

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

In the Matter of the Verified Application and)	
Petition of Liberty Utilities (Midstates Natural)	
Gas) Corp. d/b/a Liberty Utilities to Change)	<u>File No. GO-2016-0206</u>
Its Infrastructure System Replacement)	Tariff No. YG-2016-0221
Surcharge)	

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission and in response to the Commission’s February 22, 2016 *Order Directing Notice, Setting Intervention Deadline, and Directing Filing* (“Order”) submits its *Staff Recommendation* to the Commission as set forth in detail in the attached appendices which are incorporated herein by reference, and in support thereof respectfully states as follows:

1. On February 19, 2016, Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities (“Liberty” or “Company”) filed its *Verified Application and Petition of Liberty Utilities to Change Its Infrastructure System Replacement Surcharge* (the “Application”) pursuant to Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri and Commission Rule 4 CSR 240-3.265¹ which authorize gas corporations to recover certain eligible infrastructure replacement costs through an infrastructure system replacement surcharge (“ISRS”).

2. Liberty’s Application also included a contingent request for waiver from the notice requirement of Commission Rule 4 CSR 240-4.020(2) which requires a utility to file notice at least sixty (60) days prior to the filing of a case which is likely to be contested.

¹ Liberty’s Application also referenced 4 CSR 240-2.060 and 2.080.

3. In the Order the Commission ordered Staff to file its recommendation regarding Liberty's Application no later than April 19, 2016. Staff's recommendation is attached hereto as Appendix A and Appendix B, both of which are incorporated herein by reference.

4. This case represents Liberty's second ISRS filing since the conclusion of its most recent rate case, Case No. GR-2014-0152. Liberty's ISRS which is currently in effect was established in Case No. GO-2015-0350, which became effective October 17, 2015.

5. In the current Application, Liberty filed to recover ISRS qualifying infrastructure replacement costs incurred during the period June 1, 2015 through January 31, 2016. As part of the Auditing Staff's examination of Liberty's Application, Auditing Staff reviewed workpapers, a representative sample of work orders and invoices, and other applicable documentation, as well as communicating with Liberty's personnel to gain clarification of Liberty's Application when necessary.

6. As reflected in the attachments hereto, Liberty has specific ISRS rates for each of its three districts. Therefore, Liberty needs district-specific revenue requirements in order to calculate those district-specific ISRS rates.

7. As explained in greater detail in the attachments, based on its review and calculations Staff is recommending that Liberty receive an overall amount of ISRS revenues of \$208,789 for this case. This amount is broken down by district as follows: WEMO (\$4,266); SEMO \$10,211; and NEMO \$202,844. Staff's recommended total amount of ISRS revenue requirement represents a reduction of \$416 from Liberty's requested ISRS revenue requirement for this case, as also explained in the

attachments. Upon Commission approval, the ISRS amount from this case will be included with the currently-in-effect ISRS from Case No. GO-2015-0350; therefore, the total ISRS revenue requirement to be included in rates (including Staff's recommended amount for this case) is \$470,184, which is broken down by district as follows: WEMO \$39,887; SEMO \$24,990; and NEMO \$405,307.

8. Staff has developed proposed ISRS rates for Liberty based on the foregoing amounts. Staff's proposed rates are consistent with the methodology used to establish Liberty's past ISRS rates and are 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.

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

WHEREFORE, Staff recommends the Commission issue an order in this case that:

1. Rejects the ISRS tariff sheet (YG-2016-0221) filed by Liberty on February 19, 2016;
2. Approves Staff's determination of the ISRS surcharge revenues for this case in the amount of \$208,789 consisting of (\$4,266) for the WEMO district, \$10,211 for the SEMO district, and \$202,844 for the NEMO district, resulting in a total cumulative ISRS amount of \$470,184 consisting of \$39,887 for the WEMO district, \$24,990 for the SEMO district, and \$405,307 for the NEMO district;

3. Authorizes Liberty to file an ISRS rate for each customer class as reflected in Appendix B; and
4. Grants Liberty's request for waiver of Rule 4 CSR 240-4.020(2).

