserve) and Accumulated Deferred Income Taxes ("ADIT") on ISRS investment were calculated as of March 31, 2023. Consistent with prior ISRS cases filed before the Commission, Staff recommends calculating ISRS rate base closer to the date the ISRS surcharge will be effective, which is expected to be mid-September 2023. The methodology utilized by the Auditing Staff allows for the consideration of all accumulated depreciation and ADIT on the qualifying ISRS investment through August 31, 2023, so that the ISRS rate base is better aligned with the effective date of rates for this case. It is Staff's view that the calculation of the ISRS revenue requirement should closely match the effective date of the ISRS rates to the extent possible.

At the conclusion of this case, the surcharge will produce revenues driven by the Commission-approved ISRS rate base in the current case, as well as the rate base approved in Case Nos. GT-2021-0073 and GT-2022-0118. The rate bases in the prior ISRS cases were calculated as of March 31, 2021, and March 31, 2022, respectively. However, the plant additions included in the prior ISRS cases continued to build depreciation reserve and ADIT after the ISRS rate was implemented. In the current case, Staff calculated the depreciation reserve and ADIT on the GT-2021-0073 and GT-2022-0118 ISRS additions as of Staff's August 31, 2023, rate base cut-off date. Staff then subtracted the depreciation reserve and ADIT recognized in prior ISRS cases to calculate the "incremental" depreciation reserve and ADIT rate base offsets related to prior ISRS plant. Staff included the incremental rate base offsets in the calculation of the current ISRS rate base.

In its calculation of the revenue requirement, Liberty did not remove the property tax expense associated with all plant retirements. Staff recommends an adjustment to remove the calculated property tax expense for all retired assets. Staff also recommends an adjustment to reflect the 2023 assessed value of plant for the calculation of property taxes based on the in-service date. Finally, Staff recommends removing the property tax amount associated with plant placed in service in 2023, since Liberty will not pay property taxes on this plant until December 2024.

Lastly, Staff included additional retirements driven by the current ISRS projects that were not recognized in Liberty's application. Furthermore, Staff made minor adjustments to the depreciation rate for some retirements to reflect the type of pipe that was retired. As of the filing of this memo, there are still some retirements associated with projects in this ISRS request that have not been completed due to timing according to the Company's response to Staff Data Request 26.

STAFF RECONCILIATION

Commission Rule 20 CSR 4240-3.265(17) states:

> At the end of each twelve (12)-month period that an ISRS is in effect, the natural gas utility shall reconcile the differences between the revenues resulting from the ISRS and the appropriate pretax revenues as found by the commission for that period and shall submit the reconciliation and proposed ISRS rate schedule revisions to the commission for approval to recover or refund the difference, as appropriate.

Staff performed a reconciliation of ISRS revenue through February 28, 2023, to determine the amount of over or under collection. This was the first ISRS case where at least 12-months of revenue was available for reconciling. Staff isolated the amount of under collection from the ISRS effective prior to Liberty's most recent rate case to ensure dollar for dollar recovery of that under collected amount. The revenues that were collected were compared to the revenue requirement that resulted from the first and second ISRS cases. The amount of over collection for NEMO/WEMO was included as a deduction from the revenue requirement in this case and the amount of under collection for SEMO was included as an addition to the revenue requirement in this case. In a future ISRS case or next new (post-rate case) ISRS, Staff will perform a reconciliation of ISRS revenue compared to the revenue requirement and account for any over or under collected amounts. Although Liberty submitted a reconciliation of ISRS revenue with their application, they did not request any over or under collection of ISRS revenue in this ISRS request. As stated above, Staff prepared a reconciliation and included any over or under collection amounts in the recommended revenue requirement.

OVERHEAD CAPITALIZATION STUDIES

Appendix A (Staff's Memorandum) of Staff's recommendation in Liberty's previous ISRS case expressed, "… concerns regarding the method Liberty is utilizing to assign intercompany allocations and overhead costs to capital projects…"[2] To address Staff's concern, Staff recommended that the Commission direct, "… Liberty to have a study conducted by an external party with regard to its corporate and overhead allocation methods prior to its next general rate case. Liberty shall meet with stakeholder parties within 60 days of this order to determine the parameters of the external study."

