

MEMORANDUM

TO: Missouri Public Service Commission Official Case File  
Case No. GR-2017-0089, Liberty Utilities (Midstates Natural Gas) Corp.

FROM: Anne Crowe, Regulatory Auditor Procurement Analysis  
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Derick Miles, P.E., Regulatory Engineer - Procurement Analysis

/s/ David M. Sommerer 12/01/17      /s/ Casi Aslin 12/01/17  
Project Coordinator/ Date              Staff Counsel's Office/ Date

SUBJECT: Staff's Recommendation in Case GR-2017-0089, Liberty Utilities (Midstates Natural Gas) Corp. 2015-2016 Actual Cost Adjustment Filing

DATE: December 1, 2017

Procurement Analysis Staff has reviewed Liberty Energy (Midstates) Corp. d/b/a Liberty Utilities' ("Liberty" or "Company") 2015-2016 Actual Cost Adjustment (ACA) filing. This filing was made on October 19, 2016, for rates to become effective on November 3, 2016, in all areas served by Liberty in Missouri. This filing was docketed as Case No. GR-2017-0089.

This memorandum is organized into four sections. Each section contains detailed explanations of Staff's concerns and recommendations. The four sections are:

Section No.	Topic	Page
I	Billed Revenue and Actual Gas Costs	2
II	Reliability Analysis and Gas Supply Planning	3
III	Hedging	5
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Staff's analysis consisted of:

1. A review and evaluation of the Company's billed revenues and its natural gas costs for the period of September 1, 2015, to August 31, 2016. A comparison of billed revenue recovery with actual costs will yield either an over-recovery or under-recovery of the ACA costs.
2. A reliability analysis of the Company's estimated peak day requirements and capacity levels to meet those requirements.

**\*\* Denotes Confidential Information \*\***

3. An examination of the Company's gas purchasing practices to determine the prudence of the Company's purchasing decisions.
4. A hedging review to determine the reasonableness of the Company's hedging plans for this ACA period.

### **Liberty's Missouri service territory**

The Liberty systems in Missouri are grouped into three geographic areas: Northeast, Southeast and West. For gas cost recovery there are four PGA/ACA rate divisions, three of which are made up of the three geographic divisions. A fourth PGA division, Kirksville, is separate from the Northeast area. A more detailed description, with the associated interstate pipelines serving these areas, follows:

The West area (WEMO) includes Butler which is served by Panhandle Eastern Pipe Line Co., LP (PEPL) and Stateline (also known as Rich-Hill/Hume) which is served by Southern Star Central Gas Pipeline, Inc. (SSCGP). The West area serves an average of 3,893 firm sales customers.

The Northeast area (NEMO) includes Hannibal-Canton, Bowling Green and Palmyra served by Panhandle Eastern Pipe Line Co., LP (PEPL). The NEMO area serves an average of 13,094 firm sales customers.

The Kirksville area, served by ANR Pipeline Co. (ANR), serves an average of 5,404 firm sales customers.

The Southeast area (SEMO) includes Jackson, served by Natural Gas Pipeline Co. of America (NGPL), Piedmont, served by Mississippi River Transmission Corp. (MRT), and the Southeast Missouri Integrated system, served by Texas Eastern Transmission, LP (TETCO) and Ozark Gas Transmission, LLC. The Southeast area also includes the former Neelyville/Quilin service area. Together they serve an average of 31,728 firm sales customers.

The total customer count for all divisions is an average of 54,119 firm sales customers.

## **STAFF TECHNICAL REPORT AND ANALYSIS**

### **I. BILLED REVENUE AND ACTUAL GAS COSTS**

#### **Gas Cost Correction SEMO**

The Staff found an error in the recording of actual gas costs within the Company's ACA filing for the SEMO district. The Company did not include the costs reflected on an interstate pipeline invoice for the month of November 2015. This error had the effect of under-stating gas cost by a total of \$72,696.93 (\$75,209.70 Demand ACA increase plus a \$(2,512.77) Commodity ACA decrease). Therefore, the Staff proposes an adjustment to increase gas costs by \$72,696.93.

### **Transportation Customers' Cash Out Omissions and Errors**

Liberty's tariff allows certain commercial and industrial customers to choose transportation service which lets these customers purchase their gas supply from a third party with Liberty transporting the supply to the customers' premises. "Balancing" by a transportation customer or a pool of transportation customers means the amount of gas transporters put into Liberty's system (receipts) is equal to the amount used or taken out of Liberty's system (deliveries) by transporters. When a transportation customer puts more or less gas into Liberty's system than they use, this is referred to as an "imbalance." Liberty will reconcile or "Cash Out" transportation customers' imbalances on a monthly basis. The Cash Out process occurs at the end of each month. If the transporter used more gas than it put into Liberty's system, then the transporter pays Liberty for the additional gas supplies it used. If the transporter used less gas than it put into the system, Liberty purchases this gas from the transportation customer through a credit on the customer's bill.

