Exhibit No.: _____
Issues: PGA/ACA Recovery Periods and Carrying Cost Rate
Witness: Dana Liner
Type of Exhibit: Direct Testimony
Sponsoring Party: Liberty Utilities (Midstates Natural Gas) Corp.
Case No.: GR-2023-0128
Date Testimony Prepared: November 2022

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Dana Liner

on behalf of

Liberty Utilities (Midstates Natural Gas) Corp.

November 2022

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LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP.
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Dana Liner. My business address is 602 South Joplin Avenue, Joplin, Missouri, 64802.

Q. By whom are you employed and in what capacity?

A. I am employed by Liberty Utilities Service Corp. ("LUSC") as a Manager of Rates and Regulatory Affairs for the Liberty Utilities Co. Central Region, which includes Liberty Utilities (Midstates Natural Gas) Corp. ("Liberty" or the "Company").

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of Liberty in this proceeding before the Missouri Public Service Commission ("Commission").

Q. Please describe your educational and professional background.

A. I hold a Bachelor of Science in Accounting and a Master of Business Administration from the University of Louisiana at Monroe in Monroe, Louisiana. I began my career at Century Telephone Enterprises, Inc. (later known as CenturyLink) in 1997 working in Plant and CPR Accounting. In 2003, I transitioned to CenturyLink's Regulatory Finance department as a senior analyst, where my assignments included preparing analysis, exhibits, and data request responses for audits, rate cases, mergers and acquisitions across twenty-six states, tribal organizations, the FCC and other government entities. I also provided analysis and written arguments for pole attachment rate negotiations and depreciation rate proceedings. In March 2013, I became Manager of Regulatory Operations at CenturyLink, as my responsibility broadened to include broadband grant filings, low-income Lifeline reporting, and federal price models. I joined Liberty in July 2020. In my current position, I oversee rate proceedings, compliance filings, and other regulatory matters.

Q. Have you previously testified before the Commission or any other regulatory agency?

A. Yes. I provided testimony before this Commission on behalf of The Empire District Gas Company in Case No. GR-2021-0320.

Q. What is the purpose of your Direct Testimony in this proceeding?

A. The purpose of my testimony in this Purchased Gas Adjustment ("PGA") / Actual Cost Adjustment ("ACA") proceeding is to address Liberty's request to further extend recovery of extraordinary gas costs for customers in the Company's Western Missouri service area ("WEMO") and the application of carrying costs for the Storm Uri expenditures for all districts.

Q. Please briefly describe the circumstances under which the Company incurred extraordinary costs.

A. During the month of February 2021 extreme cold in the region created demand for gas by consumers far in excess of seasonal norms for utilities throughout the Midwest, including the Company. This caused delivered gas prices to rise dramatically. This increased the Company's cost to serve its customers. In total for the Storm Uri timeframe, the Company's cost of gas for this period was approximately $7.7 million as compared to a typical February of approximately $2.2 million and $21.8 million annually. Storm Uri costs in the Western Missouri area comprised over $3 million of the Company's total extraordinary expenditures.

II. RECOVERY PERIODS

Q. What recovery period did the Company request for these extraordinary costs in its November 2021 PGA/ACA filing?

A. In direct testimony submitted by Phillip Gilliam in Case No. GR-2022-0128, the Company proposed extended recovery periods of three years for its Northeast, Southeast, and Western Missouri service areas. Operations in the Kirksville service area were not significantly impacted by the Storm Uri extreme weather event due to utilization of available storage gas. The ACA rate calculations presented in this filing are based on these timeframes, as approved by the Commission on an interim, subject to refund status pending full review and final order. This order is expected to be issued in January 2023.

Q. Has the Company recovered any of the extraordinary gas costs attributable to Storm Uri since the filing of Case No. GR-2022-0128?

A. Yes. Using the recovery periods proposed by the Company in GR-2022-0128, Liberty included the year one amortizations in its ACA rate calculations with short-term carrying charge rates as described in the Company's tariff.

Q. Is an extended recovery period allowed under the Company's tariff?

A. Yes. On September 16, 2021, the Company submitted revised tariff sheets designed to narrowly amend the Company's Rider PGA to allow flexibility to extend the recovery period beyond 12 months (Commission Case No. GT-2022-0079, Tracking No. JG-2022-0058). Form No. 13, PSC MO No 2, 2nd Revised Sheet No. 43 and Original Sheet No. 43a took effect October 22, 2021. At that time, the following language was added:

> Upon request by the Company, Staff, or OPC, and for good cause shown, when an extraordinary event has occurred, supported by affidavit, the Commission may permit the Company to divide the cumulative balances of each System's deficit gas cost recovery revenue (ACA account under-recovery) by estimated sales volumes for an extended period which shall not exceed 5 years.

Q. Is there good cause to further extend the recovery period for the WEMO district for gas costs due to Storm Uri?

A. Yes. The Company initially believed that 3 years would be sufficient and that a return to reasonable gas prices would enable the recovery with reasonable impacts. Due to continuing higher than average gas prices, Liberty's updated calculations for the WEMO service area demonstrate, in Table 1 below, a need to further mitigate consumer impacts to the extent allowed in our tariff.

