Exhibit No.:
Issue: Regulatory Reform Policy
Witness: Robert B. Hevert
Sponsoring Party: Liberty Utilities
(Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Case No.: GR-2018-0013
Date Testimony Prepared: September 28, 2017

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Robert B. Hevert
ScottMadden, Inc.

On Behalf Of

Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Utilities

September 2017

DIRECT TESTIMONY
OF
ROBERT B, HEVERT
LIBERTY UTILITIES
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, AFFILIATION, AND BUSINESS ADDRESS.

A. My name is Robert B. Hevert. I am a Partner at ScottMadden, Inc. ("ScottMadden"). My business address is 1900 West Park Drive, Suite 250, Westborough, MA 01581.

Q. ON WHOSE BEHALF ARE YOU SUBMITTING THIS TESTIMONY?

A. I am submitting this direct testimony ("Direct Testimony") before the Missouri Public Service Commission ("Commission") on behalf of Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty Utilities ("Liberty" or the "Company"), an indirect, wholly owned subsidiary of Algonquin Power & Utilities Corp ("APUC").

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.

A. I hold a Bachelor's degree in Business and Economics from the University of Delaware, and an MBA with a concentration in Finance from the University of Massachusetts. I also hold the Chartered Financial Analyst designation.

I have worked in regulated industries for over thirty years, having served as an executive and manager with consulting firms, a financial officer of a publicly traded natural gas utility (at the time, Bay State Gas Company), and an analyst at a telecommunications utility. In my role as a consultant, I have advised numerous energy and utility clients on a wide range of financial and economic issues including corporate

and asset-based transactions, asset and enterprise valuation, transaction due diligence, and strategic matters. As an expert witness, I have provided testimony in more than 200 proceedings regarding various financial and regulatory matters before numerous state utility regulatory agencies, the Federal Energy Regulatory Commission, and the Alberta Utilities Commission.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS COMMISSION?

A. Yes. Since 2010, I have filed testimony before the Commission in eleven rate proceedings.

II. PURPOSE AND OVERVIEW OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my Direct Testimony is to provide an overview of regulatory ratemaking reform policies and support the Company's request for new ratemaking mechanisms. Specifically, my testimony addresses Liberty's proposals[1] for regulatory rate reform through alternative ratemaking mechanisms that are designed to better align the interests of customers and the Company, consistent with fundamental regulatory objectives and ratemaking principles.

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. The remainder of this Testimony is organized as follows:

Section III – Provides an overview of the Company's request and need for regulatory reform;

[1] The Company's proposals are explained by Company witness Timothy S. Lyons.

Section IV – Discusses the benefits of alternative ratemaking mechanisms and their consistency with ratemaking principles and objectives;

Section V – Describes the trends nationally for regulatory reform and alternative ratemaking mechanisms;

Section VI – Discusses the rationale for, and purpose of revenue decoupling and cost recovery adjustment mechanisms; and

Section VII – Summarizes and concludes my testimony.

III. OVERVIEW OF THE COMPANY'S REQUEST AND NEED FOR REGULATORY RATE REFORM.

Q. PLEASE PROVIDE A BRIEF SUMMARY OF THE COMPANY'S REQUEST IN THIS PROCEEDING.

A. As described in more detail by Company witness Timothy S. Lyons, the Company is requesting five ratemaking reforms to remedy persistent revenue deficiencies. Specifically, the Company is requesting the approval of: (1) a revenue decoupling mechanism (Volume Balancing Adjustment rider, or "VBA"); (2) a Capital Reliability tracking mechanism, to defer through a regulatory asset for future recovery in rates the carrying costs associated with incremental capital spending not included in base rates; and (3) three additional tracking mechanisms to track and reconcile actual operation and maintenance ("O&M") expenses incurred during the year with those reflected in current base rates. The proposed O&M trackers would track and reconcile expenses related to the following items: (1) Ad Valorem Taxes; (2) Bad Debt expenses; and (3) Vegetation or Right-of-Way Management expenses (collectively, the "O&M Trackers").

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING THE COMPANY'S PROPOSALS, AND HOW THEY BENEFIT BOTH CUSTOMERS AND INVESTORS.

A. As discussed throughout the balance of my testimony, the Company's proposals are driven by several factors that combine to reduce revenues and increase operating costs just as cash flow is needed to fund the capital investments needed to provide safe and reliable service. Those factors – declining use per customer, increasing operating costs, and continuing capital investment requirements – have affected natural gas utilities across the Country. Other utilities, and other regulatory commissions, have recognized that under current conditions, traditional cost of service regulation is not likely to provide the timely recovery of costs needed to ensure customers are served by financially sound utility companies. They have addressed those concerns by implementing structures similar to those included in the Company's proposal.

Other utility companies, regulatory commissions, and the financial community have recognized that traditional cost recovery no longer adequately addresses the needs of customers and investors, and that some form of regulatory reform is needed to protect the interests of multiple constituencies. As with the Company's proposed structures, the mechanisms put in place at other utilities address the dilution in cash flow that inevitably would diminish their financial profile, ultimately to the detriment of their customers and investors. And like other utilities, the Company's proposed mechanisms would mitigate the need for increasingly frequent rate proceedings, to the benefit of customers.

Q. WHAT HAS BEEN THE TRADITIONAL FRAMEWORK OF COST RECOVERY FOR UTILITIES SUCH AS LIBERTY?

A. Under traditional regulation, utilities are granted an exclusive service territory in exchange for the obligation to provide service to customers within that territory, and to be subject to rate regulation, including a regulated rate of return. In large measure, cost of service regulation, which establishes the authorized level of revenue and returns, arises from the "essential" nature of utility services, whose unit costs decrease with increasing levels of output. Because of their declining cost structures, utility services in a given market area are more efficiently provided by a single firm than by multiple firms. Although they may serve different market sectors (e.g., electricity, natural gas, water, waste water) utilities typically are capital-intensive enterprises, whose investments are long-lived, essentially irreversible, and represent high "sunk" costs.

Under traditional cost-of-service ratemaking, the process of setting of just and reasonable rates applies historical costs to a test year to determine revenue requirements and billing determinants. The rates approved in the rate proceeding are then fixed until the next rate case. That is, historical costs are used to set future rates, which results in a lag between the time funds are expended, and the time rates are set to recover those costs. If sales are higher than anticipated, the utility's profit will be higher. Under a traditional ratemaking approach, the utility retains the excess profit between rate cases to fund additional investment. However, if sales are lower than anticipated, revenues (and profit) will be lower, and the utility may not have sufficient earnings to cover its fixed costs and invest in the capital necessary to provide safe and reliable service. Regulatory lag, therefore, is a significant challenge for utilities in situations in which costs are rising

more rapidly than sales.

Q. HOW DOES THE CURRENT ENVIRONMENT DIFFER FROM THE SCENARIO IN WHICH TRADITIONAL COST OF SERVICE REGULATION ENABLED UTILITIES TO MAINTAIN THEIR FINANCIAL STRENGTH AND TO PROVIDE SAFE AND RELIABLE SERVICE?

A Quite simply, sales volumes have declined even though the need to maintain service reliability and service, to replace aging infrastructure, and to address public policy objectives have continued, or even increased. For example, investments required to maintain system integrity and safety do not generate incremental revenue through additional volume growth. Unlike prior periods, when traditional cost of service regulation and volume growth enabled the timely return of and on incremental non-revenue producing investments, the current environment does not.

As a result, utilities such as Liberty cannot rely on load growth or increased profitability generated through reduced O&M costs to fund their infrastructure replacements, or to sustain their financial integrity as those investments are being undertaken. That condition presents considerable financial challenges for utilities that, like Liberty, have a continuing need to invest significant amounts of capital in non-revenue producing infrastructure. That earnings pressure becomes even more acute as the rate of capital expenditures accelerates.

The ability to efficiently acquire the capital needed to fund the growing level of infrastructure investments is dependent on the ability to recover that investment in a timely manner. As noted by the American Gas Association:

Timely cost recovery of prudently incurred safety and reliability

> investments is of utmost importance to the financial stability of natural gas utilities. Because traditional ratemaking allows recovery of infrastructure investments only following approval in a rate case, there is often a multi-year delay before the recovery of such investments begins. Investments that are recovered long after they are incurred cause the utility to bear carrying costs without the opportunity to recover these prudent expenditures. Credit agencies criticize companies with lag in the recovery of their costs and assign a lower credit rating to such utilities that ultimately translates into higher rates for customers. The only alternative is to file a rate case each year, which is a costly activity that also leads to higher rates for customers.[2]

Increasing capital investments, together with reduced sales, have created a circumstance under which each dollar of invested assets produces fewer dollars of revenue. When that occurs, the ability to fund capital investments through growth-related revenue increases will be limited. As the American Gas Association noted, absent other solutions, the only alternative to funding those investments is more frequent rate filings.

Q. HAVE FINANCIAL PARTICIPANTS SUCH AS RATING AGENCIES RECOGNIZED THE CONCERNS SUMMARIZED ABOVE?

A. Yes, they have. Standard and Poor's ("S&P"), for example, states that "[o]ne significant aspect of regulatory risk that influences credit quality is the regulatory environment in the jurisdictions where a utility operates."[3] S&P explains that "[w]hen we evaluate U.S utility regulatory environments, we consider financial stability to be of substantial importance. Cash takes precedence in credit analysis. A regulatory jurisdiction that recognizes the significance of cash flow in its decision-making is one that will appeal to

[2] American Gas Association, Infrastructure Cost Recovery Update, June, 2012, at 2.

[3] S&P Global Ratings, RatingsDirect, "Assessing U.S. Investor-Owned Utility Regulatory Environments," August 10, 2016, at 2.

creditors."[4]

Similarly, Moody's states that regulators' "actions have a significant impact on the environment in which a utility operates."[5] Moody's considers the regulatory structure to be so important that 50.00 percent of the factors that weigh in a ratings determination are related to the nature of regulation.[6] Among the factors considered by Moody's in assessing the regulatory framework are the effect of regulatory actions on cash flow generation:

> As the revenues set by the regulator are a primary component of a utility's cash flow, the utility's ability to obtain predictable and supportive treatment within its regulatory framework is one of the most significant factors in assessing a utility's credit quality. The regulatory framework generally provides more certainty around a utility's cash flow and typically allows the company to operate with significantly less cushion in its cash flow metrics than comparably rated companies in other industrial sectors.[7]

While the Infrastructure System Replacement Surcharge ("ISRS") mechanism in Missouri has been a positive factor in addressing this issue, in my view additional measures are necessary and I believe rating agencies would see the Company's proposed structures as credit-supportive which, ultimately, is in the best interests of customers and investors**.**

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4 *Ibid*., at 6.

5 Moody's Investor Service, *Consistency and Predictability of Regulatory Decisions Drive Differences in US Utility Credit Profiles*, July 21, 2014, at 2.

6 Moody's Investors Service, Rating Methodology; Regulated Gas and Electric Utilities at 6 (Dec. 23, 2013).

7 Moody's Investors Service, Regulatory Frameworks – Ratings and Credit Quality for Investor-Owned Utilities at 2 (June 18, 2010).

Q. TURNING TO THE COMPANY'S PROPOSALS, WHY ARE THEY NOW NEEDED?

A. The request is necessary because the stability of having an opportunity to achieve its authorized return is important to the Company and its customers to offset (1) the effect of reduced sales volumes on the recovery of revenues authorized by the Commission in the Company's most recent rate case, GR-2014-0152; (2) persistent increases in operating costs and expenses; and (3) the cost of carrying infrastructure investments not yet incorporated into rates. Because those factors are both persistent and generally beyond the Company's control, without the requested regulatory reforms, Liberty will need to seek rate more frequent rate relief to maintain the financial integrity necessary to meet its obligation to provide safe and reliable distribution service to customers.

