BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities' Tariff Revisions Designed to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company.	)))))	**Case No. GR-2014-0152**

STAFF'S STATEMENTS OF POSITION

COMES NOW the Staff of the Missouri Public Service Commission, by and through counsel, and submits the following *Statements of Position* pursuant to the *Order Setting Procedural Schedule* previously issued in this case, and in support thereof states as follows:

1. The following *Statements of Position* generally follow the *List of Issues* filed herein by Staff on August 26, 2014. However, as stated in the *List of Issues*, all parties may not agree that every issue listed is properly an issue to be decided by the Commission in this case.

2. It is the understanding of the undersigned that these *Statements of Position* are to consist of short statements of a party's position on a given issue, with a short explanation of that position. Therefore the following *Statements of Position* will adhere to this format; a fuller discussion of the issues, with argument and additional citations (including both citations to law and evidence, as applicable), will be presented in Staff's post-hearing briefs.

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Statements of Position

1. Cost of Capital:

a. What capital structure should the Commission use in this case to determine a revenue requirement for Liberty?

Staff Position: Staff recommends that the Commission use the capital structure of Liberty Utilities Company ("LUCo") (the corporate parent of Liberty Midstates) for purposes of setting rates in this proceeding because Liberty Midstates does not have a credit rating; does not issue equity; does not issue long-term debt; does not raise its own short-term debt; and its capital structure has no bearing on the cost of capital required by investors. All of these occur at the LUCo level. This means that in this case the Commission should use a capital structure consisting of ***** ***** percent equity and ***** ***** percent debt. (See, e.g., Staff Revenue Requirement Cost of Service Report, pp. 19-20; Marevangepo Rebuttal, pp. 3-6)

b. What is the appropriate embedded cost of debt that the Commission should apply in this case to determine a revenue requirement for Liberty?

Staff Position: The embedded debt cost which is allocated to Liberty Midstates is based on LUCo's consolidated business and financial risk profile rather than on Liberty Midstates'. It is LUCo management's judgment and prerogative to assign capital based on a process which cannot be audited or verified, and the allocation of the cost of debt capital suffers from the same problems as the allocation of the amount of debt for a capital structure; therefore, Staff recommends the Commission use an embedded cost of debt based on LUCo's consolidated capital structure, which equates to an embedded

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cost of debt of * * percent. (See, e.g., Staff Revenue Requirement Cost of Service Report, p. 21; Marevangepo Rebuttal, pp. 2-6)

c. What is the appropriate cost of equity that the Commission should apply in this case to determine a revenue requirement for Liberty?

Staff Position: The Commission should adopt a cost of equity within Staff's recommended return on equity ("ROE") range of 8.20% to 9.20%, with a midpoint of 8.70% ROE. Staff's cost of common equity recommendation was developed through a comparable company cost of equity analysis of a proxy group of companies using the DCF methodology, with the addition of a credit rating differential adjustment. (See, e.g., Staff Revenue Requirement Cost of Service Report, pp. 22-35)

2. Contract Customers:

a. Is Liberty currently authorized to enter into special contracts at non-tariffed rates with its customers in Missouri, such as Noranda and General Mills?

Staff Position: No. Any authorization for those two contracts expires with this rate case, and Liberty has no Commission-approved tariff which authorizes such contracts on a going-forward basis. (See, e.g., Staff Revenue Requirement Cost of Service Report, p. 53; Sommerer Surrebuttal, p. 9)

b. If Liberty is not currently authorized to enter into special contracts at non-tariffed rates with its customers in Missouri such as Noranda and General Mills, should the Commission authorize Liberty to adopt a tariff to allow it to enter into such special contracts? If yes, what should such tariff state?

Staff Position: Staff believes that whether or not Liberty should be authorized to continue providing service to select customers pursuant to special contracts is a policy

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decision for the Commission. However, if the Commission wants to allow Liberty to have such special contracts, a tariff such as Staff's proposed tariff set forth on Schedule DMS-5 is needed which provides appropriate parameters under which special contracts would be allowed. (See, e.g., Staff Revenue Requirement Cost of Service Report, p. 53; Sommerer Surrebuttal, pp. 9-10 and Schedule DMS-5)

c. What rate should the Commission use to calculate Liberty's revenues from Noranda and General Mills for purposes of this rate case?

