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Requirement Cost of Service,
Overview of Staff's Filing
Witness: Lisa K. Hanneken
Sponsoring Party: MoPSC Staff
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Case No.: GR-2014-0152
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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

UTILITY SERVICES – AUDITING

DIRECT TESTIMONY

OF

LISA K. HANNEKEN

LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP.

d/b/a LIBERTY UTILITIES

CASE NO. GR-2014-0152

*Jefferson City, Missouri
June 2014*

* Denotes Propriety Information *

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1 **DIRECT TESTIMONY**

2 **OF**

3 **LISA K. HANNEKEN**

4 **LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP.**

5 **d/b/a LIBERTY UTILITIES**

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

7 Q. Please state your name and business address.

8 A. Lisa K. Hanneken, 111 North 7th Street, Suite 105, St. Louis, MO 63101.

9 Q. By whom are you employed and in what capacity?

10 A. I am employed by the Missouri Public Service Commission (Commission) as
11 a Regulatory Auditor V.

12 Q. Please describe your educational background and work experience.

13 A. In July 2001, I earned a Bachelor of Science degree in Accounting, graduating
14 with Honors, from Webster University. I also earned a Masters in Business Administration
15 with an emphasis in Accounting from Maryville University in December of 2006. Prior to
16 working at the Commission, between 1989 and 2001, I held other accounting and auditing
17 positions: an auditing internship with the Internal Revenue Service, accounting manager for
18 Bucklick Creek, Inc., and bookkeeper at Rinderer's Union Drug. Since joining the
19 Commission's Staff in 2001, I have assisted with and directed audits and examinations of the
20 books and records of utility companies operating within the state of Missouri.

21 Q. Have you previously filed testimony before this Commission?

22 A. Yes, I have. Please refer to Schedule 1, which is attached to this direct
23 testimony, for a list of cases in which I have previously filed testimony or reports as well as
24 the issues that I have addressed.

1 Q. What knowledge, skills, experience, education and training do you have in the
2 areas of which you are testifying as an expert witness?

3 A. I have been employed by this Commission as a Utility Regulatory Auditor for
4 several years and have submitted testimony on ratemaking issues numerous times before this
5 Commission. I have also been responsible for the supervision of other Commission
6 employees in rate cases and other regulatory proceedings. Since the time that I began my
7 employment with the Commission, I have received continuous training with regard to
8 technical ratemaking matters both in-house and through attending National Association of
9 Regulatory Utility Commissioners (NARUC) sponsored regulatory seminars as well as other
10 regulatory symposiums.

11 Q. Have you participated in the Commission Staff's (Staff) audit of Liberty
12 Utilities concerning its request for a rate increase in this proceeding?

13 A. Yes, along with the assistance of other members of the Staff. I am the Utility
14 Services Department co-case coordinator facilitating the work of the Utility Services Staff
15 members, and I confer with Staff from other Commission Departments involved in the
16 Staff's direct case.

17 **EXECUTIVE SUMMARY**

18 Q. Please summarize your direct testimony in this proceeding.

19 A. Along with Staff witness Thomas M. Imhoff, I am co-sponsoring the Staff's
20 Revenue Requirement Cost of Service Report ("Report") that is being filed concurrently with
21 this and Mr. Imhoff's direct testimony. Staff's Cost of Service Report supports Staff's
22 recommendation of the amount of the rate revenue decrease for Liberty Utilities (Midstates
23 Natural Gas) Corp. d/b/a Liberty Utilities (Liberty Utilities or Liberty Midstates) based on

1 information through the period ending March 31, 2014, the end of the test year update period
2 in this case, using actual historical information. The rate revenue decrease recommendation
3 being filed for this period is found in Staff's separately filed Accounting Schedules.

4 I present in this testimony an overview of the results of Staff's review of Liberty
5 Utilities' revenue requirement performed in response to Liberty Utilities' general rate
6 increase request filed on February 6, 2014. Staff witness Imhoff provides an overview of the
7 work performed by members of the Commission's Tariff, Safety, Economic & Engineering
8 Analysis (TSEEA) Department who contributed to Staff's calculation of Liberty Utilities'
9 revenue requirement. Several members of the Commission Staff participated in the
10 examination of Liberty Utilities' books and records for all the components that make up the
11 revenue requirement calculation. These components can be broadly defined as (1) capital
12 structure and return on investment, (2) rate base investment and (3) income statement results,
13 including revenues, operating and maintenance expenses, depreciation expense, and the taxes
14 related to Liberty Utilities' financial results, including income taxes. I provide an overview
15 of the Staff's work on each of these broadly defined components.