In its April 7, 2022 response to Staff's recommendation, Liberty opined that, "The Staff recommendation in this regard is not necessary and would be duplicative of steps already taken by Liberty. In 2021, Liberty had an independent third-party review conducted of its Cost Allocation

[2] GT-2022-0118. Page 7 of Staff's recommendation filed March 30, 2022.

Manual. Additionally, the Company is working with an external accounting and auditing firm to complete a comprehensive capitalization study for all corporate and regional shared services costs. Although Staff's recommendation for Liberty to be directed to have a new study conducted by an external party with regard to its corporate and overhead allocation methods should be rejected, Liberty welcomes the opportunity to meet with stakeholder parties within 60 days of a Commission order herein to discuss the Company's cost allocation and capitalization methods."

In its May 4, 2022 *Order Approving Infrastructure System Replacement Surcharge,* the Commission Ordered the following:

> 7. Liberty shall work with Staff concerning notification of the status of the studies and/or audits Liberty has stated is being conducted, the scope of as well as other possible parameters of the capitalization study being conducted by the external accounting and auditing firm.
>
> 8. Liberty should also provide all deliverables and final results of all external studies/audits conducted for Staff review. This would include, but not be limited to, access to the same data and information provided to the external parties and the results of Liberty's external study for capitalization of overheads and the Cost Allocation Manual study that was conducted in 2021. The results of all studies/audits by the external firms shall be shared with Staff within 30 days from their conclusion. Staff will reflect the results of both of these in Liberty's next general rate case.

In compliance with the Commission Order, Liberty contacted Staff on January 4, 2023, to arrange for a meeting regarding overhead allocations and the applicable studies. Liberty also supplied the studies in response to Staff Data Request 22. To support its allocation and capitalization methodologies, Liberty retained two external consultants. Pricewaterhouse Coopers ("PwC") completed a study (dated January 29, 2021) of labor overheads to determine appropriate capitalization rates of shared services payroll that is generally recorded to the Administrate & General ("A&G") income statement account. The second vendor, PA Consulting Group, was engaged to review and verify the reasonableness of Liberty's capitalization methodologies. The PA Consulting Group compared Liberty's current practices with its prior experience and the prevalent industry standards in a study dated April 8, 2019.

Given the age of the studies provided to Staff, it is reasonable to assume the ISRS additions included in the current case reflect the capitalization methodologies outlined in the studies provided by Liberty. After a review of the costs Liberty booked to its capital projects, Staff finds that the percentage of the ISRS rate base that are capitalized overheads are higher than expected. As such, a more thorough audit of Liberty's capitalization methodologies, specifically pertaining to the non-labor overheads, is warranted. However, Staff recommends deferring the audit of capitalized overheads to Liberty's next rate case because such a task is beyond the scope of an

ISRS application. In addition, deferral of a capitalized overhead audit is consistent with paragraph 8 of the Commission's Order in Case No. GT-2022-0118 (cited above). A rate case will provide a venue where Staff can reasonably review the same data and information provided to the external parties and compare the results of Liberty's external studies to Liberty's existing organizational structure.

ANNUAL REPORTS AND ASSESSMENTS

Liberty filed their Annual Report on May 15, 2023, and Staff completed their initial review on May 22, 2023, and noted that no response was required. Liberty is not delinquent on any of its assessments, including FY 2023 which was paid July 14, 2022.

SUMMARY OF AUDIT RESULTS

Based upon Staff's review and its calculations, Staff recommends an incremental revenue requirement of $1,053,758, split between WEMO/NEMO of $591,891 and SEMO of $461,867, resulting in an overall ISRS revenue requirement of $1,944,044, as shown in Appendix C, broken down by district $$940,146 for the NEMO/WEMO district and $1,003,898 for the SEMO district.