In this ACA period, Staff found errors in the Cash Out amounts included in the ACA filing. The Company's ACA filing did not include cash out amounts for two transportation customers in the SEMO area. The net effect of this error is a \$9,920.70 over-statement of gas costs. Additionally the Company made multiple errors transferring the Cash Out information shown on the transportation customers' bills to the ACA Filing for the SEMO district. The total effect of the transcription errors is a \$706.93 over-statement of gas costs. Therefore Staff proposes a total adjustment to decrease gas cost by \$(10,627.63) due to the Cash Out errors explained above. The proposed adjustment is the sum of the cash out omission of \$(9,920.70) and the cash out transcription error of \$(706.93).

### **Billing Errors for the NEMO and Kirksville Areas**

In this ACA period, the Company improperly read the usage on five customers' meters. The Company read Mcfs on those meters instead of Ccfs. The error resulted in the customers' billed usage being a tenth of what those customers were actually using. This issue affected customers in the Kirksville and NEMO districts. Although the Company corrected its under-billing errors, the billed revenue correction was not included in the ACA filing. Therefore Staff proposes to adjust the NEMO demand balance by \$(1,050.16) and the commodity balance \$(2,914.93); and adjust the Kirksville demand balance by \$(1,952.65) and the commodity balance by \$(5,576.05) for these billing errors.

### **WEMO Billed Revenue Error**

In its ACA Filing for the WEMO district, the Company made an error in calculating its billed revenue. While the overall ACA rate was accurate, the Company included incorrect Demand and Commodity ACA rates to calculate its billed revenue such that the demand billed revenue was under-stated by \$30,084.46 and the commodity billed revenue was over-stated by an equal amount. While the total billed revenue was accurate because the errors offset one another, the individual demand and commodity recoveries are not accurate. The district did not have any interruptible customers in the 2015-2016 ACA period. However, any new interruptible customers since that time would be affected.

## **II. RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING**

As a regulated gas corporation providing natural gas service to Missouri customers, a Local Distribution Company (LDC) is responsible for: 1) conducting reasonable long-range supply

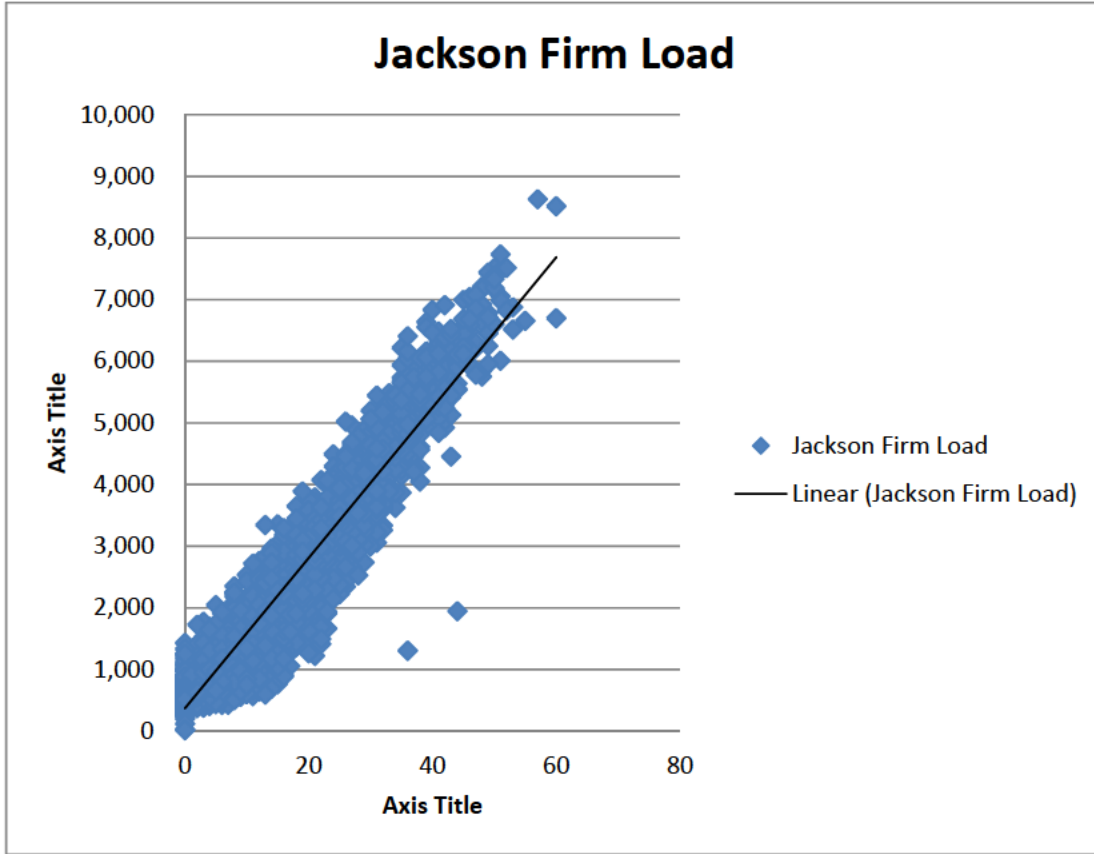
planning, and 2) the decisions resulting from that planning. One purpose of the ACA process is to review the Company's planning for gas supply, transportation, and storage to meet its customers' needs. For this analysis, Staff reviews the LDC's plans and decisions regarding estimated peak day requirements and the capacity levels to meet those requirements, peak day reserve margin and the rationale for this reserve margin, and natural gas supply plans for various weather conditions.