Q. PLEASE DESCRIBE THE TREND IN THE COMPANY'S SALES.

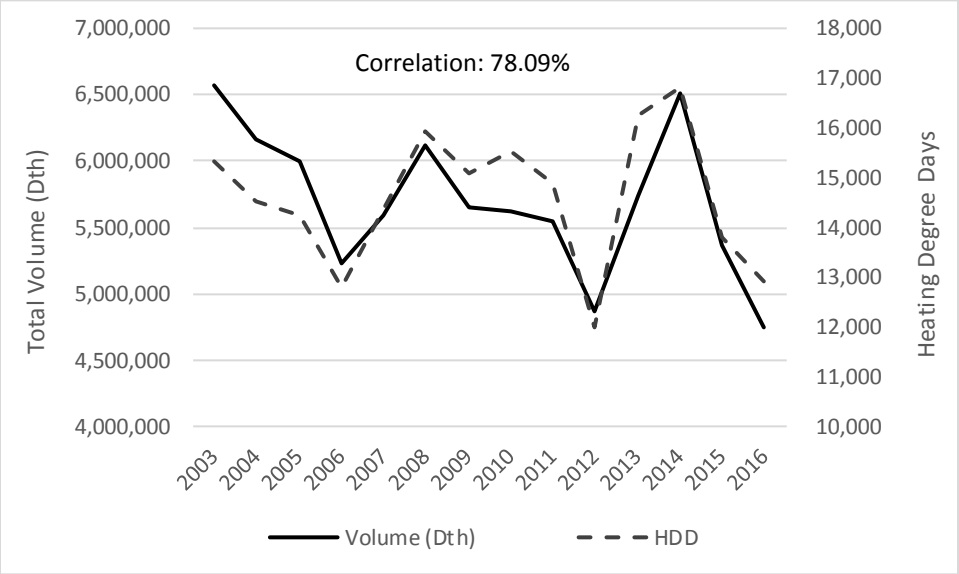
A. The Company's[8] customer count and end user volumes have declined from 2003 to 2016, resulting in lower sales. The total number of end user customers has declined from almost 60,000 in 2003 to approximately 53,000 in 2016.[9] On a per-customer basis, annual consumption has declined from 110 dekatherms (Dth) to 89 Dth over the same period.[10] As shown in Chart 1 below, the decline is primarily due to warmer weather, as sales volume is strongly correlated to heating degree days. Additionally, increased conservation has contributed to the decline.

8 Historical customer and sales volume trends presented here represent that of the Company (2012-2016) and of its predecessor Atmos Energy (2003-2011).

9 Source: SNL Financial.

10 *Ibid*.

Chart 1: Natural Gas Sales Volume vs. Heating Degree Days[11]



Q. WHAT EFFECT DO DECLINING SALES HAVE ON THE COMPANY AND ITS CUSTOMERS?

A. As noted earlier, lower sales volumes produce lower revenue, which reduces the Company's ability to recover its fixed costs, putting upward pressure on rates and increasing the burden on customers. Absent an ability to offset lower revenues with cost savings, the result is an inability to earn the Company's authorized return.

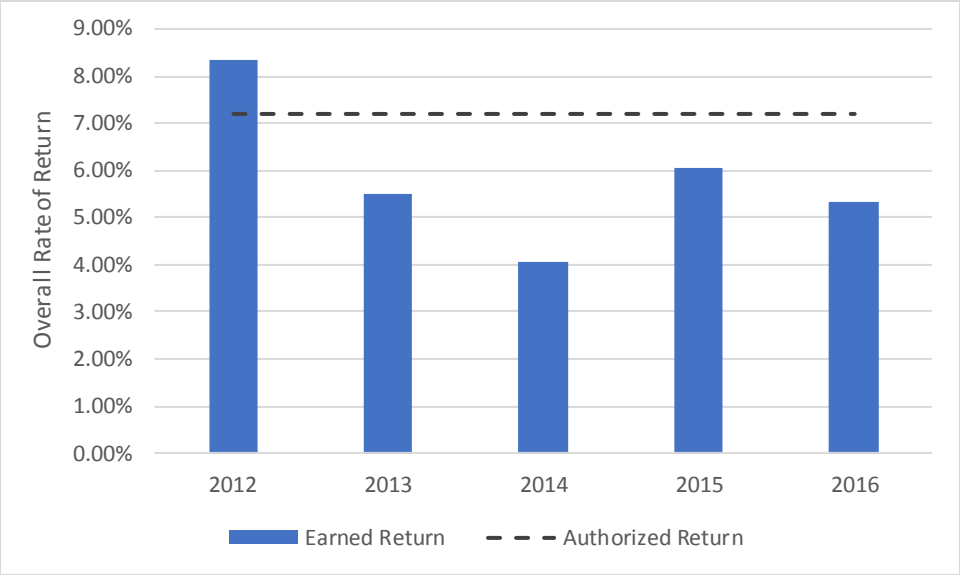
Q. HAS THE COMPANY BEEN ABLE TO EARN ITS AUTHORIZED RETURN ON A CONSISTENT BASIS?

A. No, it has not. The combination of lower revenues described above, together with increases in costs and non-revenue producing capital investment have prevented the Company from earning its authorized return over a sustained period between rate cases (*see* Chart 2 below). Going forward, regulatory rate reform will be necessary to maintain

[11] Source: SNL Financial; Heating Degree Days data provided by the Company.

the financial integrity necessary to provide safe and reliable service.

Chart 2: Overall Rate of Return: Earned vs. Authorized[12]



IV. RATEMAKING PRINCIPLES AND THE BENEFITS OF ALTERNATIVE RATEMAKING MECHANISMS

Q. WOULD THE COMPANY AND ITS CUSTOMERS BENEFIT FROM REGULATORY REFORM?

A. Yes. As explained below, consistent with universal ratemaking principles, the proposed regulatory reforms provide important benefits to both customers and investors.

Q. WHAT ARE RATEMAKING PRINCIPLES?

A. In his seminal text *Principles of Public Utility Rates*, James C. Bonbright outlined the

12 Source: SNL Financial. Earned return calculated as Net Utility Operating Income / Net Utility Plant. In GR-2014-0152, the Commission authorized Liberty an Overall Rate of Return of 7.22 percent. The previous two rate cases (GR-2010-0192 and GR-2006-0387) for the Company's predecessor, Atmos Energy, included settlements that did not determine the rate of return.

principles of a sound rate structure, as summarized in Chart 3 below:

Chart 3: Ratemaking Principles and Regulatory Objectives[13]

Ratemaking Principle	Regulatory Objectives
Economic Efficiency	■ Rates are cost-based ■ Rates encourage efficient consumption of resources (i.e., send proper price signals) ■ Rates encourage prudent cost control
Equity	■ Rates are non-discriminatory ■ Fair allocation of costs and risks ■ Avoidance of cross-subsidization
Revenue Adequacy and Stability	■ Revenue sufficient to ensure financial integrity and encourage new investment ■ Recovery of prudent utility costs ■ Profit stability
Bill Stability	■ Rate stability and continuity ■ Avoidance of rate shock ■ Affordability
Public Acceptance	■ Simplicity ■ Reliable service ■ Understandability ■ Moderate regulatory burden ■ Promotion of social objectives, e.g., • Diverse sources of energy • Utility sponsorship of energy efficiency programs • Environmental policies

As discussed below, the Company's proposed mechanisms reflect those ratemaking principles, and are intended to satisfy the multiple, sometimes conflicting objectives.

Q. HOW DO THE COMPANY'S PROPOSED ALTERNATIVE RATEMAKING MECHANISMS PROMOTE ECONOMIC EFFICIENCY?

A. The Company's proposed revenue decoupling mechanism encourages more efficient consumption by breaking the link between sales volume and revenues, which removes the disincentive to promote conservation measures.

13 Sources: Sources: James C. Bonbright, Albert L. Danielsen and David R. Kamerschen, *Principles of Public Utility Rates*, 2nd Edition, Public Utilities Reports (March, 1988), *Alternative Rate Mechanisms and Their Compatibility with State Utility Commission Objectives*, National Regulatory Research Institute, April 2014; *Alternative Electricity Ratemaking Mechanisms Adopted By Other States*, Christensen Associates prepared for Public Utility Commission of Texas, May 25, 2016; *Alternative Regulation for Emerging Utility Challenges: 2015 Update*, Edison Electric Institute, November 11, 2015.

Q. DO THE COMPANY'S PROPOSED ALTERNATIVE RATEMAKING MECHANISMS ALSO PROMOTE EQUITY?

A. As explained in more detail in Section VI, the Company's proposed revenue decoupling mechanism promotes equity by more fairly enabling the Company's recovery of fixed costs. Decoupling also may mitigate cross-subsidization that may affect low income and low volume customers.

Q. DO THE COMPANY'S PROPOSED ALTERNATIVE RATEMAKING MECHANISMS ALSO ENABLE REVENUE AND BILL STABILITY?

A. Yes, they do. As also explained in more detail in Section VI, the Company's proposed revenue decoupling mechanism stabilizes the Company's revenues by mitigating the over- and under-recovery of costs resulting from fluctuations in customer usage. As noted earlier, revenue stability benefits both the Company and customers by ensuring the Company's financial integrity, which allows the company to provide safe and reliable service.

Moreover, revenue stability enables bill stability. In a traditional cost-of-service framework, rate shock can occur when large capital investments are put into rate base at once. Under decoupling, actual revenues are reconciled against authorized levels, and rates are adjusted up or down accordingly. Those adjustments, however, are generally small, thereby mitigating rate shock.

Q. ARE THE PROPOSED ALTERNATIVE RATE MECHANISMS GENERALLY ACCEPTED BY THE PUBLIC?

A. Yes. As explained below, alternative ratemaking mechanisms are common, as a substantial number of utilities have implemented mechanisms similar to those proposed

by the Company.[14] Further, the proposed mechanisms alleviate regulatory lag and improve the Company's financial health, which would diminish the need to file frequent, costly rate cases. Moreover, the proposed vegetation management tracker and CR Tracker recover costs incurred to improve safety and reliability. Lastly, as noted earlier, revenue decoupling encourages conservation and encourages the Company's pursuit of energy efficiency measures.

V. ALTERNATIVE RATEMAKING TRENDS IN THE U.S.

Q. PLEASE DESCRIBE THE RANGE OF ALTERNATIVE MECHANISMS IMPLEMENTED BY UTILITIES.

Alternative ratemaking mechanisms fall along a spectrum from incremental reform to comprehensive reform. Mechanisms that represent incremental reform apply to a single component, such as a purchased gas adjustment mechanism or a future test year. Mechanisms that represent comprehensive reform include ratemaking structures that address the overall revenue requirement such as revenue decoupling, multiyear rate plans, formula rates, and performance based rates.

Q. PLEASE EXPLAIN, GENERALLY, THE TREND IN REGULATORY RATEMAKING REFORM IN THE UNITED STATES.

A. Alternative ratemaking mechanisms have been implemented to supplement the traditional ratemaking process, primarily to mitigate regulatory lag. Cost recovery adjustment mechanisms arose from the need to address rapidly rising fuel costs during the early 1970s, when fuel prices climbed more rapidly than the utilities could obtain rate

[14] *See* Schedule RBH-1.

recognition of the increased costs through the traditional rate case process. During that time, utility earnings were under considerable pressure, which prompted jurisdictions to allow more timely recovery of cost increases that were beyond the control of the utilities.[15]

Alternative ratemaking has been of increased interest in recent years due to rising and volatile utility costs, growth in non-revenue producing capital expenditures, and sluggish demand growth. Declining usage per customer and slow economic growth has placed pressure on traditional volume-based, cost-of-service ratemaking. Further, sending a volume-based price signal to recover largely fixed costs to accommodate peak usage is not economically efficient, and generally violates the cost causation ratemaking principle.