16 Staff refers to the revenue requirement model it uses as "Exhibit Model System" or
17 "EMS," and refers to its EMS modeling results based on various inputs as "EMS runs." Staff
18 estimates a utility's revenue requirement based on the work product of members of the
19 Regulatory Review Division of the Commission. Staff's EMS run results that support its
20 recommended revenue requirement for Liberty Utilities make up the Accounting Schedules
21 that are separately filed as an exhibit in the case. Given that Liberty Utilities' Missouri
22 operations are made up of three separate and distinct rate districts, Staff will produce four
23 separate EMS runs, one for total Missouri and one for each of the three districts: Northeast

1 Missouri (NEMO), Southeast Missouri (SEMO), and Western Missouri (WEMO). The
2 Accounting Schedules, along with Mr. Imhoff's direct testimony and my direct testimony, as
3 well as the Staff's Cost of Service Report and supporting schedules, present and support
4 Staff's revenue requirement recommendation for Liberty Utilities.

5 Q. Based on its review of the test year ending September 30, 2013 updated
6 through March 31, 2014, what is Staff's recommendation concerning Liberty Utilities'
7 revenue requirement?

8 A. Staff recommends a return on equity ("ROE") range of 8.20 percent to
9 9.20 percent, with a mid-point of 8.70 percent, which yields the rate of return range of
10 6.34 percent to 6.80 percent. Using this range of overall rate of return, Staff's Liberty
11 Utilities revenue requirement calculation, which is based on Liberty Utilities' actual costs
12 through March 2014, indicates the need for an incremental revenue decrease in a range
13 between -\$4,181,407 million to -\$3,530,642 million based on current Liberty Utilities' rates.

14 Q. Based on Staff's calculated revenue requirement, is Staff filing a complaint to
15 decrease Liberty Utilities' rates at this time?

16 A. No. While Staff's revenue requirement supports a rate decrease, Staff is not
17 filing a complaint case at this time given that Staff understands that the data provided to Staff
18 to date, requires additional data and clarification by Liberty Utilities, especially in the areas
19 of revenues and rate base. Staff will continue to work with Liberty Utilities regarding this
20 data and will make any necessary adjustments based upon additional information received.

21 **REVENUE REQUIREMENT COST OF SERVICE REPORT**

22 Q. How is the Staff's Report organized?

- 1 A. The Staff's Report has been organized by topic as follows:
- 2 I. Executive Summary
- 3 II. Background of Rate Case
- 4 III. Background of Liberty Utilities
- 5 IV. Issues Regarding Appropriate Record Keeping
- 6 V. Major Issues
- 7 VI. Rate of Return and Capital Structure
- 8 VII. Rate Base
- 9 VIII. Allocations
- 10 IX. Income Statement
- 11 X. Ratepayer Funded Energy Efficiency and Low-Income
- 12 Weatherization Programs

13 These categories have several subsections which identify in detail the specific
14 elements of Staff's revenue requirement recommendation for Liberty Utilities. The
15 respective Staff member responsible for writing each specific section of the Report is
16 identified in the Report, and that person is the Staff's expert/witness for that particular
17 section of the Staff's Report. The affidavit of each Staff member who contributed to the
18 Report is included in an appendix to the Report. Results for the different revenue requirement
19 calculation components are contained in Staff's Accounting Schedules.

20 **OVERVIEW OF STAFF'S RECOMMENDED REVENUE REQUIREMENT**

21 Q. How did Staff determine Liberty Utilities' revenue requirement?

22 A. Staff reviewed all the components making up the revenue requirement of
23 Liberty Utilities, which include rate of return and capital structure, rate base investment, and
24 revenues and expenses, and sought to maintain the relationship in time between each of these
25 components through the update period ending March 31, 2014.

1 Q. What are the cost of service components that comprise the revenue
2 requirement for a regulated investor-owned public utility?

3 A. The revenue requirement for a regulated investor-owned public utility can be
4 defined by the following formula:

5 Revenue Requirement = Cost of Providing Utility Service (i.e. Cost of Service)

6 **Or**

7 $RR = O + (V-D)R$; where,

8 RR = Revenue Requirement

9 O = Operating Costs (Payroll, Maintenance, etc.), Depreciation, and
10 Taxes

11 V = Gross Valuation of Property Required for Providing Service
12 (including plant and additions or subtractions of other rate base
13 items)

14 D = Accumulated Depreciation Representing Recovery of Gross
15 Depreciable Plant Investment.

16 V-D = Rate Base (Gross Property Investment less Accumulated
17 Depreciation = Net Property Investment)

18 $(V-D)R$ = Return Allowed on Rate Base (Net Property Investment)

19 The “revenue requirement” calculated by this formula represents the utility’s total revenue
20 requirement. For ratemaking purposes, however, the term “revenue requirement” generally
21 refers to the increase or decrease in revenue a utility needs as measured using the utility’s
22 existing rates and the total cost of service.