ENGINEERING CONCLUSIONS

In order for the costs related to PVC pipe replacements to be considered eligible for recovery through the Liberty ISRS mechanism, the language of Section 393.1009, RSMo, must be considered. Eligible "gas utility plant projects" include the following requirement:

> (5) "Gas utility plant projects" shall consist only of the following:
>
> > (a) Mains, valves, service lines, regulator stations, vaults, and other pipeline system components installed to comply with state or federal safety requirements as replacements for existing facilities that have worn out or are in deteriorated condition or that can no longer be installed under currently applicable safety requirements or any cast iron or steel facilities including any connected or associated facilities that, regardless of their material, age, or condition, are replaced as part of a qualifying replacement project in a manner that adds no incremental cost to a project compared to tying into or reusing existing facilities[3]

"State or Federal Safety Requirements"

Within its ISRS application, Liberty must prove that its requests consist of "gas utility plant projects…installed to comply with state or federal safety requirements as replacements for existing

[3]Section 393.1009(5)(a), RSMo.

facilities that have worn out or are in deteriorated condition[.]" What constitutes "state or federal safety requirements" has been addressed by the Commission in prior ISRS cases.

In its Report and Order in Case Nos. GO-2019-0356 and GO-2019-0357, the Commission found that Spire Missouri had replaced cathodically protected steel mains to comply with state or federal safety requirements. The statutes and regulations cited by the Commission for its determination in those cases were Section 393.130, RSMo (requiring Spire Missouri to provide safe and adequate service), 20 CSR 4240-40.030(17) (requiring Spire Missouri to identify and implement measures to address risks through its Distribution Integrity Management Plan or "DIMP"), and 20 CSR 4240-40.030(13)(B) (requiring Spire Missouri to repair, replace, or remove unsafe segments of pipeline from service).[4]

This finding was upheld by the Western District Court of Appeals when it found that in the context of the Spire Missouri ISRS cases that, "Substantial and competent evidence supports the conclusion that replacement of Spire's cathodically protected steel mains was required by Section 393.130, RSMo, 20 CSR 4240-40.030(13)(B) and 20 CSR 4240-40.030(17)."[5] The Court also stated that, regarding the arguments that a utility's DIMP analysis could serve as a state mandate for replacement, "the obligation to evaluate and rank risks to infrastructure found in 20 CSR 4240-40.030(17) must be read in conjunction with the statutory mandate found in section 393.130 for gas utilities to ensure that their natural gas distribution systems are safe and adequate, and the regulatory mandate found in 20 CSR 4240-40.030(13)(B) to replace pipeline that has become unsafe."[6]

In its previous case, Case No. GT-2022-0118, Liberty provided a copy of its DIMP that it is required to have under 20 CSR 4240-40.030(17).[7] Since August 2, 2011, each natural gas distribution operator has been required to implement a DIMP. 20 CSR 4240-40.030(17) requires, among other things, that an operator identify the characteristics of its pipeline, consider past design, operation and maintenance information, identify threats (existing and potential), evaluate and rank risks, identify and implement measures to address risk, measure performance, monitor results and effectiveness, and perform periodic evaluations and improvements. 20 CSR 4240-40.030(17)(D)2 specifically requires that the threats (existing and potential) of natural forces, excavation damage and material and joint failures be considered. ** [redacted]

[4] Case Nos. GO-2019-0356 and GO-2019-0356, Report and Order, page 36.
[5] *In re: Spire Missouri, Inc. v. Office of Public Counsel*, 613 S.W.3d 806, 818 (Mo.App W.D. 2020)
[6] Id. at 817.
[7] Case No. GT-2022-0118, Liberty Response to OPC DR 8506, "Distribution Integrity Management Plan_Mid-States_CONFIDENTIAL.pdf".

[redacted].[8] **

The combination of the risk analysis contained in Liberty's DIMP, and the statutory requirements to provide safe and adequate service, and to replace unsafe pipelines are sufficient to establish that Liberty has a "state or federal safety requirement" to replace the PVC pipe in its distribution systems. As a result, the secondary criteria related to existing facilities being "worn out or in a deteriorated condition" must also be evaluated.

"Worn Out or Deteriorated Condition"

Within its ISRS application, Liberty must prove that its request consist of "gas utility plant projects…installed to comply with state or federal safety requirements as replacements for existing facilities that have worn out or are in deteriorated condition[.]"[9] The type of information that can be used to determine what constitutes existing facilities that are "worn out or in deteriorated condition" has been addressed by the Commission in prior ISRS cases.