More recently, states have pursued certain public policy initiatives and have developed mechanisms to support and advance those policies. For gas utilities, alternative ratemaking mechanisms have been spurred by declining usage per customer, environmental and safety concerns, state-mandated energy efficiency programs, and a desire to improve utility performance.

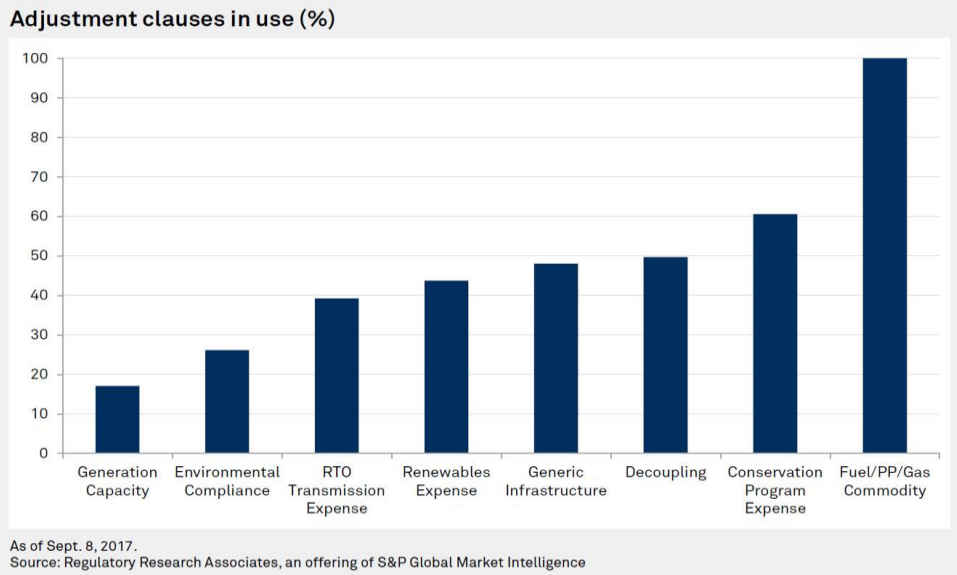
Q. ARE ALTERNATIVE RATEMAKING MECHANISMS COMMON IN THE U.S.?

A. Yes, they are. As shown on Chart 4 below, according to Regulatory Research Associates ("RRA"), all utilities have a mechanism to recover fuel, purchased power, or gas commodity costs. Further, half of the utilities covered by RRA have infrastructure cost recovery or revenue decoupling mechanisms in place, and 60.00 percent have

[15] Source: Regulatory Research Associates, *Adjustment Clauses: A State-by-State Overview*, September 12, 2017, at 2.

mechanisms to recover energy efficiency program expenses.

Chart 4: Cost Recovery Adjustment Mechanisms in Place at U.S. Utilities[16]



Additionally, more comprehensive forms of alternative mechanisms, such as multiyear rate plans and formula rate plans, have been implemented in 24 states.[17]

VI. THE COMPANY'S PROPOSED ALTERNATIVE RATE STRUCTURES

Revenue Decoupling

Q. PLEASE DESCRIBE THE PRIMARY OBJECTIVES OF DECOUPLING MECHANISMS.

A. The term "decoupling" encompasses a category of alternative ratemaking mechanisms designed to decouple, or break, the link between a utility's revenue and its volume of sales. Decoupling is intended to align the interests of customers and shareholders by

16 Regulatory Research Associates, *Adjustment Clauses: A State-by-State Overview*, September 12, 2017.

17 Source: Lowry, Makos, Waschbusch, *Alternative Regulation for Emerging Utility Challenges: 2015 Update*, Edison Electric Institute, November 11, 2015.

allowing the utility to recover its allowed revenues while also supporting programs to promote energy efficiency.

A central principle underlying the concept of decoupling is that the utility's costs of providing service (particularly distribution service) are primarily fixed and do not vary based on sales volume. Like other utilities, Liberty incurs customer-related and demand-driven costs to provide distribution service that generally are not affected by its sales volume. By "decoupling" revenues from the volume of sales, the Company is better able to recover the revenues relied upon in setting rates when customers consume less natural gas, and as a result, is financially indifferent to changes in customer usage due to factors beyond the Company's control.

Q. PLEASE PROVIDE SOME EXAMPLES OF "CUSTOMER-RELATED" AND "DEMAND-DRIVEN" FIXED COSTS THAT ARE INCURRED BY THE COMPANY.

A. A utility's customer-related costs are the fixed costs incurred to serve customers regardless of the amount of energy consumed. These include items such as billing, meter reading, collections, call centers, meters, laterals, and other infrastructure and expenses necessary to connect customers to the distribution system. Demand-driven costs are the distribution system investments necessary to meet customers' peak demands on the system or individual lines. These costs include, for example, mains and gate stations that are sized, constructed, and maintained to meet customers' maximum peak demands. Once the Company makes these investments to serve customers and meet peak demand, the costs do not vary based on sales volumes; they are largely "fixed." In other words, the cost of those distribution system investments and services does not change based on

customers' consumption of natural gas.

Q. WHY IS DECOUPLING AN APPROPRIATE RATEMAKING MECHANISM FOR THE COMPANY?

A. Although the Company's cost of providing distribution service is not driven by customers' natural gas consumption, a significant portion of its revenue is recovered through volume-based charges. As noted earlier, this creates a misalignment between cost causation and cost recovery.

For the Company's residential rate classes, 100.00 percent of the cost of providing distribution service is fixed. None of the Company's distribution costs vary with volume-based sales. However, 41.00 percent of residential revenue is recovered based on consumption through non-fixed (i.e., variable) volume-based charges. At a total Company level, as with residential service, none of the distribution costs vary with sales volumes as they are 100.00 percent fixed; yet nearly 49.00 percent of revenues are derived from variable volume-based charges.

Q. WHAT FACTORS CONTRIBUTE TO FLUCTUATIONS IN SALES VOLUMES?

A. There are several factors that contribute to the fluctuations in customer usage for a gas utility. For the Company, the most significant factor that contributes to fluctuations in customer usage is weather, and more specifically, fluctuations in temperature (*see* Chart 1 above). In colder weather customer usage increases; in warmer weather it decreases. Other factors include customer-initiated conservation efforts and the Company's implementation of energy efficiency measures.

Q. DO OTHER UTILITIES EXPERIENCE SIMILAR OVER- AND UNDER-RECOVERY OF COSTS?

A. Yes. This type of over- and under-recovery of costs is not unique to Liberty - it is a challenge for the natural gas industry. Gas utilities in 33 jurisdictions have mechanisms in place that decouple revenues from sales volume in a full or limited fashion.[18]

Q. PLEASE DESCRIBE BRIEFLY THE COMPANY'S PROPOSED VBA RIDER.

A. As explained in more detail by Mr. Lyons, the Company proposes a VBA Rider, which would reconcile annually differences between actual and authorized revenues (*i.e.*, revenues reflected in current base rates that were approved by the Commission in the most recent rate case proceeding), thereby mitigating the over- and under- recovery of costs resulting from fluctuations in customer usage faced by many gas utilities.

Q. WHAT ARE THE BENEFITS OF THE VBA RIDER?

A. The VBA Rider is a symmetrical and transparent formula for collecting the approved distribution revenue requirements – no more, no less. There are additional benefits to customers from the VBA Rider. Specifically, the VBA Rider reduces the reliance on an imperfect forecasting process, and diminishes the advantage a utility has in choosing the timing of the next rate case. Because fluctuations in weather are beyond the Company's control, the VBA Rider also allows the Company to focus on things it can control to provide safe and reliable service. It also reduces the potential for cross-subsidization between low volume and higher volume customers present in fixed-variable rate designs. Additionally, the VBA Rider protects consumers against the negative effects of declining

[18] *See* Regulatory Research Associates, Adjustment Clauses: A State-by-State Overview" September 12, 2017. Includes lost revenue adjustment mechanisms for energy-efficiency programs, weather normalization adjustment mechanisms, and straight fixed variable rate designs. *See also*, Schedule RBH-1.

load on utilities and revenue losses attributable to energy efficiency programs and, therefore, encourages adoption of customer-initiated and utility-sponsored energy efficiency measures.

Lastly, the decoupling mechanism ensures that customer bills are more stable over the longer term. To the extent actual revenues are higher than approved levels in a given period (and therefore bills for distribution service are higher than anticipated), rates will be reduced. The reverse would be true in that if revenues (and bills) are lower than anticipated, rates would increase. In this regard, decoupling will smooth customer bills over the longer term such that the rates they pay recover only the approved revenue levels. As such, the decoupling mechanism ensures that the customer pays no more than the amount authorized by the Commission.

As explained earlier, revenue stability is an important ratemaking principle that has governed regulatory commissions' rate-setting objectives for decades.[19] The VBA Rider provides revenue stability that enables the Company to recover its cost of service, the majority of which is fixed. As such, the VBA Rider supports Liberty's financial health to provide safe, reliable and efficient service to its customers. As discussed in Section IV above, revenue stability also enables bill stability, another important ratemaking principle that customers benefit from.

Q. IS THE COMPANY'S PROPOSED MECHANISM CONSISTENT WITH MISSOURI STATUTE?

A. Although I am not an attorney, my plain reading of relevant statutes suggests it is. RSMo

[19] Sources: James C. Bonbright, Albert L. Danielsen and David R. Kamerschen, "Principles of Public Utility Rates, 2nd Edition", Public Utilities Reports (March, 1988), at 382-383, 387-388.

386.266.3 specifically states that " . . .any gas corporation may make an application to the commission to approve rate schedules authorizing periodic rate adjustments outside of general rate proceedings to reflect the non-gas revenue effects of increases or decreases in residential and commercial customer usage due to variations in either weather, conservation, or both." On balance, it is my understanding that the statute authorizes the Commission to approve a rate adjustment mechanism that addresses between rate cases the revenue effects from changes in residential and commercial usage.

To date, the Commission has addressed this issue by authorizing a higher monthly customer charge to recover fixed costs, or by establishing rate blocks in which most fixed costs will be recovered once the customer uses a relatively modest amount of gas. Although those approaches have somewhat mitigated revenue volatility, they have shortcomings. Depending on the situation, a high customer charge may not be equitable for low-income and low-volume customers, as those customers may pay more than their share of fixed costs, potentially subsidizing higher use customers.

Q. IF DECOUPLING REMOVES THE LINK BETWEEN SALES AND REVENUES, DOES IT GUARANTEE A UTILITY WILL ACHIEVE ITS ALLOWED RATE OF RETURN?

A. No, it does not. Decoupling only addresses the revenue component of the income statement, not operating expenses or rate base investment, and is designed to recover only the amount of revenue authorized by the Commission. As explained earlier, under traditional cost-of-service ratemaking, utilities rely on incremental revenues beyond the rate case rate year as a means of maintaining a reasonable rate of return on investment in between rate cases. Those additional funds historically have financed necessary capital

investment and helped offset inflationary pressures. When the costs of providing service escalates faster than sales (and therefore revenue), in the long run the utility's rate of return will likely erode. Stable, predictable revenues over time help the utility to maintain a reasonable level of earnings, and to avoid frequent and costly rate cases. Decoupling mechanisms therefore may stabilize a utility's revenues and improve its financial integrity, enabling the utility to provide safe and reliable service to customers. Decoupling does not, however, guarantee a base level of earnings or rate of return, nor does it create windfall profits for the utility.

Cost Recovery Adjustment Mechanisms

Q. PLEASE EXPLAIN, GENERALLY, THE PURPOSE OF COST RECOVERY ADJUSTMENT MECHANISMS.

A. As discussed above, cost recovery adjustment mechanisms have been implemented by utilities since the 1970s to provide more timely recovery of costs between rate cases. As a principle, these adjustment mechanisms have been implemented to recover costs that are: (1) large, (2) volatile, and/or (3) exogenous, or outside of the utility's control. More recently, adjustment mechanisms have been implemented to address public policies mandated by state statute or by the regulatory commission. Some examples include energy efficiency programs and infrastructure replacement programs, such as the Company's current Infrastructure System Replacement Surcharge ("ISRS"). As noted earlier, all utilities now have an adjustment mechanism in place to recover fuel, purchased power, or gas commodity costs, such as the Company's Purchased Gas Adjustment ("PGA") mechanism.