23 Q. What is the objective of an audit of a regulated investor-owned public utility
24 for ratemaking purposes?

1 A. The objective of an audit is to determine the appropriate level of the
2 components identified in my previous answer in order to calculate the revenue requirement
3 for a regulated utility. All relevant factors are examined and a proper relationship of
4 revenues, expenses and rate base is maintained. The process for making that revenue
5 requirement determination can be summarized as follows:

6 (1) Selection of a test year. The test year income statement represents the
7 starting point for determining a utility's existing annual revenues, operating costs and
8 net operating income. Net operating income represents the return on investment
9 based upon existing rates. The test year adopted for this case is the twelve months
10 ending September 30, 2013. "Annualization" and "Normalization" adjustments are
11 made to the test year results when the unadjusted results do not fairly represent the
12 utility's most current and ongoing annual level of revenues and operating costs.
13 Annualization and normalization adjustments are explained in more detail later in this
14 Direct Testimony.

15 (2) Selection of a "test year update period". A proper determination of revenue
16 requirement is dependent upon matching the components of rate base, return on
17 investment, revenues and operating costs at the same point in time. This ratemaking
18 principle is commonly referred to as the "matching" principle. It is a standard
19 practice in ratemaking in Missouri to utilize a period beyond the established test year
20 for a case in which to match the major components of a utility's revenue requirement.
21 It is necessary to update test year financial results to reflect information beyond the
22 established test year in order to set rates based upon the most current information that
23 can be subjected to an audit. The update period that was agreed to and established for
24 this particular case is the six months ending March 31, 2014. The Staff's direct case
25 filing represents a determination of a revenue requirement based upon test year and
26 any known and measurable results for major components of the Company's
27 operations as of March 31, 2014.

28 (3) Determination of Rate of Return. A cost of capital analysis is performed to
29 determine a fair rate of return on investment to be allowed on Liberty Utilities' net

1 investment (rate base) used in the provision of utility service. Staff witness
2 Zephania Marevangepo, of the Commission's Financial Analysis Unit, has performed
3 a cost of capital analysis for this case and is sponsoring a section of the Staff's Report
4 to explain and provide the results of his analysis.

5 (4) Determination of Rate Base. Rate base represents the utility's net
6 investment used in providing utility service. For its direct filing, the Staff has
7 determined Liberty Utilities' rate base as of March 31, 2014, consistent with the end
8 of the test year update period established for this case.

9 (5) Determination of Net Income Required. The net income required for
10 Liberty Utilities is calculated by multiplying the Staff's recommended rate of return
11 by the rate base established as of March 31, 2014. The result represents net income
12 required. Net income required is then compared to net income available from
13 existing rates to determine the incremental change in Liberty Utilities' rate revenues
14 required to cover its operating costs and provide a fair return on investment used in
15 providing utility service.

16 (6) Net Income from Existing Rates. Determining net income from existing
17 rates is the most time consuming process involved in determining the revenue
18 requirement for a regulated utility. The starting point for determining net income
19 from existing rates is the unadjusted operating revenues, expenses, depreciation and
20 taxes for the test year which is the twelve month period ending September 30, 2013,
21 for this case. All of the utility's specific revenue and expense categories are
22 examined to determine whether the unadjusted test year results require annualization
23 or normalization adjustments in order to fairly represent the utility's most current
24 level of operating revenues and expenses. Numerous changes occur over time that
25 will impact a utility's annual level of operating revenues and expenses.

26 (7) The final step in determining whether a utility's rates are insufficient to
27 cover its operating costs and a fair return on investment is the comparison of net
28 operating income required (Rate Base x Recommended Rate of Return) to net income
29 available from existing rates (Operating Revenue less Operating Costs, Depreciation
30 and Income Taxes). The result of this comparison represents the recommended
31 increase and/or decrease in the utility's net income. This change in net income is then

1 grossed up for income tax to determine the recommended increase and/or decrease in
2 the utility's operating revenues through a rate change.

3 Q. Please identify the types of adjustments made to unadjusted test year results in
4 order to reflect a utility's current annual level of operating revenues and expenses.

5 A. The four types of adjustments made to reflect a utility's current annual
6 operating revenues and expenses are follows:

7 (1) Normalization adjustments. Utility rates are intended to reflect
8 normal ongoing operations. A normalization adjustment is required when the test
9 year reflects the impact of an abnormal event. One example of this type of
10 adjustment is the Staff's revenue adjustments to normalize rate case expense. Given
11 that rate cases for this type of utility only occur approximately every three years, the
12 rate case expense will be spread over a three-year period of time in order to make the
13 experienced expense level "normal".

14 (2) Annualization adjustments. Annualization adjustments are the most
15 common adjustment made to test year results to reflect the utility's most current
16 annual level of revenue and expenses. Annualization adjustments are required when
17 changes have occurred during the test year, update and/or true-up period, which are
18 not fully reflected in the unadjusted test year results. For example, a portion of
19 Liberty Utilities' employees received a union wage increase on June 1, 2013. As a
20 result, only a portion of the twelve months ending September 30, 2013 reflects the
21 impact of this payroll increase. An annualization adjustment was made to capture the
22 full financial impact of the payroll increase for the portion of the test year prior to the
23 time of the wage increase.

