

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2015-0095, Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Utilities

FROM: Phil Lock, Regulatory Auditor - Procurement Analysis
Kwang Choe, Ph.D., Regulatory Economist - Procurement Analysis
Lesa Jenkins, P.E., Regulatory Engineer - Procurement Analysis

/s/ David M. Sommerer 12/04/15 /s/Jeff Keevil 12/04/15
Project Coordinator/ Date Staff Counsel's Office/ Date

/s/ Lesa Jenkins PE, 12/04/15
Utility Regulatory Engineer II/ Date

SUBJECT: Staff's Recommendation in Case GR-2015-0095, Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities 2013-2014 Actual Cost Adjustment Filing (formerly Atmos Energy Corporation)

DATE: December 4, 2015

Procurement Analysis Staff has reviewed Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities ("Liberty" or "Company") 2013-2014 Actual Cost Adjustment (ACA) filing. This filing was made on November 4, 2014, for rates to become effective on December 1, 2014, in all areas served in Missouri. This filing was docketed as Case No. GR-2015-0095.

On August 1, 2011, Atmos Energy Corporation ("Atmos") and Liberty Energy (Midstates) Corp. (now known as Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities) filed a joint application for authority for Atmos to sell its regulated natural gas utility assets in Missouri, Illinois and Iowa to Liberty. (*Joint Application of Atmos Energy Corporation and Liberty Energy (Midstates) Corporation* – Case No. GM-2012-0037).

On March 14, 2012, Case No. GM-2012-0037, the Missouri Public Service Commission issued its *Order Approving Unanimous Stipulation and Agreement* authorizing Liberty to purchase the assets of Atmos, including the issuance of new certificates of convenience and necessity.

Section II.A.15., paragraph f., of the Unanimous Stipulation and Agreement which was approved by the Commission required in part that "Atmos shall transfer to Liberty-Midstates copies of all records and documents related to PGA/ACA cases."

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**** Denotes Highly Confidential Information ****

Appendix A

This memorandum is organized into four sections. Each section contains detailed explanations of Staff's concerns and recommendations. The four sections are:

- I. Billed Revenue and Actual Gas Costs
- II. Reliability Analysis and Gas Supply Planning
- III. Hedging
- IV. Recommendations

Staff's analysis consisted of:

1. A review and evaluation of the Company's billed revenues and its natural gas costs for the period of September 1, 2013, to August 31, 2014. A comparison of billed revenue recovery with actual costs will yield either an over-recovery or under-recovery of the ACA costs. The Company's over-recovery is shown as a negative ACA balance that must be returned to customers; under-recovery is shown as a positive ACA balance that must be recovered from customers.
2. A reliability analysis of the Company's estimated peak day requirements and capacity levels to meet those requirements.
3. An examination of the Company's gas purchasing practices to determine the prudence of the Company's purchasing decisions.
4. A hedging review to determine the reasonableness of the Company's hedging plans for this ACA period.

Liberty's Missouri service territory

The Liberty systems in Missouri are grouped into three geographic areas: Northeast, Southeast and West. For gas cost recovery there are four PGA/ACA rate divisions, three of which are made up of the three geographic divisions. A fourth PGA division, Kirksville, is separate from the Northeast area. A more detailed description, with the associated interstate pipelines serving these areas, follows:

The West area ("WEMO") includes Butler which is served by Panhandle Eastern Pipe Line Co., LP ("PEPL") and Stateline (also known as Rich-Hill/Hume) which is served by Southern Star Central Gas Pipeline, Inc. ("SSCGP"). The West area serves an average of 3,838 firm sales customers.

The Northeast area ("NEMO") includes (1) Kirksville served by ANR Pipeline Co. ("ANR"); and (2) Hannibal-Canton, Bowling Green and Palmyra served by PEPL. Kirksville serves an average of 5,380 firm sales customers and the rest of the NEMO area serves an average of 12,966 firm sales customers.

The Southeast area ("SEMO") includes Jackson, served by Natural Gas Pipeline Co. of America ("NGPL"), Piedmont, served by Mississippi River Transmission Corp. ("MRT"), and the Southeast Missouri Integrated system, served by Texas Eastern Transmission, LP ("TETCO") and

Ozark Gas Transmission, LLC. The Southeast area also includes the former Neelyville/Quilin service area. The SEMO area serves an average of 31,659 firm sales customers.