In its Report and Order in Case Nos. GO-2019-0356 and GO-2019-0357, the Commission found that Spire Missouri had provided evidence that cathodically protected steel pipes were worn out or in a deteriorated condition. The evidence that Spire Missouri provided consisted of expert witness testimony that described how those pipes had become unsafe and therefore required replacement.[10] The Commission noted that while no physical samples had been taken from the cathodically protected steel pipe for analysis, Spire Missouri provided other evidence to support its claim that it was worn out or in deteriorated condition. That evidence consisted of documented industry experience that showed the need for accelerated replacement and the risk rankings for cathodically protected steel pipes in Spire Missouri's DIMP.

In this case, Liberty provided a copy of a confidential report in which an expert examined the physical condition of PVC pipe samples collected from parts of Liberty's system as justification for the classification of the PVC pipe in its distribution systems as being "worn out or in deteriorated condition."[11] The report concluded that, in the instance of a pipe sample taken from the location of a failure, that, ** [redacted]

[8] Liberty's response to Staff DR No. 20.
[9] Section 393.1009(5)(a), RSMo.
[10] Case Nos. GO-2019-0356 and GO-2019-0356, Report and Order, pages 36-38.
[11] Liberty's response to Staff DR 20, "Palermo Expert Report – Liberty Utilities.pdf"

[redacted]. ** For the samples taken from non-failed pipes the report concluded that, ** [redacted].” **

Staff found that the results of the PVC pipe testing that were examined by an expert in plastic pipes to be adequate to demonstrate that the PVC pipe that was tested should be considered to be worn out or in a deteriorated condition. Liberty established that all of the PVC in its distribution is of the same vintage as the PVC pipe samples that were tested by the third-party expert.[12]

Recommendation

The testing of physical samples from representative PVC pipe taken from the Liberty distribution system combined with the results of the DIMP analysis of the risks associated with PVC pipe contain adequate supporting information to show that the PVC pipe that was replaced met the statutory requirements for being both “installed to comply with state or federal safety requirements” and “existing facilities that have worn out or are in deteriorated condition.” As such, Staff recommends that costs associated with the replacement of PVC pipe to be treated as eligible for recovery through Liberty’s ISRS mechanism. However, this recommendation is subject to any claimed projects and their associated costs also meeting all of the remaining statutory requirements for ISRS eligibility.

ISRS RATE DESIGN

Commission Rules describe the acceptable method of rate design calculations as follows:

> **20 CSR 4240-3.265 Natural Gas Utility Petitions for Infrastructure System Replacement Surcharges**
>
> (14) The monthly ISRS shall vary according to customer class and **shall be calculated based on the customer numbers reported in the most recent annual report of the natural gas utility** so long as the monthly ISRS for each customer class maintains a proportional relationship equivalent to the proportional relationship of the monthly customer charge for each customer class. [Emphasis added.]

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[12]Liberty’s response to Staff DR 20.

The term "counts" refers to "the customer numbers reported in the most recent annual report." It is the only methodology referenced in the rules for calculating ISRS rates[13].

The initial Liberty submission suggested its calculations used a customer count from the most recent Liberty rate case (Case No. GR-2018-0013). Staff considers those rate case customer "counts" to be outdated. It appears that the actual customer count used by Liberty was from its 2021 annual report which lists a total customer count as 52,541 [14]

The calculation of tariffed rates lacked a uniform category for "Transportation Service" and, therefore, it lacked a single, specific charge for the transport customers. Staff investigated[15], and found the transportation customers were distributed between: 1) Small Firm General Service, 2) Medium Firm General Service, and 3) Small Firm General Service.

THE ISRS RATE SCHEDULES

Staff's proposed rates were calculated 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.

The Staff customer count reflects the Company's 2021 annual report[16] (most current). The Staff is not aware of any other matter before the Commission that affects or is affected by this filing.