24 (3) Disallowance adjustments. Disallowance adjustments are made to
25 eliminate costs in the test year results that are not considered appropriate for recovery
26 from ratepayers. An example of this is certain executive incentive compensation
27 costs. In the Staff's view, certain amounts of these costs are incurred to primarily
28 benefit shareholder interests, and it is not appropriate to pass these costs along to
29 customers in rates. Therefore, these costs should be eliminated from the cost of

1 service borne by ratepayers, and the Staff has proposed to disallow these costs from
2 recovery in rates.

3 (4) Proforma adjustments. Proforma adjustments reflect the impact of items
4 and events that occur subsequent to the test year. Often, pro forma adjustments
5 concern the financial impact of governmental mandates or other events that are totally
6 outside of the utility's control. This type of item or event may significantly impact
7 revenue, expense and the rate base relationship and should be recognized to address
8 the forward-looking objective of the test year. One example of a proforma
9 adjustment is a postal increase that occurred after the test year and update period.
10 This would be a known and measurable increase that would impact the company's
11 billing expense every month.

12 Q. What rate increase amount did Liberty Utilities request from the Commission
13 in this case?

14 A. Liberty Utilities requested that its annual revenues be increased by
15 approximately \$7.6 million. The Staff notes that Liberty Utilities is currently recovering
16 approximately \$1.3 million of the amount requested through its current Infrastructure System
17 Replacement Surcharge (ISRS) as approved by this Commission. Liberty Utilities' requested
18 increase in rates is based upon a return on equity (ROE) recommendation of 10.50% within a
19 proposed ROE range of 10.00% to 10.50%.

20 Q. What is the Staff's recommended revenue requirement for Liberty Utilities at
21 the time of this revenue requirement direct filing?

22 A. The results of the Staff's audit of Liberty Utilities' rate increase request can
23 be found in the Staff's Accounting Schedules and is summarized on Accounting
24 Schedule 1, Revenue Requirement. This Accounting Schedule shows that the Staff's
25 change in revenue requirement for Liberty Utilities in this proceeding ranges from

1 approximately -\$4,181,407 million to -\$3,530,642 million, based upon a recommended rate
2 of return (ROR) range of 6.34% to 6.80%.

3 Q. What return on equity range is the Staff recommending in this case?

4 A. The Staff is recommending a return on equity range of 8.20% to 9.20% with a
5 midpoint return on equity of 8.70%, as calculated by Staff witness Marevangepo. The Staff's
6 recommended capital structure for Liberty Utilities is * * common stock equity and
7 * * long-term debt. Based upon this capital structure, the Staff's resulting cost of
8 capital to apply to rate base is in the range of 6.34% to 6.80%, with 6.57% representing the
9 Staff's recommended midpoint value. The Staff's recommended weighted cost of capital is
10 explained in more detail in Section VI of the Staff's Cost of Service Report.

11 Q. What items are included in the Staff's recommended rate base in this case?

12 A. Rate base items were determined as of the update period ending March 31,
13 2014, either through a balance on Liberty Utilities' books as of that date, a 13-month average
14 balance ending on March 31, 2014, or a cash working capital lead lag analysis. These rate
15 base items include:

- 16 • Plant in Service
- 17 • Accumulated Depreciation Reserve
- 18 • Cash Working Capital
- 19 • Natural Gas Stored Inventory
- 20 • Energy Efficiency Asset
- 21 • Prepayments
- 22 • Accumulated Deferred Income Taxes
- 23 • Customer Advances for Construction
- 24 • Customer Deposits
- 25 • Rate Base Offset per Stipulation in GM-2014-0037

1 Q. What are the significant income statement adjustments the Staff made in
2 determining Liberty Utilities' revenue requirement for this case?

3 A. A summary of the Staff's significant income statement adjustments follows:

4 **Operating Revenues**

5 Due to the lack of useable and reliable revenue data provided by Liberty Utilities,
6 Retail Revenues were only adjusted to update from the test year ending September 30, 2013
7 to the update period ending March 31, 2014 without the normal adjustments for weather,
8 customer growth/loss, seasonality, load changes and rate switching. Staff has confirmed that
9 the revenue data provided to Staff by Liberty Utilities already accounted for the elimination
10 of unbilled revenues, gross receipts taxes, and gas costs. Therefore it was only necessary for
11 Staff to adjust for the elimination of ISRS surcharges. In addition, Staff has made
12 adjustments related to contractual customers. However, Staff was unable in a traditional
13 fashion to adjust for customer growth, seasonality, load changes, rate switching and weather
14 normalization. The issues encountered by Staff in acquiring reliable and accurate customer
15 count and usage data did not allow for Staff's calculations of these adjustments. These issues
16 are discussed more fully later in this testimony and in Staff witness Imhoff's testimony, as
17 well as certain sections of the Report.