As noted earlier, and as explained further by Mr. Lyons, the Company is

proposing to implement the CR Tracker to defer through a regulatory asset for future recovery in rates the carrying costs associated with incremental capital spending not included in base rates, and three additional tracking mechanisms to track and reconcile actual expenses incurred during the year with those reflected in current base rates. The proposed O&M trackers would track and reconcile expenses related to: (1) Ad Valorem Taxes; (2) Bad Debt expenses; and (3) Vegetation or Right-of-Way Management expenses.

Q. ARE THE COSTS ASSOCIATED WITH THOSE MECHANISMS LARGE, VOLATILE, AND/OR BEYOND THE COMPANY'S CONTROL?

A. Yes. For example, the Company's bad debt expense can vary widely with wholesale gas costs, temperature, and the state of the economy. Similarly, the Company's property tax expense depends on state and local government assessment inputs and tax rate changes, of which the Company has no control over.

Q. ARE THE PROPOSALS CONSISTENT WITH MISSOURI STATUTE?

A. Yes. The proposed tracking mechanisms do not adjust rates between rate cases; rather, costs are reconciled against expenses included in base rates, and any expenses under or over that amount will be deferred in a regulatory asset/liability account to be included in rate base in the next rate case, with a proposed amortization schedule.

Q. ARE SIMILAR MECHANISMS IN PLACE AT OTHER NATURAL GAS UTILITIES?

A. Yes. According to the American Gas Association ("AGA"), 96 gas utilities in 35 jurisdictions have full infrastructure cost recovery mechanisms in place. Another eight companies in three states have infrastructure cost recovery mechanisms that are more

limited in nature. With respect to bad debt cost recovery, the AGA notes 64 natural gas utilities in 26 jurisdictions have been authorized a mechanism to recover bad debt expenses (*see* Schedule RBH-1).

Q. HOW DO CUSTOMERS BENEFIT FROM THE PROPOSED COST RECOVERY ADJUSTMENT MECHANISMS?

A. The proposed mechanisms enable the Company to maintain its financial integrity to the benefit of customers. A financially healthy utility has a greater capability to invest in its system and provide safe and reliable service. Further, as noted earlier, a utility's credit rating depends largely on its financial integrity; a higher credit rating results in lower debt costs for customers. Additionally, a financially healthy utility can better withstand adverse changes in business or market conditions.

Q. WHY SHOULD THE COMMISSION APPROVE THE COMPANY'S PROPOSED COST RECOVERY ADJUSTMENT MECHANISMS?

A. The proposed mechanisms alleviate the challenge of eroding revenues and increasing costs, while providing benefits to customers. Without timely cost recovery, certain of these important expenditures might be deferred or reduced. Others, such as the Company's bad debt expense and property tax expense, cannot be avoided and are beyond the Company's control. Moreover, the investments proposed for recovery are non-revenue producing. That is, none of the investments generates additional revenues for the Company to offset the expenditures being made. Lastly, the proposed mechanisms are consistent with Missouri statute. For these reasons, the Commission should approve the Company's proposed cost recovery adjustment mechanisms.

VII. SUMMARY AND CONCLUSIONS

Q. PLEASE BRIEFLY SUMMARIZE YOUR TESTIMONY.

A. The Company's proposed rate reforms arise from circumstances that have affected many natural gas utilities throughout the Country. The difficult combination of declining customer usage, sustained capital investments, and large and volatile operating costs has created a circumstance in which it will become increasingly challenging under traditional cost-of-service ratemaking to maintain the strong financial profile that benefits both customers and investors. The proposed structures are meant to address that financial strain, enable the financial profile needed to continue providing safe and reliable service, while reducing the need for frequent rate filings.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

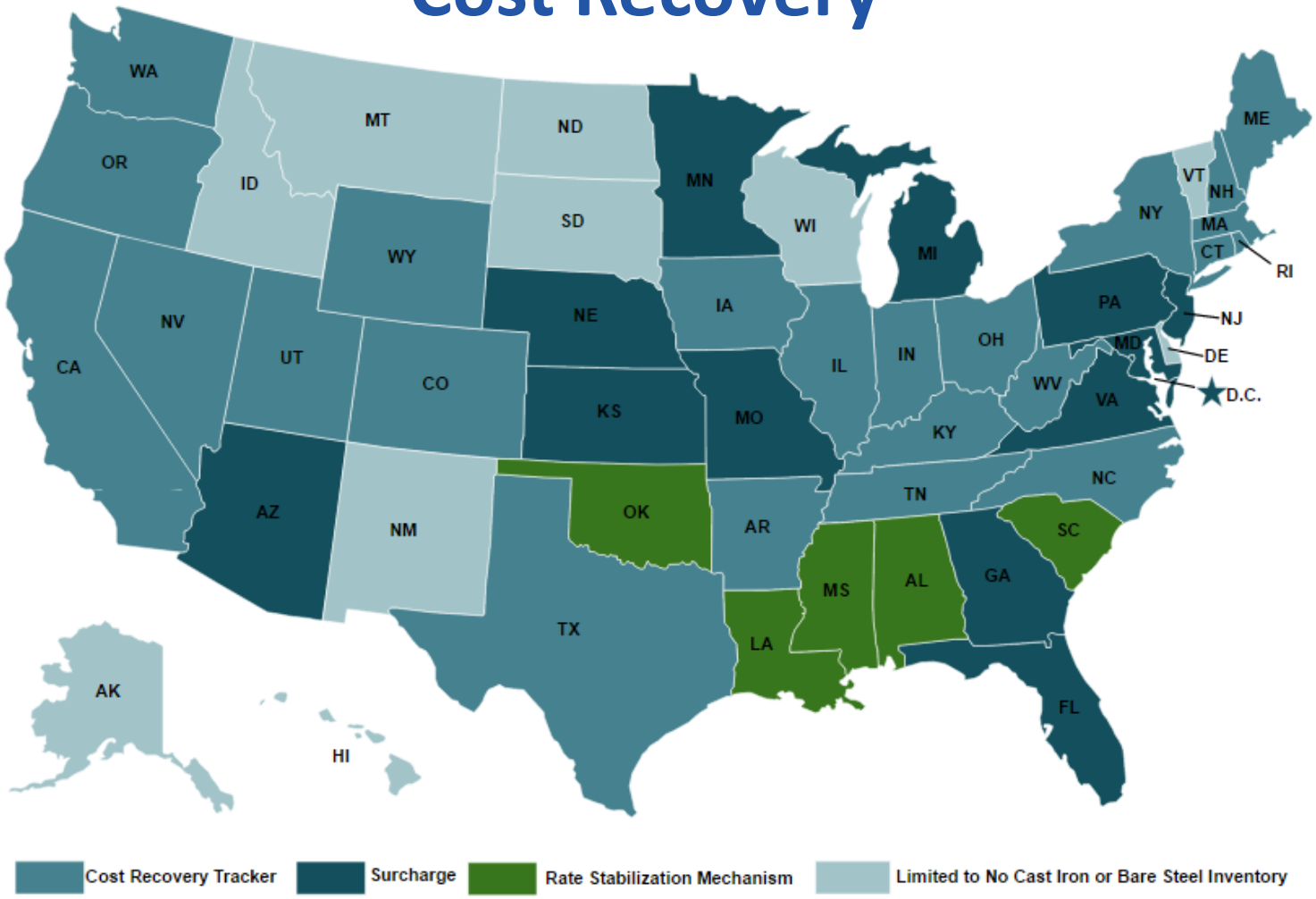
A. Yes, it does.

Innovative Rates, Non-Volumetric Rates, and Tracking Mechanisms: Current List

As of December 2016

AGA
American Gas Association

States with Accelerated Infrastructure Cost Recovery



Utilities with Full Infrastructure Cost Recovery Mechanisms

1. AL – Alabama Gas Company
2. AL – Mobile Gas Service
3. AR – Arkansas Oklahoma Gas
4. AR -- SourceGas
5. AR – CenterPoint Energy
6. CA – San Diego Gas and Electric
7. CA – Southern California Gas
8. CA – Southwest Gas
9. CO – Public Service Co. of Colorado
10. CO – Atmos Energy
11. CO -- SourceGas
12. CT – Connecticut Natural Gas
13. DC – Washington Gas
14. FL – Chesapeake Utilities
15. FL – Florida Public Utilities Company
16. FL – Florida City Gas
17. FL – TECO Peoples Gas
18. GA – Atlanta Gas Light
19. GA – Liberty Utilities
20. IL – Ameren Illinois
21. IL – NICOR Gas
22. IL – Peoples Gas
23. IN – Vectren North Indiana Gas
24. IN – Vectren South SIGECO
25. IN – NIPSCO
26. KS – Atmos Energy
27. KS – Black Hills
28. KS – Kansas Gas Service
29. KY – Atmos Energy
30. KY – Columbia Gas of Kentucky
31. KY – Delta Natural Gas
32. KY – Duke Energy Kentucky
33. LA – CenterPoint Energy
34. LA – Entergy Gulf States
35. MA—Berkshire Gas
36. MA – Columbia Gas of Massachusetts
37. MA – National Grid Massachusetts
38. MA – Eversource Energy
39. MA – Liberty Utilities
40. MA—Unitil
41. MD – Baltimore Gas and Electric
42. MD – Columbia Gas of Maryland
43. MD – Washington Gas
44. MI – Consumers Energy
45. MI – DTE
46. MI – SEMCO Energy
47. MN – Xcel Energy
48. MO – Ameren Missouri
49. MO – Liberty Utilities
50. MO – Laclede Gas
51. MO – Missouri Gas Energy
52. MS – Atmos Energy
53. MS – CenterPoint Energy
54. NC – Piedmont Natural Gas
55. NC – Public Service of North Carolina
56. NH – Liberty Utilities
57. NJ – New Jersey Natural
58. NJ – Elizabethtown Gas
59. NJ – Public Service Electric and Gas
60. NJ – South Jersey Gas
61. NV – Southwest Gas
62. OH – Columbia Gas of Ohio
63. OH – Dominion East Ohio
64. OH – Duke Energy
65. OH – Vectren Ohio
66. OK – CenterPoint Energy
67. OR – Avista Corp.
68. OR – NW Natural
69. PA – Columbia Gas of Pennsylvania
70. PA – Equitable Gas
71. PA – Peoples Gas Company
72. PA – Peoples TWP
73. PA – UGI Central Penn Gas
74. PA – UGI Penn Natural Gas
75. PA – PECO
76. PA – Philadelphia Gas Works
77. RI – National Grid Narragansett Gas
78. SC – Piedmont Natural Gas
79. SC – South Carolina Electric and Gas
80. TN – Atmos Energy
81. TN – Piedmont Natural Gas
82. TX – Atmos Energy
83. TX – CenterPoint Energy
84. TX – Texas Gas Service
85. UT – Questar Gas
86. VA – Atmos Energy
87. VA – Columbia Gas of Virginia
88. VA – Virginia Natural Gas
89. VA – Washington Gas
90. WA – Avista Corporation
91. WA – Puget Sound Energy, Inc.
92. WA – Cascade Natural Gas Company
93. WA – Northwest Natural Gas Company
94. WV – Mountaineer Gas Company
95. WV- Dominion Hope
96. WY– Black Hills

Limited and Pending Infrastructure Mechanisms

LIMITED – 3 States

1. AZ – Southwest Gas
2. ME – Northern Utilities
3. NY – Consolidated Edison
4. NY – Corning Natural Gas
5. NY – National Grid NYC
6. NY – National Grid Long Island
7. NY – National Grid Niagara Mohawk
8. NY – Orange and Rockland