Q. Over how long a period does the Company now propose to recover its remaining under-collections in its Western Missouri services area?

A. The Company proposes extending the remaining WEMO balance of $2.1 million over four years, for a total of five years, as allowed in the tariff.

Q. Why is the Company requesting additional time to recover the WEMO area costs related to Storm Uri?

A. In Case No. GR-2021-0320, the Company proposed a three-year extension yielding annual charges of approximately $1 million to be included in the ACA rate calculations. Table 1 documents the total PGA rates calculated by continuing this three-year recovery versus extending the remaining recovery over four additional years as demonstrated in Table 3. Table 2 estimates the amount of a typical PGA bill component using a monthly customer usage of 50 Ccf.

Table 1: WEMO Midstates Total PGA Rates (RPGA + ACA)

Sales Rates	Current Rates	New Rates with 2-year remaining recovery	New Rates with 4-year remaining recovery
Firm	$0.71708	$1.42163	$1.27897
Interruptible	$0.65999	$1.35759	$1.21493

Table 2: WEMO Midstates PGA Rate Estimated Bill Impact (50 Ccf/ month)

Sales Rates	With 2-year remaining recovery	With 4-year remaining recovery	Percentage decrease
Firm	$71.08	$63.95	10%
Interruptible	$67.88	$60.75	10.5%

Table 3: WEMO Midstates Gas Storm Uri Balances by Year

Date	Beg Bal	Annual Charge	End Bal
9/1/2021	$ 3,161,108	$ 1,053,703	$ 2,107,406
9/1/2022	$ 2,107,406	$ 526,851	$ 1,580,554
9/1/2023	$ 1,580,554	$ 526,851	$ 1,053,703
9/1/2024	$ 1,053,703	$ 526,851	$ 526,851
9/1/2025	$ 526,851	$ 526,851	$ -

The Company requests this additional extension, to a total of 5 years as allowed by the tariff, in order to mitigate customer bill impacts by 10%.

III. CARRYING COST RATE

Q. What carrying charge do you recommend for the deferred ACA balances?

A. The Company is requesting a carrying charge of 7.4%, which is equal to the Company's Weighted Average Cost of Capital ("WACC"), which was established by the Commission in Case No. GR-2018-0013 for use in the Company's future ISRS filings.

Q. Is this allowed under the Company's tariff?

A. Yes. Section III (Form No. 13, PSC MO No. 2, Original Sheet No. 43a, effective October 22, 2021) allows the Company to "propose a carrying cost, subject to review, appropriate for the length of the extended period" if the Commission allows an extended recovery period, not to exceed five years, for an extraordinary under-recovery ACA balance.

Q. Why is the WACC the appropriate carrying charge?

A. During the period in which the under-recoveries incurred, Liberty incurred costs to provide service to its customers. The carrying cost rate in the Company's tariff of prime minus two percent is appropriate for recovering gas costs within twelve months, the common period for short-term debt. In extending the period over which those costs are recovered to up to five years, the Company is, in effect, lending its capital to customers for the amortization period. In this case, it is more appropriate to use a long-term cost of capital to reflect total financing costs. WACC is specifically intended to measure the cost of the Company's capital, based on its specific capital financial circumstances. Using WACC to calculate carrying costs fairly compensates both debtholders and equity investors for providing the funds needed to carry these costs over five years on behalf of Liberty's customers.

Q. What are the carrying charges identified in the Company's tariff generally intended for?

A. Section III of the tariff indicates that monthly carrying charges associated with the normal ACA will be set at the prime interest rate on the first business day of the following month minus two percent. That rate is a carrying charge applicable to normal gas costs recovered over a short-term period of 12-months. These funds come from cash reserves or short-term debt instruments not exceeding 12 months. During usual conditions, Liberty funds its gas supply costs through cash generated from operations.

Q. What makes the extended recovery different from the circumstances contemplated by Section III of the tariff?

A. In this proceeding the Company is asking for the recovery of extraordinary gas costs over a long-term period of time. Section III of the tariff provides the necessary flexibility to allow the Company to recover unusually high gas amounts to be extended over longer periods at an appropriate carrying rate. The Company believes the proposed treatment to extend over a longer period is the correct thing to do for customers, but this treatment also has the effect of pushing the obligation past the 12-month short-term expense threshold. In taking this approach the proposed long-term recovery treatment competes with and will be supported by funds that generally are used for capital projects. The opportunity to earn a fair rate of return on capital is a cornerstone of rate regulation. Therefore, WACC is the appropriate rate to apply to the use of long-term capital funds.

Q. Will the Company earn any "extra profit" if the Commission authorizes it to use its WACC as the carrying charge?

A. No. Applying the WACC will only provide the Company with a "make whole" payment that compensates it for the delayed access to its own capital. Deploying those funds into capitalized physical assets instead would result in a WACC return as determined by the Commission in rate proceedings.

Q. Does this conclude your Direct Testimony at this time?

A. Yes, it does.

AFFIDAVIT

I, Dana Liner, under penalty of perjury, on this 4th day of November, 2022, declare and confirm that I have personal knowledge of the matters set forth in this Direct Testimony and that the Direct Testimony is true and correct to the best of my knowledge and belief.

/s/ Dana Liner