Staff Position: The Commission should use the rate which has been authorized and approved by the Commission, *i.e.*, the tariff rate which was approved by the Commission in the last rate case. (See, e.g., Staff Revenue Requirement Cost of Service Report pp. 53-54; Cox Rebuttal, pp. 4-5; Cox Surrebuttal, pp. 1-6)

d. What rate should the Commission use to calculate Liberty's revenues from SourceGas for purposes of this rate case?

Staff Position: ** ____

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_____________________________________ ** (See, e.g., Staff Revenue Requirement Cost of Service Reort, pp. 55-56; Sommerer Surrebuttal, pp. 2-9, 10)

3. Depreciation[1]: What depreciation rates should be ordered by the Commission for corporate plant accounts 399.1, 399.3, 399.4 and 399.5?

[1] Other than depreciation rates for the accounts listed under this issue, all depreciation rates have been agreed upon (at Staff's proposed depreciation rates). Therefore, once the Commission decides what depreciation rates to order for the listed accounts, the Commission's Report and Order should contain a complete list of **all** ordered depreciation rates, including those agreed upon.

Staff Position: The Commission should order a depreciation rate of 4.75% for each of these accounts. All of the accounts in dispute concern corporate allocated plant depreciation rates, for which there are no currently-ordered depreciation rates; therefore, Staff's recommended rates for these accounts reflect currently-ordered depreciation rates for the general plant accounts of the former Butler and Kirksville districts. (See, Staff Revenue Requirement Cost of Service Report, p. 73; Robinett Rebuttal, pp. 2-3 and Schedule JAR (DEP) – 1)

4. Cost of Removal: Should Liberty's accumulated depreciation reserve balances be increased, and rate base decreased, to reflect removing cost of removal from the accumulated depreciation reserve calculation? If yes, by how much?

Staff Position: No. Staff believes that more analysis and factual data is required before any changes should be made to these balances. Staff recommends that a comprehensive study of Liberty Utilities' plant in service records should be performed in conjunction with the depreciation study required as part of its next general rate increase case to determine what, if any, such adjustments are warranted.

5. ISRS: Should Liberty's revenue requirement be decreased to remove certain costs included in Liberty's ISRS? If yes, by how much?

Staff Position: No. Based upon the Commission's Report & Order in Case No. GO-2014-0006, which was affirmed by the Court of Appeals, the costs were appropriately included in Liberty Utilities' ISRS. (Sharpe Surrebuttal, pp. 1-3)

6. Rate Design and Related Issues:

a. How should rates be designed to reflect any change in rates from the outcome of this case?

Staff Position: Staff recommends equal percentage changes to all rate classes and rate elements. ISRS charges should not be incorporated into base rates before applying the equal percentage increase. (See, e.g., Staff Class Cost-of-Service and Rate Design Report, p. 7; Imhoff Rate Design Direct, pp. 2-3; Imhoff Rebuttal, pp. 1-2)

b. Should the customer charge in the NEMO and WEMO districts of Liberty be decreased from their current levels?

Staff Position: No. The billing determinants in this case do not have the updated Atmos customer billing data that would greatly increase the confidence level in billing determinants. The rates should reflect an equal percentage change by rate category and rate class. (See, Imhoff Surrebuttal, pp. 3-4)

c. Should Liberty's "foregone delivery charge," which is charged to customers who leave and return to the Liberty system within seven or fewer months, be eliminated?

Staff Position: No. The foregone delivery charge is a way of keeping customers on Liberty's system to help pay the costs of the distribution system so other customers don't subsidize customers who voluntarily leave the system.

7. Energy Efficiency and Weatherization Program:

a. Should Liberty have an evaluation, measurement and verification (EM&V) performed to determine the cost-effectiveness of an energy efficiency program before making any future expenditures on the program?

Staff Position: No. Staff does not believe this issue is properly an issue, as it was raised for the first time in surrebuttal testimony.

b. Should low income weatherization assistance funding be in addition to the 0.5 percent target funding level for energy efficiency, or should the 0.5 percent target funding level include energy efficiency and low income weatherization assistance programs combined?

Staff Position: Staff recommends the Commission approve the goal of 0.5 percent as the target level for both energy efficiency and low income weatherization assistance programs combined. At this time, there is not enough information regarding how effective the energy efficiency programs are in reducing energy usage to justify allowing more money, and potentially more of a future rate increase. (See, Boustead Rebuttal, pp. 2-3).

WHEREFORE, Staff submits the foregoing *Statements of Position* for the Commission's consideration.

Respectfully submitted,

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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 for all parties of record this 3rd day of September, 2014.

/s/ Jeffrey A. Keevil