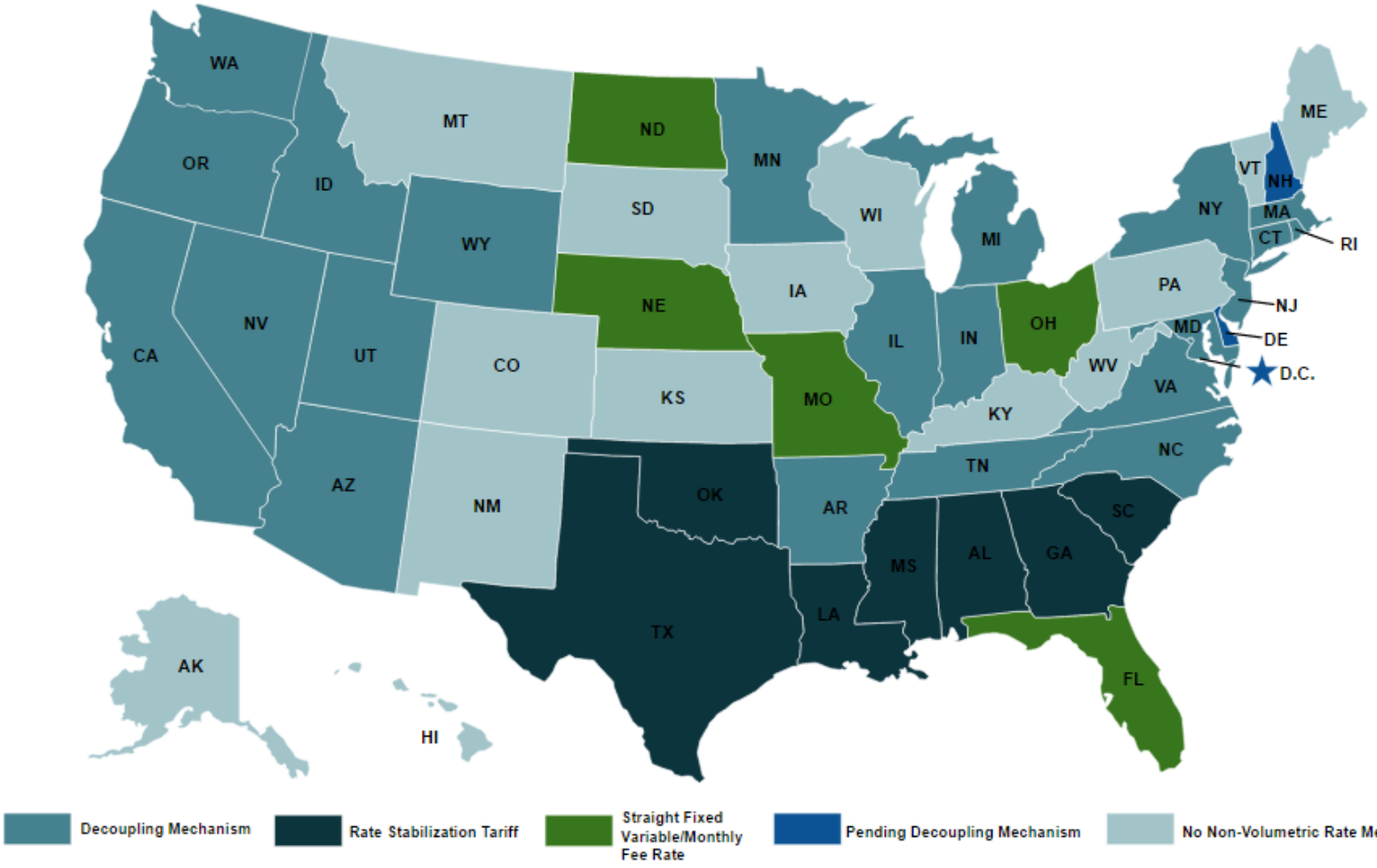
PENDING – 3 States

1. KS – All utilities
2. NJ – Elizabethtown Gas
3. NY – Consolidated Edison
4. NY – All utilities

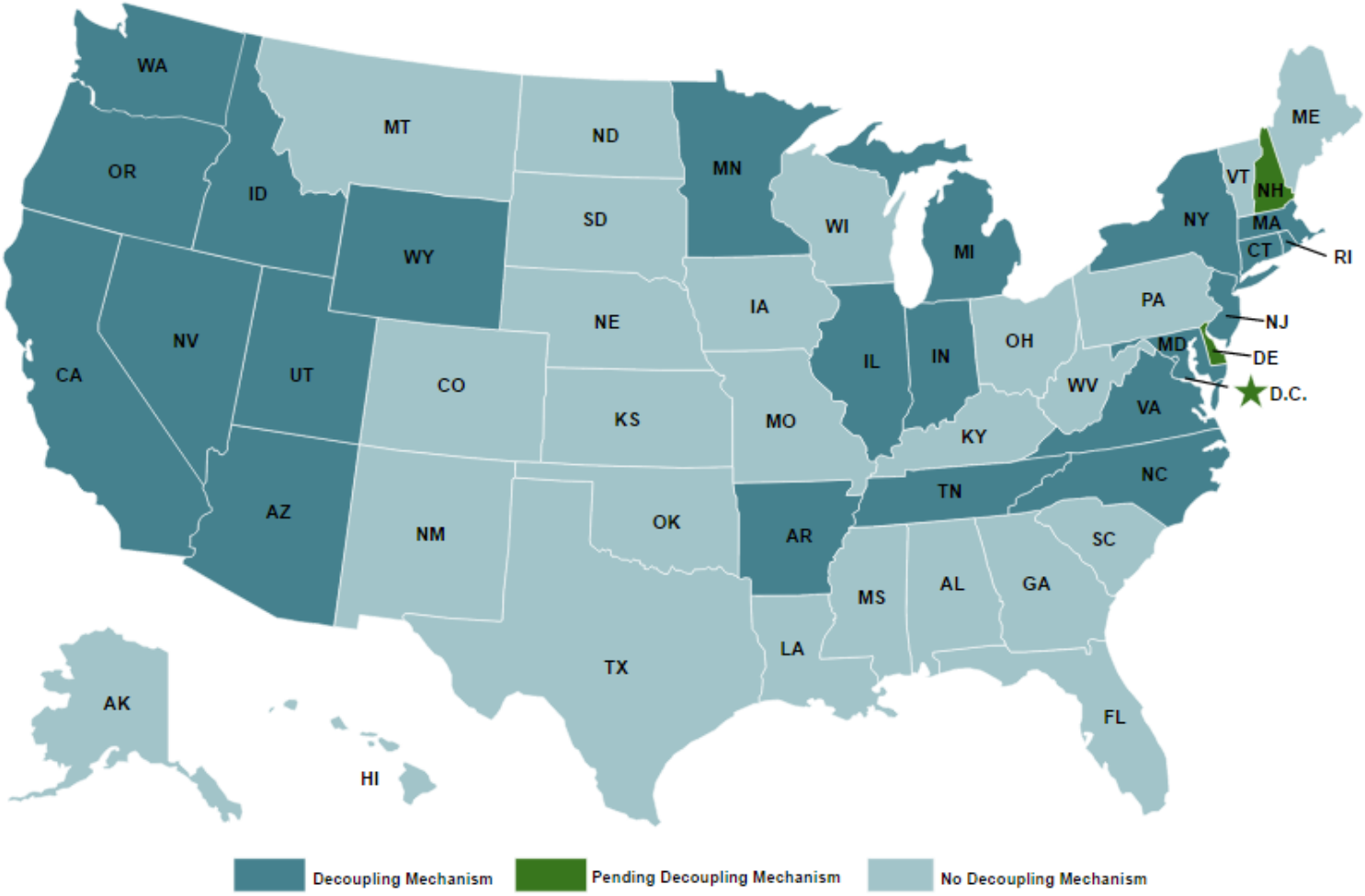
GENERIC RULINGS OR LEGISLATION – 3 States

1. Iowa – All utilities may apply
2. Nebraska – All utilities may apply
3. West Virginia – All utilities may apply

States with Non-Volumetric Rate Designs



Current Status of Decoupling Mechanisms



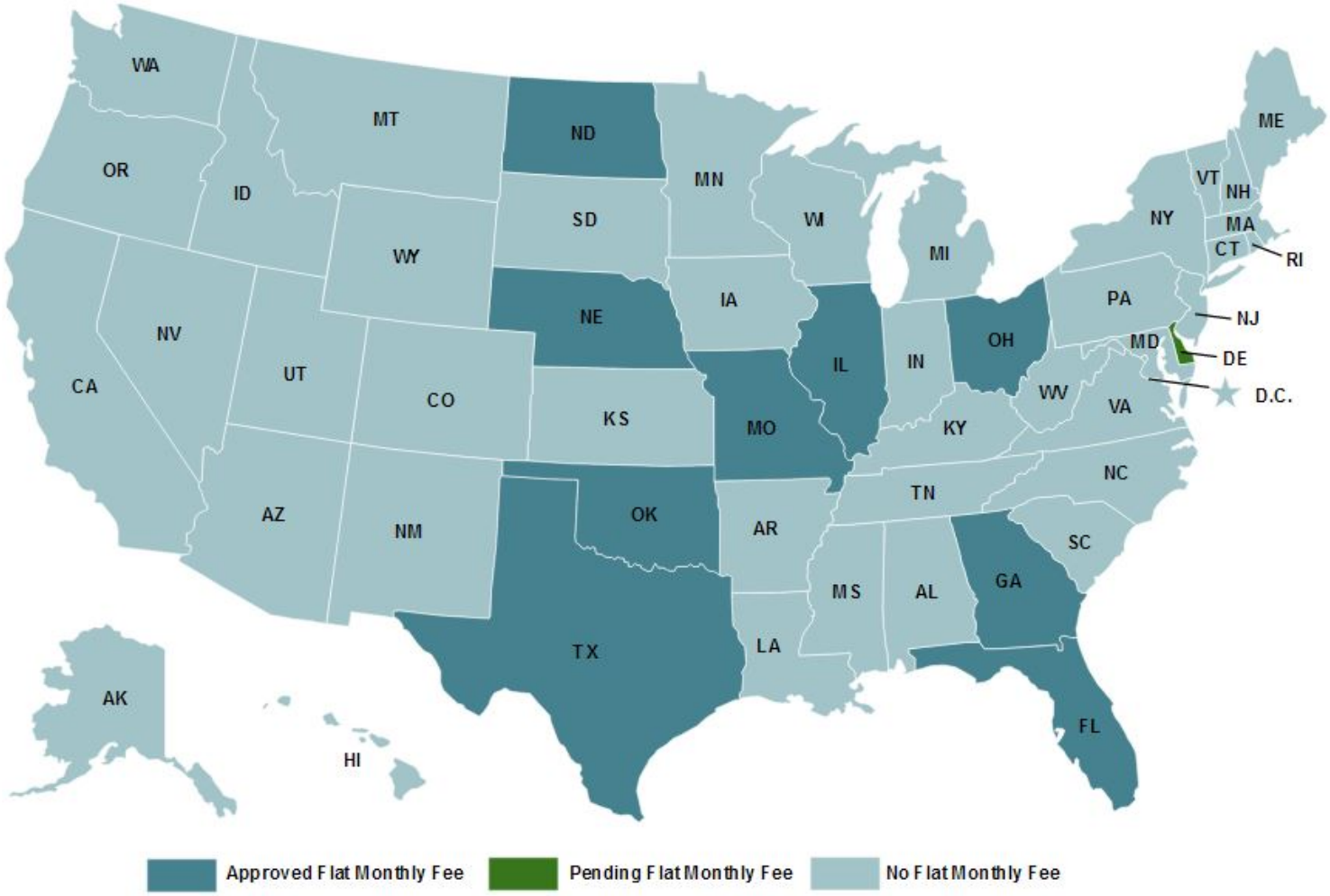
Utilities with Approved Decoupling Mechanisms

