

Exhibit No.  
Issue: Cost Allocation Adjustment  
Witness: Ashley Hiatt  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Liberty Utilities .  
(MidStates Natural Gas) Corp  
d/b/a Liberty Utilities  
Case No. GR-2018-0013  
Date Prepared: September 27, 2017

**Before the Public Service Commission  
of the State of Missouri**

**Direct Testimony**

**of**

**Ashley Hiatt**

**On Behalf Of**

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

**September 2017**



DIRECT TESTIMONY  
OF  
ASHLEY HIATT  
LIBERTY UTILITIES  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. GR-2018-0013

1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Ashley Hiatt. My business address is 602 S. Joplin Ave, Joplin,  
4 Missouri, 64801.

5 **Q. WHO IS YOUR EMPLOYER AND WHAT POSITION DO YOU HOLD?**

6 A. I am employed by Liberty Utilities Services Corp. as a Senior Financial Forecast  
7 Project Accountant for Liberty Utilities' Central Region, which includes Liberty  
8 Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities ("Liberty Utilities"  
9 or "Company"), The Empire District Electric Company ("Empire") and Liberty  
10 Utilities (Missouri Water) LLC.

11 **Q. WHAT ARE YOUR QUALIFICATIONS AND PREVIOUS WORK  
12 EXPERIENCES?**

13 A. I am a licensed Certified Public Accountant and hold a Bachelor of Science  
14 Degree in Accounting and a Master of Accountancy Degree from Missouri State  
15 University, Springfield, Missouri. I was hired by Empire in April of 2009 and  
16 have worked in Internal Audit and Property Accounting prior to accepting my  
17 current position in August of 2017. I worked for a regional public accounting firm  
18 for approximately two years prior to joining Empire.

19 **Q. PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY.**

1 A. The purpose of my testimony is to provide a background and understanding of  
2 cost changes related to intercompany allocations and the applicable adjustment  
3 provided in the rate filing.

4 **Q. WHAT ADJUSTMENT IS BEING PROPOSED FOR INTERCOMPANY**  
5 **ALLOCATIONS?**

6 A. The Company has included in its filing an increase to operational expenses in the  
7 amount of \$15,826. The adjustment to operational expenses is calculated on WP  
8 ADJ 14 CAM Adjustment and summarized in the WP-1 Operating Income  
9 Adjustments schedules included in the Company's revenue requirement, WP-1  
10 Revenue Requirement Model. This adjustment is necessary to adjust the costs  
11 included in the test year period based on the Company's updated cost allocation  
12 manual ("CAM") as filed with the Missouri Public Service Commission in  
13 Docket No. AO-2017-0360 on June 30, 2017.

14 **Q. WHAT CAUSED THE COMPANY'S COST ALLOCATION**  
15 **METHODOLOGIES TO CHANGE?**

16 A. On January 1, 2017 the Company's ultimate parent, Algonquin Power & Utilities  
17 Corp. ("APUC"), completed the acquisition of Empire. With the acquisition of  
18 Empire, APUC decided to create regional corporate structures for its regulated  
19 utility operations in the United States. The Liberty Utilities Central Region  
20 includes Empire's electric, natural gas and water operations in Missouri,  
21 Arkansas, Kansas and Oklahoma, as well as Liberty Utilities' natural gas and  
22 water operations in Missouri, Arkansas, Illinois and Iowa.

1 **Q. WERE THERE SIGNIFICANT CHANGES TO THE COST**  
2 **ALLOCATION METHODOLOGIES?**

3 A. No, the new CAM utilizes much of the same cost allocation methodologies as  
4 before. The Company continues to direct charge to its utilities where possible and  
5 a “four-factor” methodology is still used to allocate charges that cannot be  
6 directly assigned. The allocation percentages are updated annually to reflect the  
7 most recent data, including, but not limited to, number of customers, plant-in-  
8 service, and labor and non-labor O&M expenses. The methods of direct charges,  
9 cost allocations and related procedures that were utilized during the test year  
10 where applicable under the previous CAM (submitted to the Commission Staff  
11 and Office of the Public Counsel on an annual basis) produced resulting levels of  
12 such expenses and costs that are prudent, just and reasonable. However, as more  
13 fully discussed below, the rate case adjustment reflects the updated CAM and  
14 provides a more accurate reflection of costs the Company reasonably expects it  
15 will incur on an annualized basis.