Respectfully submitted,

/s/ Jeffrey A. Keevil

Jeffrey A. Keevil
Missouri Bar No. 33825

Attorney for the Staff of the
Missouri Public Service
Commission
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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to counsel of record this 19th day of April 2016.

/s/ Jeffrey A. Keevil

MEMORANDUM

TO: Missouri Public Service Commission Official Case File Case No. GO-2016-0206,
Tariff No. YG-2016-0221 – Liberty Utilities (Midstates Natural Gas) Corp.

FROM: Kofi A. Boateng, CPA, CIA, CFE, Regulatory Auditor, Auditing Department
Michael J. Ensrud, Rate & Tariff Examiner II, Procurement Analysis

/s/ Mark L. Oligschlaeger 04/19/16
Auditing Department / Date

/s/ David M. Sommerer 04/19/16
Commission Staff Division / Date

/s/ Jeffrey A. Keevil 04/19/16
Staff Counsel's Office / Date

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

DATE: April 19, 2016

BACKGROUND

On February 19, 2016, Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities (“Liberty Utilities,” “Liberty” or “Company”), filed a “Verified Application and Petition of Liberty Utilities to Change its Infrastructure System Replacement Surcharge” (“Application”) with the Missouri Public Service Commission (“Commission”) in order to change its Infrastructure System Replacement Surcharge (ISRS). Liberty asserts its submission is pursuant to Sections 393.1009, 393.1012, and 393.1015, RSMo, and Commission Rules 4 CSR 240-2.060, 2.080 and 3.265. The tariff accompanying the filing had a proposed effective date of March 20, 2016.

Liberty’s Application also included a contingent request for waiver from the notice requirement of Commission Rule 4 CSR 240-4.020(2) which requires a utility to file notice at least sixty (60) days prior to the filing of a case which is likely to be contested.

Liberty currently has ISRS surcharges that generate \$261,395 of annual revenue requirement which the Commission has already approved. This revenue requirement stems from Case No. GO-2015-0350. In the pending case, Liberty believes its requested increase in ISRS revenue requirement is justified, given ISRS replacement costs incurred between June 1, 2015 and January 31, 2016.

Liberty is unique among Missouri natural gas local distribution companies in that it has specific ISRS rates for each of its three districts. Therefore, Liberty needs district-specific revenue requirements in order to calculate those district-specific ISRS rates. Liberty proposes to continue

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to utilize ISRS rates in a manner that will have district-specific revenue impact – both incrementally (limited to this filing) and cumulatively.

On February 23, 2016, the Commission issued an Order Suspending Tariff wherein the Commission suspended Liberty's proposed ISRS tariff sheet until June 18, 2016. On February 22, 2016, the Commission issued an Order Directing Notice, Setting Intervention Deadline, and Directing Filing wherein the Commission ordered Staff to file its recommendation in this matter no later than April 19, 2016.

STAFF REVIEW AND REVENUE CALCULATION

This Application is Liberty's second ISRS filing after its most recent general rate case, Case No. GR-2014-0152. As indicated above, Liberty's ISRS tariff which is currently in effect was established in Case No. GO-2015-0350, and it covered ISRS costs incurred during the period of April 1, 2014 through May 31, 2015.

In this Application, Liberty filed to recover ISRS qualifying infrastructure replacement costs incurred during the period of June 1, 2015 through January 31, 2016. As part of its examination of Liberty's Application, Auditing Staff reviewed workpapers, a representative sample of work orders and invoices, responses to data requests, and other applicable documentation. Staff also communicated with Liberty personnel and other Commission Staff about the Application when necessary.

Commission Rule 4 CSR 240-3.265 for Natural Gas Infrastructure System Replacement Surcharges sets forth the definitions of natural gas utility plant projects that are eligible for ISRS treatment. As a result of its review, Staff concluded that each of the projects Staff reviewed met the ISRS rule qualifications.