1. AR – Arkansas Oklahoma Gas
2. AR – SourceGas
3. AR – CenterPoint Energy
4. AZ – Southwest Gas
5. AZ – UNS Gas
6. CA – Pacific Gas and Electric
7. CA – San Diego Gas and Electric
8. CA – Southern California Gas
9. CA – Southwest Gas
10. CT – Connecticut Natural Gas
11. GA – Liberty Utilities
12. ID – Avista
13. IL – Ameren Illinois
14. IL – Peoples Gas
15. IL – North Shore Gas
16. IN- Citizens Energy Group
17. IN – Vectren North Indiana Gas
18. IN – Vectren South SIGECO
19. MA – Columbia Gas of Massachusetts
20. MA – Fitchburg Gas and Electric
21. MA – National Grid Massachusetts
22. MA – Eversource Energy
23. MA – Liberty Utilities
24. MD – Baltimore Gas and Electric
25. MD – Columbia Gas of Maryland
26. MD – Washington Gas
27. MI—Consumers Energy
28. MI – DTE
29. MN – CenterPoint Energy
30. MN – Minnesota Energy Resources
31. NC – Piedmont Natural Gas
32. NC – Public Service Company of North Carolina
33. NJ – New Jersey Natural Gas
34. NJ – South Jersey Gas
35. NV – Southwest Gas
36. NY – Corning Natural Gas
37. NY – National Grid NYC
38. NY – National Grid Long Island
39. NY – National Grid Niagara Mohawk
40. NY – National Fuel Distribution
41. NY – New York State Electric and Gas
42. NY – Orange and Rockland
43. NY – Rochester Gas and Electric
44. NY – Central Hudson Gas and Electric
45. OR – Avista Corp.
46. OR – Cascade Natural Gas
47. OR – Northwest Natural Gas
48. RI – National Grid Narragansett
49. TN – Chattanooga Gas
50. UT – Questar Gas
51. VA – Columbia Gas of Virginia
52. VA – Virginia Natural Gas
53. VA – Washington Gas
54. WA – Avista Corp.
55. WA – Cascade Natural Gas
56. WA – Puget Sound Energy
57. WY – SourceGas
58. WY – Questar Gas

Pending Mechanisms

1. DC – Washington Gas
2. DE – Delmarva Power and Light
3. ID – Intermountain Gas
4. MI – Consumers Energy
5. NH – Passed Legislation
6. VA – Washington Gas

Current Status of Flat Monthly Fee Rate Designs (SFV)



Utilities with Flat Monthly Fee Rate Designs (SFV)

Approved SFV

1. GA – Atlanta Gas Light – Individually determined monthly demand charge
2. MO – Missouri Gas Energy – Flat monthly fee
3. ND – Montana-Dakota Utilities
4. ND – Xcel Energy – Flat monthly fee
5. OH – Columbia Gas of Ohio – Flat monthly fee
6. OH – Dominion East Ohio – Flat monthly fee
7. OH – Duke Energy – Flat monthly fee
8. OH – Vectren Ohio – Flat monthly fee

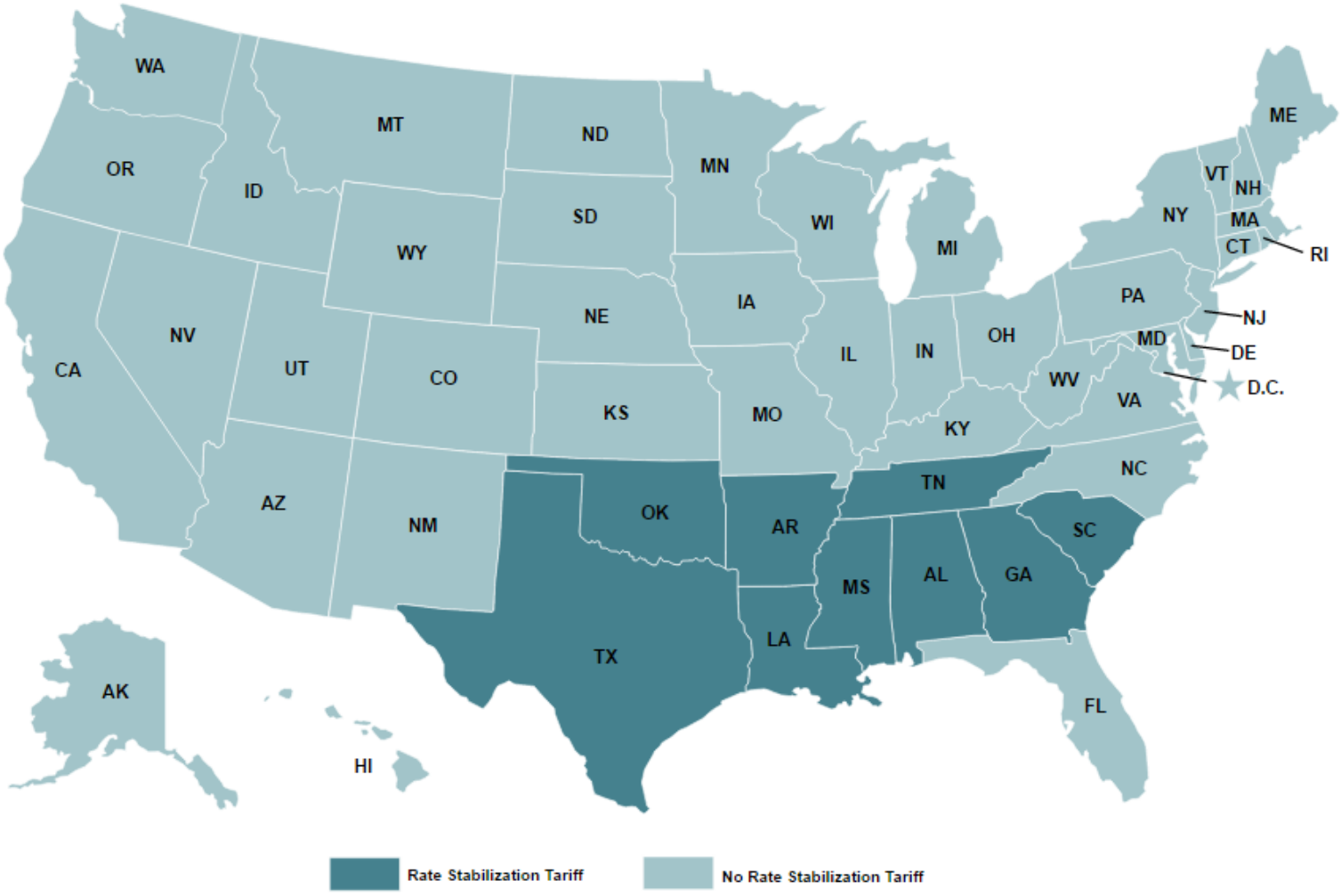
Similar to SFV

1. FL – TECO Peoples Gas – Three-tier monthly charge plus a small variable charge
2. IL - Ameren Illinois – 80% revenue for Residential and Small GS Customers per flat fee plus small variable charge
3. IL – Nicor Gas – Flat fee plus a small variable charge
4. MO – Ameren – Modified rate blocks for Residential Service customers
5. MO – Liberty Utilities – Flat fee plus a small variable charge
6. MO – Laclede Gas – Modified rate blocks
7. NE – Black Hills – Declining rate blocks
8. NE – SourceGas – Modified rate blocks
9. OK – Oklahoma Natural Gas – Two-tier plan – Offers customers a choice
10. TX – Texas Gas Service – Flat fee up to 200 ccf/month

Pending

1. DE – Delmarva Power and Light

Current Status of Rate Stabilization Tariffs



Current Status of Rate Stabilization Tariffs

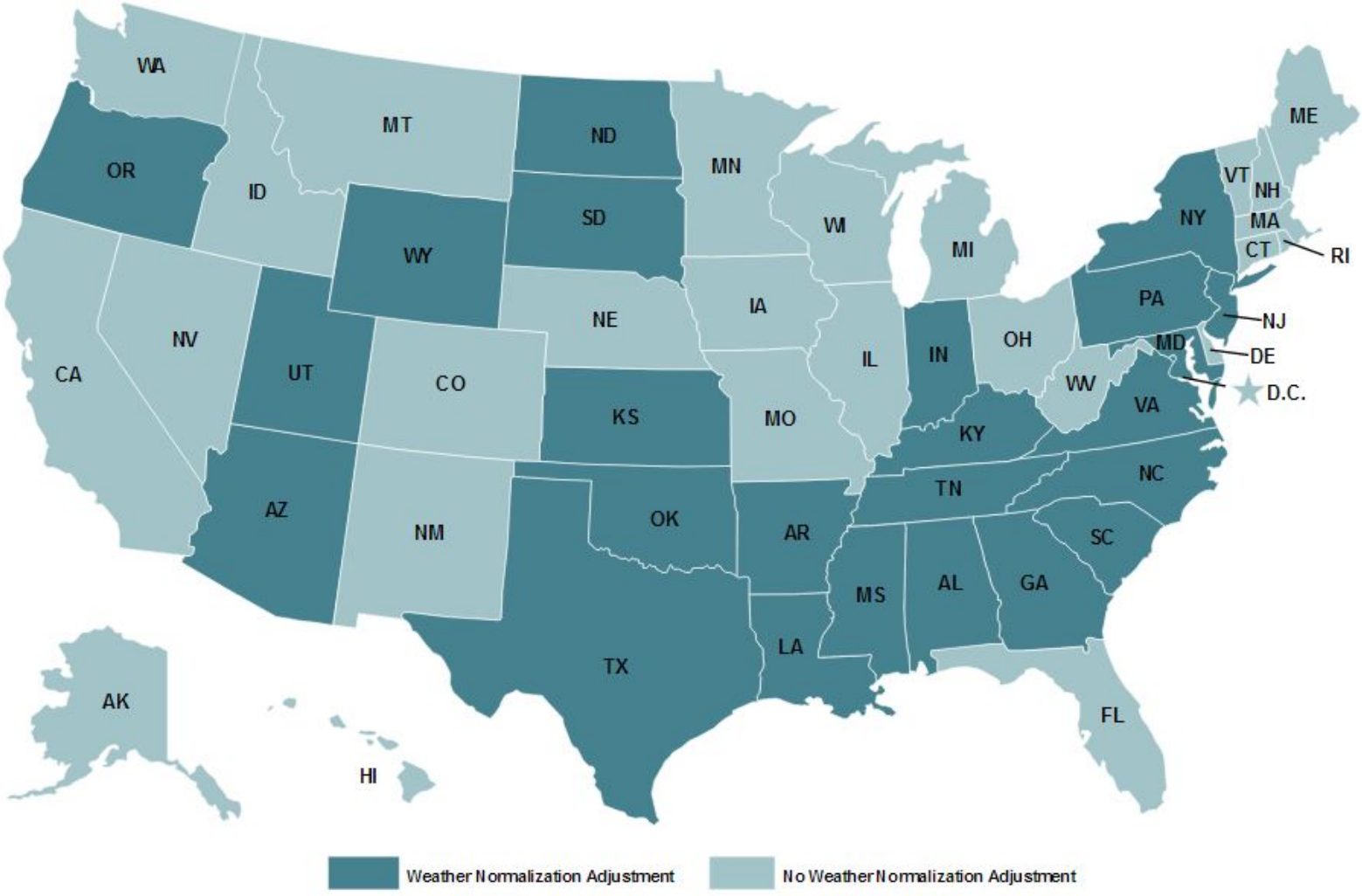
Approved

1. AL – Alabama Gas
2. AL – Mobile Gas
3. AR – CenterPoint Energy
4. GA – Liberty Utilities
5. LA – Atmos Energy
6. LA – CenterPoint Energy
7. LA – Entergy
8. MS – Atmos Energy
9. MS – CenterPoint Energy
10. OK – CenterPoint Energy
11. OK – Oklahoma Natural Gas
12. SC – Piedmont Natural Gas
13. SC – South Carolina Electric and Gas
14. TN – Atmos Energy
15. TX – Atmos Energy