18 **Revenues - Contractual Customers**

19 Staff made certain adjustments to account for contractual customers' revenues. These
20 adjustments are discussed more fully by Staff witnesses Kim Cox and David M. Sommerer in
21 their Report sections.

1 **Depreciation and Amortization**

2 Depreciation expense was annualized based upon the plant in service as of
3 March 31, 2014 and the new depreciation rates proposed by Staff witness John A. Robinett.

4 **Payroll, Payroll Taxes and Employee Benefits**

5 Payroll expense was annualized on the basis of employee levels and wages as of
6 March 31, 2014. In addition, Staff included in its annualization amount a known and
7 measurable union wage increase which will be effective June 1, 2014. Payroll taxes and all
8 non-pension and non-OPEB related payroll benefits were annualized as of March 31, 2014.

9 **Other Non-Labor Expenses**

- 10 • Uncollectibles
- 11 • Pensions and OPEBs
- 12 • Disallowance of advertising, dues and donations, miscellaneous expenses
13 and lobbying
- 14 • Allocation of costs between affiliate entities

15 Q. What reliance did you place on the work or conclusions of other
16 Staff members involved in the case?

17 A. An expert determining the revenue requirement for a regulated utility must
18 rely on the work from others responsible for developing specific inputs into the cost of
19 service calculation. All of the Staff auditors, including myself, relied on the work from
20 numerous other Staff members in calculating a revenue requirement for Liberty Utilities in
21 this case. Recommended depreciation rates and the recommended rate of returns are just two
22 examples of data and analysis supplied to the Auditing Unit as inputs into the Staff's revenue
23 requirement cost of service calculation. All of the work performed by Staff participants was

1 done through the coordination and oversight of myself (Staff Utility Services Department
2 Case Coordinator) and/or Mr. Imhoff (Staff Utility Operations Department Case
3 Coordinator). If the Commission has questions of a general or policy nature regarding the
4 work performed by, or the positions taken by, Staff in this proceeding, both Mr. Imhoff
5 and I will be available at hearing to answer questions of this nature. Affidavits and the
6 qualifications for all Staff members who participated in the rate case and who are responsible
7 for a section of the Staff's Revenue Requirement Cost of Service Report are attached as an
8 appendix to the Report. Further, each Staff member who is responsible for a section of the
9 Staff's Revenue Requirement Cost of Service Report is identified at the conclusion of the
10 section he or she authored as being the Staff expert/witness responsible for that section. The
11 Staff experts assigned to the Liberty Utilities rate case will provide copies of their work
12 papers supporting the findings and recommendations to Liberty Utilities and to other parties
13 as the Commission has ordered in setting the procedural schedule in this case. Finally, each
14 Staff expert assigned to this rate case will be available to answer Commissioner questions
15 and to be cross-examined by any party who wishes to conduct cross-examination regarding
16 information on how Staff's findings and recommendations were developed and presented in
17 Staff's Cost of Service Report, including Staff's Accounting Schedules.

18 Q. What are the biggest differences between the rate increase request filed by
19 Liberty Utilities and the Staff revenue requirement recommendations being filed in this
20 proceeding?

21 A. There are four primary revenue requirement differences which are addressed
22 in this direct testimony or in the Staff Report in Section V, Major Issues. They are listed

1 below with the respective Staff experts/witnesses responsible for addressing each area where
2 there is a known and significant difference between the Staff and Liberty Utilities:

3

<u>Issue</u>	<u>Staff Witness</u>
Return on Equity/Rate of Return	Zephania Marevangepo
Pension and OPEBs Expense	Kofi A. Boateng
Revenues	Kofi A. Boateng
Contractual Customer Revenues	Kim Cox, David M. Sommerer

4

5 Q. Is it possible that significant differences exist between the Staff's revenue
6 requirement positions and those of other parties to the case besides Liberty Utilities in
7 this proceeding?

8 A. Yes. However, the other parties to the case are filing their direct testimony
9 concurrently with the Staff's direct filing. Until the Staff has an opportunity to examine the
10 direct testimony filed by the other parties, it is impossible to determine what differences exist
11 and how material they may be at this time.

12 Q. Does Staff have any recommendations for Liberty Utilities as a result of
13 this audit?

14 A. Yes. Staff encountered numerous problems in reviewing the books and
15 records of Liberty Utilities with the unavailability of certain critical audit information, and in
16 receiving some information in a way that was useful in our analysis during the audit.
17 Therefore, Staff recommends Liberty Utilities review the major concerns brought to its
18 attention by Staff in this case, and make appropriate changes to attempt to remedy the
19 problems for the remainder of this case, if possible, and for purposes of future rate cases.