STAFF RECOMMENDATION

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

1. Rejects the Company's ISRS tariff sheet(s), Tracking No. YG-2023-0173, filed on March 17, 2023;

2. Approves the Staff's recommendation that ISRS rates are re-established so that ISRS surcharge revenues generate annual pre-tax revenues of $1,944,044, consisting of $1,003,898 for the Southeast District, and $940,146 for the Northeast/West District;

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[13] Commission Rules only reference the "annual report" method. However, the statue allows an exception with regard to the availability of billing determinants from a general rate case.
[14]The "corrected" count is from DR Response 6
[15]Staff issued DRs 6 and7 to correct inconsistencies in the annual report as initially filed.
[16] During the duration of this proceeding, MNG updated its 2021 annual report's counts of customers. Staff used the revised counts in its calculation of ISRS rates.

3. Authorizes Liberty to file an ISRS rate for each customer class as reflected in Appendix B, which will generate $1,944,044 annually in cumulative ISRS charges; and

4. Directs Liberty to preserve the same data and information provided to the external parties that provided reports regarding overhead capitalization for Staff's review in Liberty's next rate case.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty to Change its Infrastructure System Replacement Surcharge	))))	File No. GT-2023-0229

AFFIDAVIT OF NATHAN BAILEY, CPA

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW NATHAN BAILEY, CPA 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.

Nathan Bailey

NATHAN BAILEY, CPA

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 14th day of June 2023.

Janiece Davis

Notary Public

JANIECE DAVIS
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES FEBRUARY 13, 2026
JACKSON COUNTY
COMMISSION #22070386

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty to Change its Infrastructure System Replacement Surcharge	))))	File No. GT-2023-0229

AFFIDAVIT OF JARED GIACONE

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW JARED GIACONE 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.

JARED GIACONE

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 14th day of June 2023.

Notary Public

JANIECE DAVIS
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES FEBRUARY 13, 2026
JACKSON COUNTY
COMMISSION #22076388

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty to Change its Infrastructure System Replacement Surcharge	))))	File No. GT-2023-0229

AFFIDAVIT OF MATTHEW R. YOUNG

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW MATTHEW R. YOUNG 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.

Matt Young

MATTHEW R. YOUNG

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 14th day of June 2023.

M. Ridenhour

Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

M. RIDENHOUR
My Commission Expires
July 22, 2023
Platte County
Commission #19603483

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty to Change its Infrastructure System Replacement Surcharge	))))	File No. GT-2023-0229

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 13th day of June 2023.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2026
Commission Number: 12412070

D Suzie Mankin
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty to Change its Infrastructure System Replacement Surcharge	))))	File No. GT-2023-0229

AFFIDAVIT OF DAVID T. BUTTIG, PE

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COMES NOW DAVID T. BUTTIG, PE 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.

David Buttig

DAVID T. BUTTIG, PE

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 13th day of June 2023.

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

Liberty Utilities - MNG
Missouri Jurisdiction
ISRS Current Period Rate Design

Case No. GT-2023-0229

Total ISRS Revenues	**$1,944,044**	1,944,044
Northeast and West Districts (NEMO / WEMO)	940,146	
Southeast District (SEMO)	1,003,898	

Rate District & Class	Number of Customers	Customer Charge	Ratio to Residential Customer Charge	Weighted Customer Numbers	Customer Percentage	ISRS Charge	ISRS Revenues
Northeast and West Districts							
Firm Residential	18,924	22.00	1.0000	18924	72.7167%	**$3.01**	$ 683,643
Small Firm GS	2,662	33.79	1.5359	4089	15.7107%	**$4.62**	$ 147,703
Medium Firm GS	378	136.13	6.1877	2339	8.9876%	**$18.63**	$ 84,497
Large Firm GS	18	750.00	34.0909	614	2.3579%	**$102.63**	$ 22,168
Interruptible Large Volume	2	650.00	29.5455	59	0.2271%	**$88.95**	$ 2,135
Total NEMO / WEMO	*21,984*			*26,024*	*$1.0000*		*$ 940,146*
Southeast District							
Firm Residential	26,723	15.00	1.0000	26723	69.9507%	**$2.19**	$ 702,233
Small Firm GS	3,295	25.10	1.6733	5514	14.4326%	**$3.66**	$ 144,889
Medium Firm GS	516	140.00	9.3333	4816	12.6065%	**$20.44**	$ 126,556
Large Firm GS	21	750.00	50.0000	1050	2.7485%	**$109.49**	$ 27,592
Interruptible Large Volume	2	750.00	50.0000	100	0.2618%	**$109.49**	$ 2,628
Total SEMO	*30,557*			*38,203*	*100.0000%*		*$ 1,003,898*
Total Missouri	**52,541**			3,295	100.0000%		$ 1,944,044