The total customer count for all divisions is an average of 53,843 firm sales customers.

Based on its review, as discussed in greater detail below Staff recommends the following adjustments to the Company's filed ACA balances: A positive ACA balance indicates an under-collection that must be recovered from customers. A negative ACA balance indicates an over-recovery that must be returned to customers.

ALL AREAS (+) Under-recovery (-) Over-recovery	Filed Balances for 2013-2014 (Ending 8-31-14)	Commission Approved Adjustments prior to 2013- 2014 ACA	Staff Adjustments	Staff Balances for 2013-2014 (Ending 8-31-14)
SEMO Area: Demand ACA	(\$660,499)	\$1,494	\$0	(\$659,005)
Commodity ACA	(\$2,293,145)	\$159,168	(\$2,824)	(\$2,136,801)
Kirksville Area: Demand ACA	(\$72,223)	\$16,867	\$0	(\$55,356)
Commodity ACA	\$95,328	\$23,618	(\$4,082)	\$114,864
WEMO Area: Demand ACA	(\$24,012)	\$0	\$7,339	(\$16,673)
Commodity ACA	\$259,466	\$22,618	\$40,595	\$322,679
NEMO Area: Demand ACA	(\$553,034)	\$0	\$0	(\$553,034)
Commodity ACA	\$1,029,446	\$67,945	(\$221)	\$1,097,170

STAFF TECHNICAL REPORT AND ANALYSIS

I. BILLED REVENUE AND ACTUAL GAS COSTS

Compliance Adjustments

During Staff's ACA review, there were several compliance adjustments proposed by Staff as a result of misstated or missing entries in the Company's filing. These adjustments affect all service areas.

NEMO and SEMO Service area

Scheduling Fee

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In summary, additional scheduling fees of \$221 should be credited to the ACA in the NEMO service area and additional scheduling fees of \$1,830 (\$615+\$669+\$546) should be credited to the ACA in the SEMO service area. This results in additional revenue recovery of \$221 for firm sales customers in the NEMO service area and \$1,830 for firm sales customers in the SEMO service area.

Kirksville Service Area

Daily Swing Purchase Volumes

During the month of March 2014, daily swing volumes were purchased from ** _____ ** at the ANR/Oklahoma Gas Daily price. For deliveries on March 6, the ANR gas daily price was misstated. ** _____ **

In summary, the commodity cost of gas should be reduced by \$4,082 (\$9,005 - \$13,087) for Kirksville firm sales customers.

WEMO Service Area

Correction of ACA Balances

In the filed ACA calculation for the WEMO service area, Liberty carried forward a demand ACA balance of (\$18,453). The proper demand ACA balance to be carried forward should be (\$11,205). This is the August 31, 2013 demand ACA balance. $(\$11,205) - (\$18,453) = \$7,248$ adjustment to the WEMO demand ACA balance (increase gas cost to WEMO firm sales customers).

Liberty also carried forward a commodity ACA balance of (\$111,113) for the WEMO service area. The proper commodity ACA balance to be carried forward should be (\$67,470). This is the August 31, 2013 commodity ACA balance. $(\$67,470) - (\$111,113) = \$43,643$ adjustment to the WEMO commodity ACA balance (increase gas cost to WEMO firm sales customers).

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Trading costs of \$460 (May 2014) and \$534 (July 2014), for a total of \$994, were included in the Company's filing. The cost of gas should be reduced by \$994 for firm sales customers on the SEMO service area since they are related to end-user activity.

Monthly Cash-out Provisions

A. Transportation Customers

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** The updates are supported by Staff and are explained in detail by Staff in its 2012-2013 ACA recommendation. After review of these changes, Staff has no cash-out adjustments in this ACA review.

II. RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

As a regulated gas corporation providing natural gas service to Missouri customers, a Local Distribution Company (LDC) is responsible for: 1) conducting reasonable long-range supply planning, and 2) the decisions resulting from that planning. One purpose of the ACA process is to review the Company's planning for gas supply, transportation, and storage to meet its customers' needs. For this analysis, Staff reviews the LDC's plans and decisions regarding estimated peak day requirements and the capacity levels to meet those requirements, peak day reserve margin and the rationale for this reserve margin, and natural gas supply plans for various weather conditions.