1 Q. Please provide an example of a significant data issue that arose during
2 this case.

3 A. One of the largest problems encountered by Staff was unreliable and
4 inaccurate data for customer counts and usages. Part of the issue involves the fact that, as part
5 of the Liberty Utilities acquisition case, Case No. GM-2012-0037, Atmos Energy
6 Corporation (Atmos), Liberty Utilities' predecessor, engaged in a contractual Continuing
7 Services Agreement which allowed for the provision of billing assistance to Liberty Utilities
8 until such time that Liberty Utilities fully took over that function. As a result, some of the
9 data provided for the test year was provided through Atmos and some was from Liberty
10 Utilities' records. These two data sets do not seem to correspond and Staff has been unable to
11 confirm which, if any, of these data points are correct. In addition, Staff has received data
12 request supplements in which previously supplied data points inexplicably changed. As
13 explained more fully in Staff witness Imhoff's direct testimony and in certain sections of the
14 cost of service report, Staff has little assurance in the data sets provided to date, particularly
15 relating to customer counts and usages. While Staff does not believe Liberty Utilities is
16 intentionally withholding data, the fact is that at the present time, Staff has not been provided
17 the data necessary to perform a complete revenue analysis.

18 Q. Did Staff encounter other problems with Liberty Utilities' data?

19 A. Yes, the data provided for Liberty Utilities' Plant In Service balances and
20 Accumulated Depreciation Reserve balances has several issues. Each of these issues will be
21 discussed more fully in their respective sections of the Report; however, in general, the issues
22 are: severe lags in booking plant, reserve and retirement amounts; incorrectly calculated
23 retirement entries; and Staff's inability to verify the total amounts provided.

1 Q. Based on the problems that Staff has discovered with Plant In Service
2 and Accumulated Depreciation Reserve, was Staff able to perform a complete analysis of
3 these items?

4 A. Staff at this time is utilizing the actual Plant In Service and Accumulated
5 Depreciation Reserve as booked to Liberty Utilities' books as of March 31, 2014. While Staff
6 has been unable to verify each aspect of Plant In Service and Accumulated Depreciation
7 Reserve totals, Staff believes at this time that in aggregate the overall total balances represent
8 fairly accurate amounts. Most of Staff's concerns center on the fact that the Accumulated
9 Depreciation Reserve balances are not kept by account, as prescribed in the USOA, and that
10 Plant In Service amounts do not transfer from CWIP on a consistent basis which may cause
11 issues with the calculation of Accumulated Depreciation Reserve. In addition, by not booking
12 on a consistent basis it is difficult for Staff to verify the balances are accurate. As soon as
13 Staff is provided additional data regarding the erroneous retirement items, an adjustment to
14 both the Plant In Service and Accumulated Depreciation Reserve balances will need to be
15 made; however, without additional data from Liberty Utilities, it is not possible to make
16 such adjustments.

17 Q. Does Staff have additional concerns regarding Liberty Utilities' regulatory
18 recordkeeping practices?

19 A. Yes, through its review of the books and records of Liberty Utilities, Staff has
20 found items such as booking of items to inappropriate Uniform System of Accounts (USOA)
21 accounts; booking accruals for payroll increases; not making monthly entries to expense
22 prepaid balances; and discrepancies in information provided to Staff as to how allocated

1 amounts are entered on Missouri books. Staff also has concerns about whether proper
2 internal controls are being applied by Liberty Utilities.

3 Q. Based on Staff's review of Liberty Utilities' books and records, what actions
4 does Staff recommend Liberty Utilities take to correct the deficiencies in its recordkeeping?

5 A. Staff would recommend that Liberty Utilities adhere to Commission Rule
6 4 CSR 240-40.040 (1) regarding conformity with the USOA as well as Commission Rule 4
7 CSR 240-1.010 (3)(A) regarding proper record keeping. In addition, Staff recommends that
8 once Liberty Utilities is able to determine correct values for items such as Plant In Service,
9 Accumulated Depreciation Reserve and Revenues, it should reflect all necessary changes on
10 its books, both going forward and back to the point in time when the acquisition from Atmos
11 took place, to ensure that going forward the historical data provided for future rate cases is
12 accurate and usable. Staff would recommend that Liberty Utilities take immediate action to
13 begin this process and set a completion date of 90 days from the conclusion of this case.

14 Q. Given these issues, did Staff develop its revenue requirement recommendation
15 for Liberty Utilities in this rate case differently in any material way than it has done so in the
16 past for other utilities?

17 A. While Staff had to modify its traditional practices because of some of the data
18 issues, Staff's development of its revenue requirements for Liberty Utilities was based on
19 adhering to overall methodologies consistent with how Staff has developed revenue
20 requirements for other utilities, and, therefore, Staff believes the inputs provided by the
21 various Staff experts assigned to the Liberty Utility rate case are reasonable.