* Due to rounding to the nearest penny, the designed ISRS rates will over collect by $2638. However, it should be noted that the total amount collected will be trued-up at a later date.

APPENDIX B

Liberty Utilities
Missouri Jurisdiction
ISRS Revenue Requirement Calculation

ISRS Activity:	Line #	Company Submitted Total Missouri	Company Submitted WEMO / NEMO	Company Submitted SEMO	Staff Adjusted Total Missouri	Staff Adjusted WEMO / NEMO	Staff Adjusted SEMO
Gas Utility Plant Projects - Main Replacements and Other Projects Extending Usefu	1						
Work Orders Placed in Service	2						
Gross Additions	3	$ 9,905,635	$ 5,991,865	$ 3,913,770	$ 9,809,311	$ 5,895,540.75	$ 3,913,770.03
Accumulated Depreciation	4	(132,884)	(43,130)	(89,755)	(209,243)	(88,355)	(120,888)
	5						
Total Net	6	9,772,751	5,948,735	3,824,015	9,600,067	5,807,186	3,792,882
	28						
Accumulated Deferred Income Taxes	29	(106,718)	(27,692)	(79,025)	(171,181)	(67,961)	(103,220)
Incremental Deferred Income Taxes - GT-2021-0073	30				(74,841)	(46,637)	(28,204)
Incremental Deferred Income Taxes - GT-2022-0118	31				(52,476)	(5,968)	(46,507)
Incremental Depreciations - GT-2021-0073	32				(250,740)	(119,132)	(131,609)
Incremental Depreciation - GT-2022-0118	33				(84,640)	(8,263)	(76,377)
Total ISRS Rate Base	34	9,666,033	5,921,043	3,744,990	8,966,189	5,559,225	3,406,964
Overall Rate of Return per GR-2018-0013	35	7.40%	7.40%	7.40%	7.40%	7.40%	7.40%
UOI Required	36	715,576	438,335	277,242	663,767	411,549	252,218
Income Tax Conversion Factor	37	1.3130	1.3130	1.3130	1.3130	1.3130	1.3130
Revenue Requirement Before Interest Deductibility	38	939,571	575,545	364,026	871,544	540,376	331,168
	39						
Total ISRS Rate Base	40	9,666,033	5,921,043	3,744,990	8,966,189	5,559,225	3,406,964
Weighted Cost of Debt per GR-2018-0013	41	2.21%	2.21%	2.21%	2.21%	2.21%	2.21%
Interest Deduction	42	213,523	130,796	82,727	198,063	122,803	75,260
Marginal Income Tax Rate	43	23.84%	23.84%	23.84%	23.84%	23.84%	23.84%
Income Tax Reduction due to Interest	44	50,904	31,182	19,722	47,218	29,276	17,942
Income Tax Conversion Factor	45	1.3130	1.3130	1.3130	1.3130	1.3130	1.3130
Revenue Requirement Impact of Interest Deductibility	46	66,838	40,943	25,896	61,999	38,441	23,558
	47						
Total Revenue Requirement on Capital	48	872,733	534,603	338,130	809,545	501,935	307,610
Depreciation Expense	49	182,236	107,546	74,690	177,906	103,589	74,317
Property Taxes	50	189,589	129,841	59,749	95,837	42,444	53,393
	51						
Reconciliation (Over)/Under Collection	52				(29,530)	(56,077)	26,547
	53						
	54						
Total Company ISRS Revenues	55	$ 1,244,558.36	$ 771,989	$ 472,569	$ 1,053,758	$ 591,891	$ 461,867