The methodology used by the Auditing Staff allows for consideration of all accumulated depreciation and deferred income taxes on ISRS qualifying infrastructure replacements costs through April 30, 2016. This methodology is consistent with past reviews conducted by the Auditing Staff, and it is consistent with Staff's view that the calculation of the ISRS revenue requirement should closely reflect the revenue requirement at the effective date of the ISRS rates.

The Auditing Staff also included incremental accumulated depreciation, accumulated deferred income tax, and any change in property tax rates for replacements associated with the currently effective ISRS authorized for Liberty in Case Nos. GO-2015-0350, as required by 4 CSR 240-3.265(20)(K).

The Audit Staff made an adjustment to the property tax amount in the Company's Application to recognize the value of plant additions net of retirements, instead of utilizing only the gross plant additions in the property tax calculations.

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STAFF RECONCILIATION

Commission Rule 4 CSR 240-3.265(17) requires a reconciliation of the ISRS revenue the Company collected from customers in the prior 12-month period to account for over or under-collection of ISRS revenue. In this case, Staff has not performed a reconciliation as it has not been twelve months since Liberty's last ISRS went into effect after its general rate case. Liberty's last ISRS became effective October 17, 2015; therefore, Staff recommends that Liberty perform a reconciliation as part of its future ISRS filing when it has enough actual data.

Based upon its review and all of its calculations, Staff is recommending that Liberty receive ISRS revenues of \$208,789 for this case. This is broken down by district as follows: WEMO (\$4,266); SEMO \$10,211; and NEMO \$202,844. This reflects a reduction of \$416 from Liberty's requested ISRS-related revenue requirement for this case, as a result of Staff's adjustment to the property tax calculation. The negative revenue requirement in the WEMO district is the result of the inclusion of updated incremental accumulated depreciation and accumulated deferred income taxes rate base offset amounts, coupled with the fact that Liberty did not incur any eligible ISRS plant addition costs during the period under review.

Upon Commission approval, this amount will be included with the currently-in-effect ISRS from Case No. GO-2015-0350. The table below shows the cumulative amount to be included in rates:

	Current ISRS	GO-2015-0350	Total
ISRS Revenues (LU)	\$208,789	\$261,395	\$470,184
<i>Northeast District (NEMO)</i>	202,844	202,463	405,307
<i>Southeast District (SEMO)</i>	10,211	14,779	24,990
<i>West District (WEMO)</i>	(4,266)	44,153	39,887

The Liberty tariff filed with this Application was suspended by the Commission until June 18, 2016.

THE ISRS RATE SCHEDULES

Staff's proposed rates are consistent with the methodology used to establish Liberty's past ISRS rates and consistent with the overall methodology used to establish ISRS rates for other utilities. Staff's proposed ISRS rates are contained in Attachment B, attached hereto and incorporated by reference herein.

The Staff has updated the customer count to reflect the Company's 2015 annual report. The Company has filed its 2015 annual report and is not delinquent on any assessment. The Staff is not aware of any other matter before the Commission that affects or is affected by this filing.

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RECOMMENDATION

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

1. Rejects the ISRS tariff sheet (YG-2016-0221) that Liberty filed on February 19, 2016;
2. Approves the Staff's recommendation that ISRS rates change (over and above existing levels) so that ISRS surcharge revenues generate annual pre-tax revenues of \$208,789, consisting of (\$4,266) for the West District, \$10,211 for the Southeast District, and \$202,844 for the Northeast District;
3. Authorizes Liberty to file an ISRS rate for each customer class as reflected in Appendix B, which will generate \$470,184 annually in ISRS charges; and,
4. Grants Liberty's request for waiver of Rule 4 CSR 240-4.020(2).