Staff has no proposed financial adjustments for the 2013-2014 ACA period related to this Reliability Analysis and Gas Supply Planning section.

Staff's review produced the following comments and recommendations:

A. Peak Day Planning

1. Concerns with Peak Day Estimates

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_____ 1 _____

_____ 2 _____

_____ 3 _____

_____ 4 _____

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¹ GR-2015-0095, DR No. 0060.3.
² GR-2015-0095, DR No. 0060.3.
³ GR-2015-0095, DR No. 0060.3.
⁴ GR-2015-0095, DR No. 0060.

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2. **Capacity for SEMO Area Peak Day**

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- _____

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3. **Peak Day Planning Documents required in GM-2012-0037**

Some of the requested data and documents for peak day planning were not placed in EFIS by the deadlines established in the Commission Order Approving the Unanimous Stipulation and Agreement in GM-2012-0037. Liberty ultimately provided the information, but not by the required deadline. During the 2013/2014 ACA review Staff reminded Liberty of these deadlines.

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The Unanimous Stipulation and Agreement in GM-2012-0037, Section 15. g requires:

Within 90 days after closing of the transaction, and annually no later than May 15th thereafter, for the first two years of ownership, Liberty-Midstates shall submit to the Staff and OPC a comprehensive peak day demand study. After 2 years of operation, comprehensive peak day demand studies shall be performed no less frequently than every 3 years. Liberty-Midstates shall file these peak day demand studies in EFIS, under case number GM-2012-0037.

1) Liberty-Midstates's comprehensive peak day demand study shall be conducted for each Missouri natural gas service area, estimating projected peak day (coldest day) requirements for the next five years and the capacity available to meet such requirements.

2) If Liberty-Midstates revises the transportation or storage capacity from that identified in the peak day demand study, Liberty-Midstates shall prepare an addendum to the peak day demand study within 6-months of making such changes, explaining the changes and the rationale for the changes, and provide the addendum to Staff and OPC. Revisions requiring an addendum include changes to any of the transportation and storage contracts (delivery or receipt points, quantities, terms, etc.). Liberty-Midstates shall file these addendums, in EFIS, under case number GM-2012-0037.

3) Copies of any and all transportation contracts, including storage, contracts shall be provided to Staff, no later than 90 days after the effective date of the revised contract(s). Liberty-Midstates shall file these contracts in EFIS, under case number GM-2012-0037.

(Emphasis added)

B. Supply Planning

The Company plans for gas supply include Asset Management Agreements (AMAs), also known as Asset Management Arrangements, for some service areas. Under these AMAs, Liberty contracts with third-party "asset managers" to provide natural gas supplies to the LDC and allows the asset manager to use and manage the LDC transportation assets, including storage.⁵ In theory, the AMA allows the "asset manager" to optimize the LDC's natural gas transportation and storage contracts in a way to maximize the underlying value of the gas contract(s), while still maintaining reliability of natural gas deliveries to the

⁵ FERC Order No. 712, Final Rule issued June 19, 2008 defines an Asset Management Arrangements as "any pre-arranged release that contains a condition that the releasing shipper may, on any day during a minimum period of five months out of each twelve-month period of the release, call upon the replacement shipper to deliver to the releasing shipper a volume of gas up to one-hundred percent of the daily contract demand of the released transportation capacity. If the capacity release is for a period of less than one year, the asset manager's delivery obligation described in the previous sentence must apply for the lesser of five months or the term of the release. If the capacity release is a release of storage capacity, the asset manager's delivery obligation need only be one-hundred percent of the daily contract demand under the release for storage withdrawals," and notes that "The annual five month minimum would apply to AMAs with terms of one year or longer. The delivery obligation for any AMA between five months and a year would be for five months of the release. The delivery obligation would apply to the entire term for any AMA of less than five months."

LDC through the provisions of the AMA or contract. A key distinction between more traditional gas transportation, storage and supply contracts and an AMA is the concept that reliability of volumes delivered to the LDC's city-gate is governed by the AMA contract. The AMA provisions and related AMA transactions themselves can be quite complex. The complexity can arise from the notion that the LDC is nominating and paying for its supplies by a process that is separate and distinct from the actual physical receipts and deliveries.