Staff has no proposed financial adjustments for the 2015-2016 ACA period related to Reliability Analysis and Gas Supply Planning section.

Staff's review produced the following comments and recommendations:

**Continued Concern with Jackson Peak Day Estimate**

In the 2014/2015 ACA, Staff had concerns with the peak day estimate for the Jackson area. For this ACA period, the Company's estimate of peak day for the Jackson area is 8,825 dth. This estimate now takes into consideration the 95% confidence interval and is also based on a peak day temperature of 69 HDD (heating degree days). Review of Company historical load data shows that usage on 1/6/2014 was 8,630 dth for 57 HDD. (Prior analysis had the usage for the same date as 8,630 dth with 35 HDD.) Staff still has some concern that the Company's peak day model estimates a load of 7,827 dth when a 57 HDD is used in the peak day model. The peak load of 8,630 dth is 195 dth lower than the peak day estimate of 8,825 dth at 69HDD, yet it was 12 degrees warmer. As can be demonstrated in the chart shown below, there are some obvious data outliers that should cause the Company to question some of the validity of its data. Staff recommends that the Company perform a scatter plot of its data before performing its regression models to more easily identify potentially erroneous data.



**Kirksville Reserve Margin**

The Company's estimate of peak load for the Kirksville area (served by ANR Pipeline Company) is forecasted as 8,329 dth with a peak temperature of 80.5 HDD. \*\*

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**Requests for Proposals**

Like the 2014/2015 ACA period, for this ACA period, Liberty signed more Asset Management Arrangements (AMAs) than supply-only deals for providing natural gas to their customers for their districts. \*\*

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**III. HEDGING**

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The Staff reviews the prudence of a company's hedging decision-making based on what the company reasonably knew, or reasonably could have known, at the time it made its hedging decisions. Part of a company's hedging planning should be flexible, in part, to incorporate changing market circumstances to balance the cost of hedging against the goal of price stabilization, and thus to achieve a cost effective hedging outcome. For example, a company should evaluate whether the swaps and the volumes associated with them are appropriate under the current market where the market prices have become less volatile. \*\* \_\_\_\_\_

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\_\_\_\_\_ \*\* Staff

recommends the Company be aware of any fundamental shifts in the market dynamics while being cautious on the market views.

Staff also recommends the Company continue to assess and document the effectiveness of its hedges for the 2016-2017 ACA and beyond. The analysis should include, but not be limited to, whether the hedging implementation was consistent with the hedging plan, identifying the benefits/costs based on the outcomes from the hedging strategy, and thus evaluate any potential improvements on the future hedging plan and its implementation. Additionally Staff recommends the Company evaluate whether the hedging plan for each of the four systems has operational implications for warm and cold weather conditions. Finally, Staff recommends the Company continue to monitor the market movements diligently, employ *disciplined* (triggered primarily by the passage of time) as well as *discretionary* (hedge decision influenced by the Company's view of favorable pricing environments) approaches in its hedging practices, \*\* \_\_\_\_\_

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<sup>1</sup> \*\* \_\_\_\_\_  
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There is no financial adjustment related to Hedging.