Authorized by Legislation

1. Arkansas

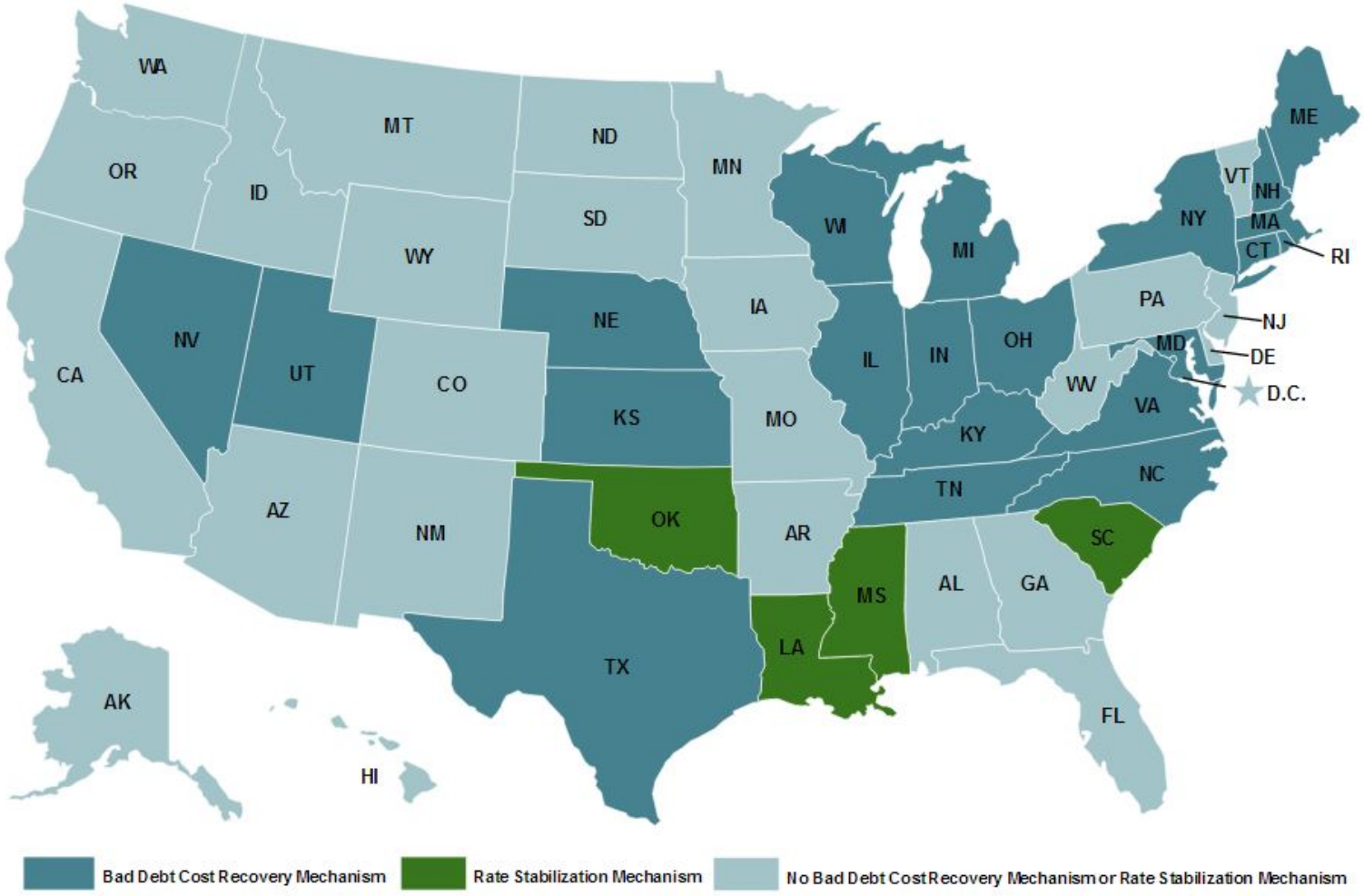
Current Status of Weather Normalization Adjustments



Utilities with Approved Weather Normalization Adjustments

1. AZ – Southwest Gas
2. AL – Alabama Gas
3. AL – Mobile Gas
4. AR – SourceGas
5. AR – CenterPoint Energy
6. GA – Liberty Utilities
7. IN – Citizens Energy Group
8. IN – Vectren North Indiana Gas
9. IN – Vectren South SIGECO
10. KS – Atmos Energy
11. KS – Black Hills
12. KS – Kansas Gas Service
13. KY – Atmos Energy
14. KY – Columbia Gas of Kentucky
15. KY – Delta Natural Gas
16. KY – Louisville Gas and Electric
17. LA – Atmos – Louisiana Gas Service
18. LA – Atmos – Trans Louisiana
19. LA – CenterPoint Energy
20. MD – Chesapeake Utilities
21. MD – Columbia Gas of Maryland
22. MS – Atmos Energy
23. MS – CenterPoint Energy
24. ND – Montana-Dakota Utilities
25. NJ – Elizabethtown Gas
26. NJ – New Jersey Natural Gas
27. NJ – Public Service Electric and Gas
28. NY – Central Hudson Gas and Electric
29. NY – Consolidated Edison
30. NY – National Fuel Gas Distribution
31. NY – National Grid Long Island
32. NY – National Grid Niagara Mohawk
33. NY – National Grid NYC
34. NY – New York State Electric and Gas
35. NY – Orange and Rockland Utilities
36. NY – Rochester Gas and Electric
37. OK – CenterPoint Energy
38. OK – Oklahoma Natural Gas
39. OR – Northwest Natural Gas
40. PA – Columbia Gas of Pennsylvania
41. PA – Philadelphia Gas Works
42. SC – Piedmont Natural Gas
43. SC – South Carolina Electric and Gas
44. SD – Montana-Dakota Utilities
45. TN – Atmos Energy
46. TN – Chattanooga Gas
47. TN – Piedmont Natural Gas
48. TX – Atmos Energy
49. TX – Texas Gas Service
50. UT – Questar Gas
51. VA – Atmos Energy
52. VA – City of Richmond Dept. of Public Utilities
53. VA – Columbia Gas of Virginia
54. VA – Roanoke Natural Gas
55. VA – Southwestern Virginia Natural Gas
56. VA – Virginia Natural Gas
57. VA – Washington Gas

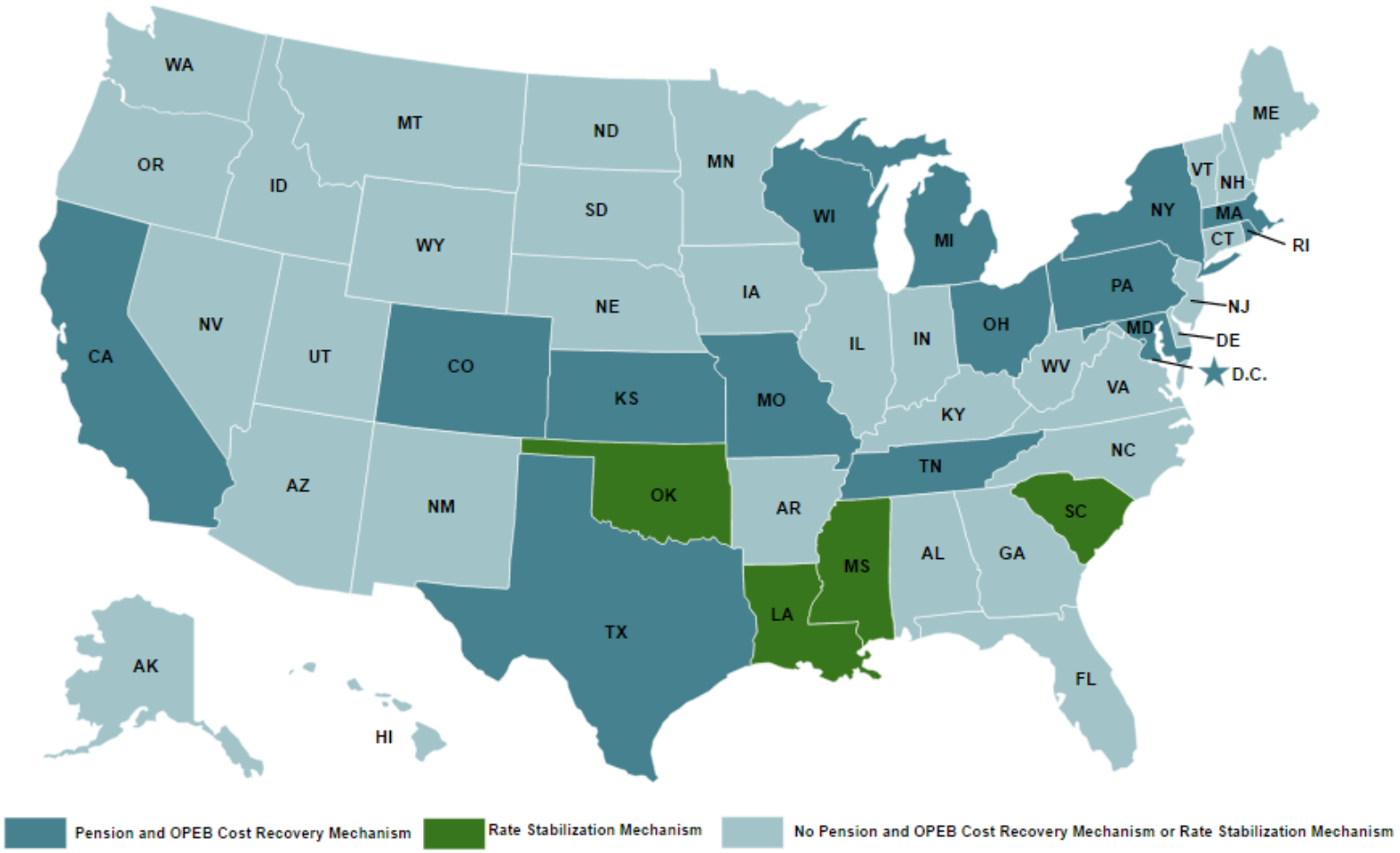
Current Status of Bad Debt Cost Recovery



Utilities with Bad Debt Cost Recovery

1. CT – Connecticut Natural Gas
2. CT – Southern Connecticut Natural Gas
3. CT – Yankee Gas
4. DC – Washington Gas
5. IL – Ameren Illinois
6. IL – Peoples Gas
7. IL – North Shore Gas
8. IL – Nicor Gas
9. IN – Citizens Energy Group
10. IN - NIPSCO
11. IN – Vectren North Indiana Gas
12. IN – Vectren South SIGECO
13. KS – Atmos Energy
14. KS – Black Hills
15. KS – Kansas Gas Service
16. KY – Atmos Energy
17. KY – Columbia Gas of Kentucky
18. KY – Delta Natural Gas
19. KY – Duke Energy
20. LA – CenterPoint Energy
21. MA – Columbia Gas of Massachusetts
22. MA – National Grid
23. MA – NSTAR Gas
24. MD – Baltimore Gas and Electric
25. MD – Washington Gas
26. ME – Northern Utilities
27. MI – DTE
28. MI – Michigan Gas Utilities
29. MS – CenterPoint Energy
30. NC – Piedmont Natural Gas
31. NE – Black Hills
32. NE – SourceGas
33. NH – Liberty Utilities
34. NH – Northern Utilities
35. NV – Southwest Gas
36. NY – Central Hudson Gas and Electric
37. NY – Consolidated Edison
38. NY – National Fuel Gas Distribution
39. NY – National Grid Long Island
40. NY – National Grid Niagara Mohawk
41. NY – National Grid NYC
42. NY – New York State Electric and Gas
43. NY – Orange and Rockland Utilities
44. OH – Columbia Gas of Ohio
45. OH – Dominion East Ohio
46. OH – Eastern Natural Gas
47. OH – Pike Natural Gas
48. OH – Vectren Energy Delivery of Ohio
49. OK – CenterPoint Energy
50. OK – Oklahoma Natural Gas
51. RI – National Grid
52. SC – Piedmont Natural Gas
53. SC – South Carolina Electric and Gas
54. TN – Atmos Energy
55. TN – Chattanooga Gas
56. TN – Piedmont Natural Gas
57. TX – Atmos Energy
58. TX – Texas Gas Service
59. UT – Questar Gas
60. VA – Washington Gas
61. VA – Atmos Energy
62. VA – Columbia Gas of Virginia
63. VA – Virginia Natural Gas
64. WI – Wisconsin Gas