22 Q. Are there any other significant differences that exist between the Staff and
23 Liberty Utilities that are not specifically quantified on the Staff's Accounting Schedules?

1 A. Yes. The Staff disagrees with Liberty Utilities' proposals regarding
2 Compressed Natural Gas (CNG) and main extensions. However, since Staff's Direct case
3 does not include these items, Staff will address them in its Rebuttal Testimony in this case.

4 Q. When will the Staff be filing its customer class cost of service/rate design
5 direct testimony and report in this proceeding?

6 A. The Staff's direct testimony and customer class cost of service/rate design
7 report will be filed on June 26, 2014.

8 Q. Does this conclude your direct testimony?

9 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

Case No. GR-2014-0152

AFFIDAVIT OF LISA K. HANNEKEN

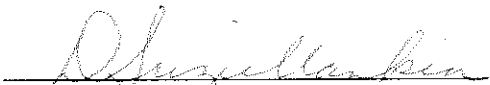
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Lisa K. Hanneken, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 19 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.


Lisa K. Hanneken

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

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 12, 2016 Commission Number: 12412070
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Notary Public

CASE PROCEEDING PARTICIPATION

LISA K. HANNEKEN

COMPANY	CASE NO.	ISSUES
Peaceful Valley Service Company	SR-2014-0153 WR-2014-0154	<u>Informal Rate Case</u> – Supervision
Laclede Gas Company	GO-2014-0212	<u>ISRS filing</u> – Supervision
AmerenMissouri	GO-2014-0015	<u>ISRS filing</u> – Supervision
Liberty Utilites	GO-2014-0006	<u>ISRS filing</u> – Supervision
Laclede Gas Company	GR-2013-0171	<u>Co-Case Coordinator</u> - Deferred Income Taxes, HVAC Home Sale Inspections, Appliance Repair & Red Tag, Accounting Authority Orders, CAM/Allocations, Income Taxes, Low Income, True-up Mechanism
Lincoln County Sewer and Water, LLC	SR-2013-0321 WR-2013-0322	<u>Direct</u> – Sponsorship of Accounting Schedules; <u>Surrebuttal</u> – Automated Meter Read Meters, Billing Software, Rate Case Expense, Certificate Expense, Land, Rate Base, Salaries, Sludge Hauling, Vehicle Expense, Testing Expense
Emerald Pointe Utility Company, Inc.	SR-2013-0016	<u>Direct</u> – City of Hollister Fees; <u>Surrebuttal</u> – Rate Base Items
Laclede Gas Company	GO-2013-0352	<u>ISRS filing</u> – Supervision
Liberty Utilities	GO-2013-0048	<u>ISRS filing</u> – Supervision

COMPANY	CASE NO.	ISSUES
Missouri American	WO-2012-0401	<u>ISRS filing</u> – Supervision
Laclede Gas Company	GO-2012-0356	<u>ISRS filing</u> – Supervision
Meramec Sewer Company	SR-2012-0309	<u>Informal Rate Case</u> – Lead Auditor
AmerenMissouri	ER-2012-0166	<u>Direct</u> – Fuel, Taum Sauk Failure, Callaway Refueling, Fuel Inventory, Coal Refinement, Off-System Sales, Capacity Sales, Midwest Independent Transmission System Operator (MISO), Westinghouse Credits, Rate Case Expense, Outside Services, Costs associated with Owensville Acquisition, Project First; <u>Surrebuttal</u> – Rate Case Expense, Fuel, Intangible Assets, Changes to Staff’s Cost of Service
Lincoln County Sewer & Water	WA-2012-0018	<u>Informal Rate Case</u> – Lead Auditor, Rate Base, Maintenance, Sludge, Vehicles, Payroll, Legal, Exhibit Modeling System (Accounting Schedules)
House Springs Sewer Co.	SR-2011-0274	<u>Informal Rate Case</u> – Lead Auditor, Payroll, Rate Base, Accounting, Insurance, Utilities, Sludge, Vehicles, Property Taxes, Miscellaneous Expenses
Laclede Gas Co	GO-2011-0361	<u>ISRS filing</u> – Supervision
Missouri American	WO-2011-0106	<u>ISRS filing</u> – Supervision