**IV. RECOMMENDATIONS**

The Staff recommends that the Commission issue an order requiring Liberty to:

- Adjust the ACA account balances in its next ACA filing to reflect the following Staff adjustments and to reflect the (over)/under-recovered ACA balances in the “Staff Proposed Balances 8/31/16” column of the following table:  
 A positive ACA balance indicates an under-collection that must be recovered from customers. A negative ACA balance indicates an over-recovery that must be returned to customers.

<b>All Areas:</b>	<b>Company Filed Balance 8/31/16</b>	<b>Staff Adjustments</b>	<b>Staff Proposed Balances 8/31/16</b>
<b><u>SEMO Area:</u></b>			
Demand ACA	\$ 1,156,420.88	\$ 75,209.70 (A) \$ (1,013.00) (B)	\$ 1,230,617.58
Commodity ACA	\$ (5,366,746.98)	\$ (2,512.77) (A)	\$ (5,382,114.38)
		\$ (2,227.00) (B)	
		\$ (10,627.63) (C)	
<b><u>Kirkville Area:</u></b>			
Demand ACA	\$ 873,551.39	\$ (1,952.65) (D)	\$ 871,598.74
Commodity ACA	\$ (780,804.60)	\$ (5,576.05) (D)	\$ (786,380.65)
<b><u>WEMO Area:</u></b>			
Demand ACA	\$ 108,775.42	\$ (30,084.46) (E)	\$ 78,690.96
Commodity ACA	\$ 237,383.89	\$ 30,084.46 (E)	\$ 267,468.35
<b><u>NEMO Area:</u></b>			
Demand ACA	\$ 340,249.47	\$ (1,050.16) (D)	\$ 339,199.31
Commodity ACA	\$ (133,865.33)	\$ (2,914.93) (D)	\$ (136,780.26)

- (A) Gas Cost Correction
- (B) Commission Order 2/8/17 approving adjusted amounts from GR-2016-0075
- (C) Transportation Customers' Cash Out Omissions and Errors
- (D) Billing Errors for the NEMO and Kirkville Areas
- (E) WEMO Billed Revenue Error

2. Respond to Staff's recommendations in Section I – Billed Revenue and Actual Gas Costs.
3. Respond to Staff's recommendations in Section II – Reliability Analysis and Gas Supply Planning.
4. Respond to Staff's recommendations in Section III – Hedging.
5. Respond to recommendations included herein within 45 days.



**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' Purchased                )  
Gas Adjustment Tariff Filing                    )

Case No. GR-2017-0089

**AFFIDAVIT OF DERICK A. MILES, PE**

STATE OF MISSOURI     )  
                                  )  
COUNTY OF COLE     )     ss.

**COMES NOW DERICK A. MILES, PE** and on her 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.

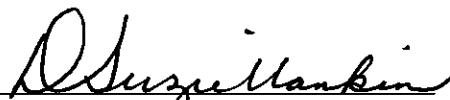
Further the Affiant sayeth not.

  
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**DERICK A. MILES, 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 30<sup>th</sup> day of November, 2017.

D. SUZIE MANKIN  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: December 12, 2020  
Commission Number: 12412070

  
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Notary Public

**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' Purchased                )  
Gas Adjustment Tariff Filing                    )

Case No. GR-2017-0089

**AFFIDAVIT OF ANNE M. CROWE**

STATE OF MISSOURI        )  
                                      )  
COUNTY OF COLE         )        ss.

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

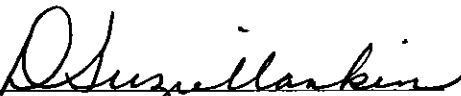
Further the Affiant sayeth not.

  
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**ANNE M. CROWE**

**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 30<sup>th</sup> day of November, 2017.

D. SUZIE MANKIN  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: December 12, 2020  
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**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' Purchased                )  
Gas Adjustment Tariff Filing                    )


Case No. GR-2017-0089

**AFFIDAVIT OF KWANG Y. CHOE**

STATE OF MISSOURI        )  
  )        ss.  
COUNTY OF COLE        )

**COMES NOW KWANG Y. CHOE** and on her 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.

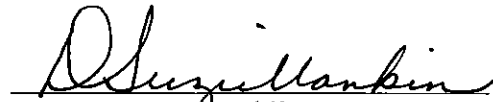
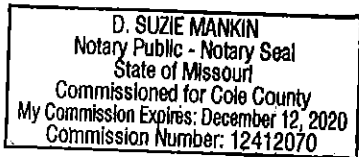
Further the Affiant sayeth not.



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**KWANG Y. CHOE**

**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 30<sup>th</sup> day of November, 2017.



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Notary Public