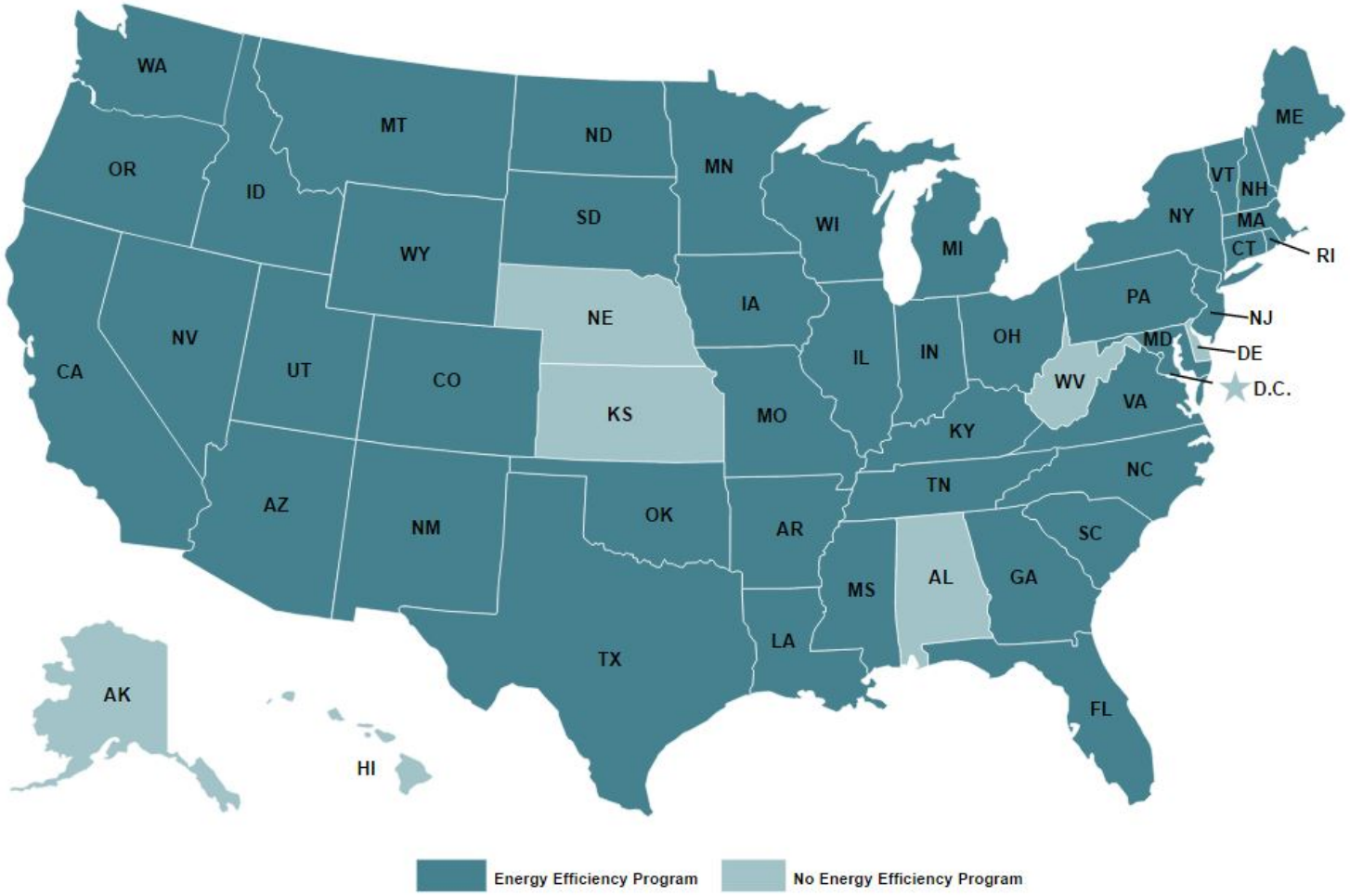
Current Status of Pension and OPEB Cost Recovery



Utilities with Pension and OPEB Cost Recovery

1. CA – San Diego Gas and Electric
2. CA – Southern California Gas
3. CO – Public Service Company of CO (Xcel)
4. DC – Washington Gas
5. KS – Atmos Energy
6. KS- Black Hills
7. KS – Kansas Gas Service
8. LA – Atmos Energy
9. LA – CenterPoint Energy
10. MA – Columbia Gas of Massachusetts
11. MA – Fitchburg Gas and Electric Light Co.
12. MA – National Grid
13. MA – NSTAR Gas Co.
14. MD – Baltimore Gas and Electric Co.
15. MI – DTE
16. MO – Ameren Missouri
17. MO – Laclede Gas
18. MO – Missouri Gas Energy
19. MS – Atmos Energy
20. MS – CenterPoint Energy
21. NY – Central Hudson Gas and Electric
22. NY – Consolidated Edison
23. NY – Orange and Rockland Utilities
24. NY – National Grid NYC
25. OH – Columbia Gas of Ohio
26. OK – CenterPoint Energy
27. OK – Oklahoma Natural Gas
28. PA – Philadelphia Gas Works
29. RI – National Grid
30. SC –Piedmont Natural Gas
31. SC – South Carolina Electric and Gas
32. TN – Piedmont Natural Gas
33. TX – Atmos Energy
34. TX – CenterPoint Energy
35. WI – Wisconsin Power and Light

Current Status of Natural Gas Energy Efficiency Programs



Utilities with Natural Gas Energy Efficiency Programs

1. AR – Arkansas Oklahoma Gas
2. AR – SourceGas
3. AR – CenterPoint Energy
4. AZ – Southwest Gas
5. CA – Pacific Gas and Electric
6. CA – San Diego Gas and Electric
7. CA – Southern California Gas
8. CA – Southwest Gas
9. CO – Atmos Energy
10. CO – Black Hills Energy
11. CO – Colorado Natural Gas
12. CO – SourceGas
13. CO – Public Service Co. of Colorado
14. CT – Connecticut Natural Gas
15. CT – Southern Connecticut Natural Gas
16. CT – Yankee Gas Service
17. FL – TECO Peoples Gas
18. GA – Atlanta Gas Light
19. IA – Liberty Utilities
20. IA – Black Hills Energy
21. IA – Interstate Power and Light
22. IA – MidAmerican Energy
23. IN – Citizens Energy Group
24. IN – NIPSCO
25. IN – Vectren North Indiana Gas
26. IN – Vectren South SIGECO
27. ID – Avista Utilities
28. ID – Intermountain Gas
29. IL – Ameren Illinois
30. IL – MidAmerican Energy
31. IL – Nicor Gas
32. IL – North Shore Gas
33. IL – Peoples Gas
34. KY – Atmos Energy
35. KY – Columbia Gas of Kentucky
36. KY – Delta Natural Gas
37. KY – Duke Energy Kentucky
38. KY – Louisville Gas and Electric
39. LA – Atmos Energy
40. LA – CenterPoint Energy
41. MA – Columbia Gas of Massachusetts
42. MA – Berkshire Gas
43. MA – Fitchburg Gas and Electric Light
44. MA – Liberty Utilities
45. MA – National Grid Massachusetts
46. MA – NSTAR Gas and Electric
47. MD – Baltimore Gas and Electric
48. MD – Columbia Gas of Maryland
49. MD – Washington Gas
50. ME – Northern Utilities
51. MI – Consumers Energy
52. MI – DTE
53. MI – Michigan Gas Utilities
54. MN – CenterPoint Energy
55. MN – Great Plains Natural Gas
56. MN – Interstate Power and Light
57. MN – Minnesota Energy Resources
58. MN – Xcel Energy
59. MO – Ameren
60. MO – Liberty Utilities
61. MO – Empire Natural Gas
62. MO – Laclede Gas
63. MO – Missouri Gas Energy
64. MS – Atmos Energy
65. MS – CenterPoint Energy
66. MT – Montana-Dakota Utilities
67. NC – Piedmont Natural Gas
68. NC – Public Service Co. of NC
69. ND – Montana-Dakota Utilities
70. NH – Liberty Utilities
71. NH – Northern Utilities
72. NJ – Elizabethtown Gas
73. NJ – New Jersey Natural Gas
74. NJ – Public Service Electric and Gas
75. NJ – South Jersey Gas
76. NM – New Mexico Gas
77. NV – NV Energy
78. NV – Southwest Gas
79. NY – Central Hudson Gas and Electric
80. NY – Consolidated Edison
81. NY – National Fuel Gas
82. NY – National Grid NY
83. NY – National Grid Long Island
84. NY – National Grid Niagara Mohawk
85. NY – Orange and Rockland Utilities
86. NY – St. Lawrence Gas
87. OH – Columbia Gas of Ohio
88. OH – Dominion East Ohio
89. OH – Duke Energy
90. OH – Vectren Energy Delivery of Ohio

Utilities with Natural Gas Energy Efficiency Programs (Cont.)

91. OK – CenterPoint Energy
92. OK – Oklahoma Natural Gas
93. OR – Avista Utilities
94. OR – Cascade Natural Gas
95. OR – Northwest Natural Gas
96. PA – Columbia Gas of Pennsylvania
97. PA – Equitable Gas
98. PA – PECO
99. PA – Peoples Natural Gas
100. PA – Philadelphia Gas Works
101. PA – UGI Central Penn Gas
102. PA – UGI Penn Natural Gas
103. PA – UGI Utilities
104. RI – National Grid
105. SC – Piedmont Natural Gas
106. SC – South Carolina Electric and Gas
107. SD – MidAmerican Energy
108. SD – Montana-Dakota Utilities
109. TN – Chattanooga Gas
110. TX – Atmos Energy
111. TX – Texas Gas Service
112. UT – Questar Gas
111. VA – Columbia Gas of Virginia
112. VA – Virginia Natural Gas
113. VA – Washington Gas
114. VT – Vermont Gas Systems
115. WA – Avista Utilities
116. WA – Cascade Natural Gas
117. WA – Northwest Natural Gas
118. WA – Puget Sound Energy
119. WI – City Gas
120. WI – Madison Gas And Electric
121. WI – Midwest Natural Gas
122. WI – St. Croix Valley Natural Gas
123. WI – Superior Water, Light and Power
124. WI – We Energies
125. WI – Wisconsin Light and Power
126. WI – Wisconsin Public Service
127. WI – Xcel Energy
128. WY – Montana-Dakota Utilities
129. WY – Questar Gas

AFFIDAVIT OF ROBERT B. HEVERT

COMMONWEALTH OF MASSACHUSETTS)
) ss
COUNTY OF WORCESTER)

On the 28 day of September, 2017, before me appeared Robert B. Hevert, to me personally known, who, being by me first duly sworn, states that he is a partner at ScottMadden, Inc. and acknowledges that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.

Robert B. Hevert

Subscribed and sworn to before me this 28 day of September, 2017.

Notary Public

My commission expires: March 11, 2022