COMPANY	CASE NO.	ISSUES
Missouri American / Aqua Missouri	WO-2011-0168	<u>Sale Case</u> – Rate Base Determination
AmerenMissouri	ER-2011-0028	<u>Direct</u> – Fuel, Maintenance, AMS Allocations, Taum Sauk Failure, SO2 Tracker, Callaway Refueling, Fuel Inventory, Off-System Sales, Capacity Sales, Westinghouse Credits; <u>Surrebuttal</u> – Coal Power Plant Maintenance, Limestone Expense, Taum Sauk Failure, Sioux Plant Coal Costs
Atmos Energy Corporation	GO-2011-0149	ISRS filing
Aqua Missouri	SW-2011-0103	Single Tariff Pricing
Laclede Gas Company	GO-2011-0058	ISRS filing
AmerenUE	ER-2010-0028	<u>Direct</u> – Fuel, Maintenance, AMS Allocations, Taum Sauk Failure, SO2 Tracker, Callaway Refueling, Fuel Inventory, Off-System Sales, Capacity Sales, Westinghouse Credits
Mill Creek Sewer Company	SO-2010-0237	<u>Receivership</u> – Testified regarding company status
Atmos Energy Corporation	GO-2010-0168	ISRS filing

COMPANY	CASE NO.	ISSUES
Laclede Gas Company	GR-2010-0171	<u>Direct</u> - Lead Auditor, EMS, Allocations, Uncollectibles, Revenues, Franchise Tax, GRT Tax, Gov. Affairs, Postage Exp., Legal Exp., Gasoline Exp., Cust. Dep, Cust. Advances, Special Deposits, Prepayments, CWC, Rate Case Exp. <u>Surrebuttal</u> – Uncollectibles
Aqua Missouri	SC-2010-0150 SC-2010-0152 WC-2010-0151 WC-2010-0153	Compliant Cases
Aqua Missouri	SR-2010-0026 SR-2010-0023 WR-2010-0025 WR-2010-0027	<u>Informal Rate Case</u> – Lead Auditor, EMS, Rate Base, Revenue, Corporate Allocations, Income taxes
Mill Creek Sewer Company	SR-2005-0116	<u>Informal Rate Case</u> – Quarterly Reviews
AmerenUE Gas Company	GT-2009-0413	ISRS filing
Atmos Energy Corporation	GO-2009-0046	ISRS filing
Peaceful Valley Service Company	SR-2009-0146 WR-2009-0145	<u>Informal Rate Case</u> – Lead Auditor
Cannon Home Association	SR-2009-0144	<u>Informal Rate Case</u> – Lead Auditor
AmerenUE Gas Company	GT-2009-0038	ISRS filing
Laclede Gas Company	GO-2009-0029	Abandonment Case – Recommendation Submission

COMPANY	CASE NO.	ISSUES
Aqua Missouri	SR-2008-0267 SR-2008-0368 WR-2008-0266 WR-2008-0269	<u>Informal Rate Case</u> – Lead Auditor for part of time, EMS, Rate Base, Payroll, Corporate Allocations, Misc. Expenses
Laclede Gas Company	GO-2008-0067	Abandonment Case – Recommendation Submission
Missouri American Water Company	WR-2007-0216	<u>Direct</u> – Lead Auditor, Allocations, Payroll and Payroll Taxes, Employee Benefits, Incentive Compensation
AmerenUE Electric Company	ER-2007-0002 and GR-2007-0003	<u>Direct</u> – Corporate Allocations and Expenses, Payroll and Payroll Taxes, Employee Benefits, Incentive Compensation, Miscellaneous Expenses
Atmos Energy Corporation	GR-2006-0387	<u>Direct</u> – Lead Auditor, Corporate Allocations and Expenses, Payroll and Payroll Taxes, PSC Assessment, Taxes Other, Legal Fees
Central Jefferson County Utilities	QS-2006-0003	<u>Small Co Rate Request</u> – Lead Auditor, Rate base, payroll, affiliated transactions
Evergreen Lakes Water Company	QW-2005-0007	<u>Informal Rate Case</u> – All issues
Central Jefferson County Utilities	SF-2004-0587	<u>Finance Case</u> – All issues except revenues
TBJ Sewer System, Inc.	SR-2003-0244	<u>Informal Rate Case</u> – All issues
Central Rivers Wastewater, Inc.	N/A	<u>Rate Review</u> – All issues related to review
Fidelity Telephone Company	IR-2004-0272	<u>Direct</u> - Rate Base and Related Expenses; Insurance Other Than Group; Miscellaneous Other Taxes

COMPANY	CASE NO.	ISSUES
Missouri American Water Company	WR-2003-0500	<p><u>Direct</u> – Rate Base and Related Expenses, AFUDC, Dues and Donations, Waste Disposal Expense, Storage Tank Lease Expense, Deferred Maintenance Expense, Transportation Expense, Insurance Other Than Group, Cost of Depreciation Study Expense</p> <p><u>Surrebuttal</u> – AFUDC, Dues and Donations, St. Joseph Waste Disposal Expense, Transportation Expense, Property Taxes</p>
Laclede Gas Company	GR-2002-356	<p><u>Direct</u> - Cash Working Capital, Rate Case Exp./PSC Assessment, Advertising, Misc. Expense</p>