16 **Q. DID OTHER ALLOCATIONS CHANGE BASED ON THE NEW**  
17 **ORGANIZATIONAL STRUCTURE?**

18 A. Yes, in addition to the allocated costs the Company receives from its corporate  
19 headquarters in Oakville, Ontario, the Company now receives an allocation of  
20 regional costs for certain personnel and departments providing support to the  
21 entire Central Region.

22 **Q. HOW ARE THE CENTRAL REGION COSTS ALLOCATED?**

23 A. The regional costs are allocated based on the familiar four-factor methodology.

1 **Q. WHAT TYPES OF COSTS ARE INCLUDED IN THE CENTRAL REGION**  
2 **ALLOCATION?**

3 A. Certain personnel and departments providing support for the entire Central  
4 Region are included in the regional allocation.

5 **Q. ARE THE PROPOSED COST ALLOCATION METHODS UNDER THE**  
6 **NEW CAM FAIR AND REASONABLE?**

7 A. Yes. As previously stated, the Company continues to utilize direct charges  
8 whenever possible. Additionally, the allocation methodologies are tailored to the  
9 type of costs incurred, which results in more equitable cost sharing.

10 **Q. WHEN DID THE ALLOCATIONS CHANGE?**

11 A. The regional corporate structure became effective during the first quarter of 2017  
12 and costs have been transitioning during the first six months of the year. The new  
13 CAM became effective on July 1, 2017.

14 **Q. HOW WAS THE RATE CASE ADJUSTMENT CALCULATED?**

15 A. There are two components to the CAM adjustment calculated on WP ADJ 14.  
16 The first component considers the Central Region employees who were  
17 previously direct charging to Liberty Utilities (Midstates Natural Gas) Corp. The  
18 adjustment reflects the removal of the salaries, benefits, payroll taxes, and  
19 depreciation associated with the capitalized labor costs from operating expenses  
20 and rate base.

21 The second component of the CAM adjustment compares the costs  
22 allocated to the Company in the test year to the 2018 budgeted allocations. The  
23 allocated costs included in the test year do not reflect the updated CAM and

1           therefore do not provide an accurate reflection of what the Company reasonably  
2           expects it will incur on an annualized basis. However, the budget for 2018 has  
3           incorporated the changes resulting from the updated CAM, and therefore is used  
4           as the basis for the adjustment to intercompany allocations.

5   **Q.    WHAT IS THE IMPACT OF THE CAM ADJUSTMENT TO RATE BASE?**

6   A.    As reflected on WP-1 Rate Base Adjustments, the net impact to rate base for the  
7           CAM adjustment is a decrease of \$206,353, which includes the capitalized  
8           portion of salaries, benefits, payroll taxes, and associated accumulated  
9           depreciation.

10 **Q.    WHAT IS THE IMPACT OF THE CAM ADJUSTMENT TO OPERATING**  
11 **EXPENSE?**

12 A.    As reflected on WP-1 Operating Income Adjustments, the net impact to operating  
13           expense is an increase of \$15,826, which reflects the removal of salaries, benefits,  
14           payroll taxes and depreciation expense for the Central Region employees, as well  
15           as an increase in intercompany allocations.

16 **Q.    DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

17 A.    Yes.

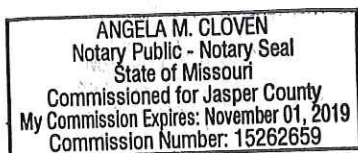
AFFIDAVIT OF ASHLEY HIATT

STATE OF MISSOURI )  
                              ) ss  
COUNTY OF JASPER )

On the 27 day of September, 2017, before me appeared Ashley Hiatt, to me personally known, who, being by me first duly sworn, states that she a Senior Accountant of Liberty Utilities – Central Region and acknowledges that she has read the above and foregoing document and believes that the statements therein are true and correct to the best of her information, knowledge and belief.

  
\_\_\_\_\_  
Ashley Hiatt

Subscribed and sworn to before me this 27 day of September, 2017.



  
\_\_\_\_\_  
Notary Public

My commission expires: 11/01/2019.