1. **Each AMA Must Contain Provisions Relevant to That AMA.**

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_____ **

2. **Each Supply Agreement, Including AMAs, Must Document All Agreed to Pricing and Volume Provisions.**

a. West – Butler Supply. ** _____

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continued on next page

⁶ GR-2015-0095, DR No. 0050.1.



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3. **Supply and Storage Decisions: Southeast – SEMO Supply.**

Staff has the following comments regarding the Company virtual supply and storage decisions for the Southeast-SEMO area:

** _____

⁹ GR-2015-0095, DR No. 0050.3.
¹⁰ GR-2015-0095, DR No. 0050.3.



TABLE 1

ALL AREAS (+) Under-recovery (-) Over-recovery	Filed Balances for 2013-2014 (Ending 8-31-14)	Commission Approved Adjustments prior to 2013- 2014 ACA (G)	Staff Adjustments	Staff Balances for 2013-2014 (Ending 8-31-14)
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Commodity ACA	\$95,328	\$23,618	(\$4,082) (B)	\$114,864
WEMO Area: Demand ACA	(\$24,012)	\$0	\$7,248 (C) \$91 (D)	(\$16,673)
Commodity ACA	\$259,466	\$22,618	\$43,643 (C) \$549 (D) (\$3,597) (E)	\$322,679
NEMO Area: Demand ACA	(\$553,034)	\$0	\$0	(\$553,034)
Commodity ACA	\$1,029,446	\$67,945	(\$221) (A)	\$1,097,170

- (A) Scheduling Fee
- (B) Daily Swing Purchase Volumes
- (C) Correction of ACA Balance
- (D) Interest on ACA Balance
- (E) Gas Transportation Agreement
- (F) MRT Trading Fees
- (G) Commission order issued March 7, 2015 approving adjusted amounts from 2012-2013 ACA. Due to the timing of Commission's order, Liberty has not included these adjustments in the 2013-2014 ACA filing

2. Respond to Staff's recommendations in Section I – Billed Revenue and Actual Gas Costs.
3. Respond to Staff's recommendations in Section II – Reliability Analysis and Gas Supply Planning.
4. Respond to Staff's recommendations in Section III – Hedging.
5. Respond to recommendations included herein within 45 days.

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') Case No. GR-2015-0095
Purchased Gas Adjustment Tariff Filing)

AFFIDAVIT OF PHIL S. LOCK

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW Phil S. Lock 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.

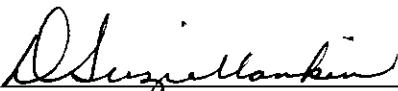


PHIL S. LOCK

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 3rd day of December 2015.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070



Notary Public

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') Case No. GR-2015-0095
Purchased Gas Adjustment Tariff Filing)

AFFIDAVIT OF KWANG Y. CHOE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW Kwang Y. Choe, PhD 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.

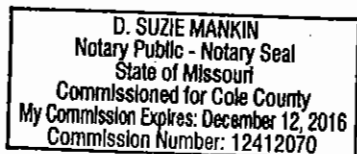
Further the Affiant sayeth not.

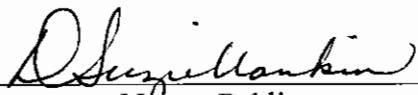


KWANG Y. CHOE, PhD

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 3rd day of December 2015.





Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

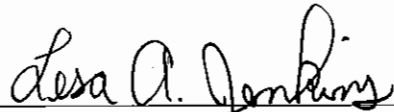
In the Matter of Liberty Utilities (Midstates)
Natural Gas) Corp. d/b/a Liberty Utilities') Case No. GR-2015-0095
Purchased Gas Adjustment Tariff Filing)

AFFIDAVIT OF LESA JENKINS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW Lesa Jenkins and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Staff Recommendation in Memorandum form; and that the same is true and correct according to her best knowledge and belief.

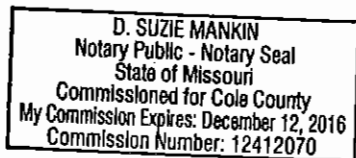
Further the Affiant sayeth not.

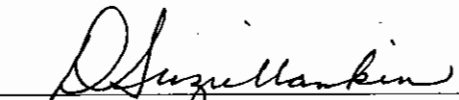


LESA JENKINS

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 3rd day of December 2015.





Notary Public