Liberty Utilities (Midstates Natural Gas) Corp
d/b/a Liberty Utilities
Missouri Jurisdiction
ISRS Current Period Rate Design

	Current ISRS	GO-2015-0350	Total
ISRS Revenues	\$208,789	\$261,395	\$470,184
<i>Northeast District (NEMO)</i>	202,844	202,463	405,307
<i>Southeast District (SEMO)</i>	10,211	14,779	24,990
<i>West District (WEMO)</i>	(4,266)	44,153	39,887

Rate District & Class	Number of Customers*	Customer Charge	Ratio to Residential Customer Charge	Weighted Customer Numbers	Customer Percentage	Monthly ISRS Charge	Annual ISRS Revenues
<i>Northeast District</i>							
Firm Residential	15,586	20.00	1.0000	15,586	68.7113%	\$1.49	\$278,492
Small Firm GS	2,082	28.26	1.4130	2,942	12.9693%	\$2.10	52,565
Medium Firm GS	297	124.60	6.2300	1,850	8.1571%	\$9.28	33,061
Large Firm GS	72	623.01	31.1505	2,243	9.8876%	\$46.38	40,075
Interruptible Large Volume	2	623.01	31.1505	62	0.2747%	\$46.38	1,113
Total NEMO	18,039			22,683	100.0000%		\$405,307
<i>Southeast District</i>							
Firm Residential	27,418	13.75	1.0000	27,418	60.9460%	\$0.05	\$15,230
Small Firm GS	3,210	17.46	1.2698	4,076	9.0606%	\$0.06	2,264
Medium Firm GS	446	126.99	9.2356	4,119	9.1561%	\$0.43	2,288
Large Firm GS	199	634.95	46.1782	9,189	20.4267%	\$2.14	5,105
Interruptible Large Volume	4	634.95	46.1782	185	0.4106%	\$2.14	103
Total SEMO	31,277			44,987	100.0000%		\$24,990
<i>West District</i>							
Firm Residential	3,225	20.00	1.0000	3,225	76.6734%	\$0.79	\$30,583
Small Firm GS	527	23.80	1.1900	627	14.9098%	\$0.94	5,947
Medium Firm GS	35	118.01	5.9005	207	4.9099%	\$4.66	1,958
Large Firm GS	5	590.03	29.5015	148	3.5069%	\$23.31	1,399
Interruptible Large Volume	0	590.03	29.5015	0	0.0000%	\$0.00	0
Total WEMO	3,792			4,206	100.0000%		\$39,887
Total Missouri	53,108			71,877	100.0000%		\$470,184

*NOTE: Number of Customers by Rate District and Class are based on the 2015 Annual Report
Due to rounding to the nearest penny, the designed ISRS rates will over-collect by \$1369.20 annually. However, it should be noted that the total amount collected will be trued-up at a later date.

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Natural Gas) Corp. d/b/a Liberty Utilities)	Case No. GO-2016-0206
To Change Its Infrastructure System)	
Replacement Surcharge)	

AFFIDAVIT OF KOFI A. BOATENG, CPA, CIA, CFE

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

COMES NOW KOFI A. BOATENG, 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.



KOFI A. BOATENG, CPA, CIA, CFE

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the City of St. Louis, State of Missouri, at my office in St. Louis, on this 18th day of April, 2016.



Notary Public

LARHONDA ELLIS
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis City
My Commission Expires: March 08, 2018
Commission Number: 4779965

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Natural Gas) Corp. d/b/a Liberty Utilities)
To Change Its Infrastructure System)
Replacement Surcharge)
Case No. GO-2016-0206

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.

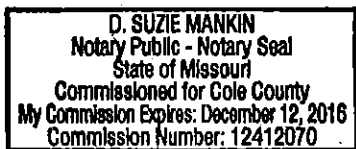
Further the Affiant sayeth not.

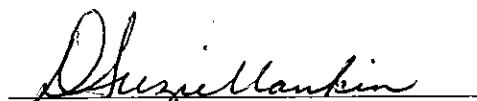


MICHAEL J. ENSRUD

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 18th day of April, 2016.





Notary Public