

<b>Exhibit No.:</b>	_____
<b>Issue(s):</b>	Rate Case Expense/ Management Expense/ Cash Working Capital (“CWC”)/ Infrastructure System Replacement Surcharge (“ISRS”)
<b>Witness/Type of Exhibit:</b>	Conner/Rebuttal
<b>Sponsoring Party:</b>	Public Counsel
<b>Case No.:</b>	GR-2018-0013

**REBUTTAL TESTIMONY**

**OF**

**AMANDA C. CONNER**

Submitted on Behalf of the Office of the Public Counsel

**LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP.  
D/B/A LIBERTY UTILITIES'**

FILE NO. GR-2018-0013

April 13, 2018



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**AMANDA C CONNER**

**LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP. D/B/A LIBERTY  
UTILITIES  
CASE NO. GR-2018-0013**

1 **Introduction**

2 **Q. Please state your name and business address.**

3 A. Amanda C. Conner, PO Box 2230, Jefferson City, Missouri 65102.

4 **Q. Are you the same Amanda Conner who filed direct testimony in this case?**

5 A. Yes.

6 **Q. What is the purpose of this rebuttal testimony?**

7 A. The purpose of this rebuttal testimony is to respond to the direct testimonies of Liberty  
8 Utilities (“Liberty”) and Missouri Public Service Commission (“Staff”) on rate case expense,  
9 Management Expenses, Cash Working Capital (“CWC”), and Infrastructure System  
10 Replacement Surcharge (“ISRS”).

11 **Rate Case Expense**

12 **Q. Has OPC reviewed Liberty’s rate case expenses in this rate case?**

13 A. Yes, OPC has and will continue to review rate case expense costs throughout this rate case to  
14 make sure that all costs are reasonable and prudent.

15 **Q. Does OPC have concerns regarding Liberty’s rate case expense?**

16 A. Yes. In the last rate case, Case No. GR-2014-0152, a Partial Stipulation and Agreement  
17 (“Stipulation”) was signed where at that time, Liberty’s rate case expense was \$37,768 and it  
18 was understood that this amount would be adjusted either two weeks after the filing of this

1 Stipulation, or two weeks after the presentation of this Stipulation at an on-the record hearing.  
2 The rate case expense by that time had went from the \$37,768 to the ending amount of  
3 \$609,679.

4 Due to the extreme differences in the amount first stated in the Stipulation and the ending  
5 amount of rate case expense incurred by Liberty, OPC will review any invoices coming in  
6 from Liberty regarding rate case expense to verify the prudence and reasonableness of  
7 expense Liberty has incurred in these rate case proceedings.

8 OPC is also concerned with the number of with the number of personnel Liberty had attending  
9 the Local Public Hearings during this rate case. This seems to be an exuberant amount of  
10 attendees as well as an unnecessary expense to the ratepayers.

11 **Q. Does Liberty have a history of over inflating actual rate case expense from the estimated**  
12 **amount?**

13 A. Yes. In Iowa, Docket No. RPU-2016-0003, Liberty filed an estimated of rate case expense  
14 on August 23, 2016, which included \$389,979 for Liberty's expenses and \$225,000 for  
15 Utilities Division. Then on March 27, 2017 filed a report of actual rate case expense of  
16 \$608,931 for Liberty's expenses and \$230,712 for Utilities Division Fees.

17 Iowa and Missouri are similar in that rate case expense is the sum of the costs a utility has to  
18 prepare and litigate a rate case. In Iowa, Liberty estimated their rate case expense in the belief  
19 that there would be an early settlement. The Iowa Office of Consumer Advocates argued that  
20 Liberty failing to include the full cost of litigating in its estimate, it denied other parties an  
21 opportunity to challenge the reasonableness of the expected rate case expense early in the  
22 proceedings.

1 **Q. Does OPC agree with Staff regarding rate case expense?**

2 A. OPC supports Staff's recommendation of a four-year normalization of Liberty's rate case  
3 expense, and removing the amortization of rate case expense from the last rate case, Case No.  
4 GR-2014-0152. The four-year normalization is appropriate as Liberty's last rate case was  
5 four years ago and will more than likely not file another rate case before the four years  
6 required if Liberty exercises its right to file an ISRS. In the Stipulation from the prior rate  
7 case, the signatories agreed to a three-year normalization period. Liberty fully recovered rate  
8 case expense for the prior rate case December 31, 2017; therefore, there is no reason to include  
9 this amount to be recovered in this rate case.

10 **Q. Does OPC support Staff's sharing recommendation?**

11 A. Yes. As I stated in my direct testimony, OPC supports the rate case expense methodology of  
12 the sharing of rate case expense between customers and shareholders, which is the same  
13 methodology the Commission ordered in KCPL's ER-2014-0370 rate case. This is especially  
14 true if Liberty has requested a rate increase substantially more than needed for safe and  
15 adequate service.

16 As of Staff's Cost of Service Report ("COS"), Staff's witness Kunst's workpapers show that  
17 at the time of the Cost difference between Staff's Revenue Requirement and Liberty's  
18 requested amount is at 23.98%. This means at the time of the COS, Liberty is requesting an  
19 increase of 76.02% more than amount needed to provide safe and adequate service to their  
20 customers. If this difference were to remain the same, ratepayers would be unreasonably  
21 paying in rate case expense 26.02% more for what essentially only benefits the shareholders  
22 of Liberty.

23 However, given Kunst's analysis, OPC does not agree with Staff's not being opposed to the  
24 assignment of rate case expense to customers and shareholders on an equal 50/50 percent.

1 **Management Expenses**

2 **Q. Since direct testimony, has OPC prepared a Management Expense Analysis?**

3 A. Yes, attached as schedule ACC-R-1. However, due to time constraints in receiving data  
4 requests, this analysis has not be finalized.

5 **Q. What is the amount of adjustment you are making?**

6 A. The amount of management expenses removed at this time is \$41,916.

7 **Q. What is the intent for making this adjustment?**

8 A. The intent of removing this amount is to protect ratepayers from involuntarily reimbursing  
9 Liberty for inappropriate and excessive employee expense charges. These charges include  
10 trips to Europe, charges made for non-Missouri based charges, Alcohol charges, charges  
11 allowed that are against the company's expense policy, and other inappropriate charges.

12 **Q. Describe how you calculated the adjustment for Liberty.**

13 A. I calculated a total amount of inappropriate and excessive charges from a sample of six  
14 Company officer employees for each month in the test year for this rate case. I divided  
15 this total amount by 6 to get an average excessive charge per management employee. I  
16 multiplied this average amount of \$1,144 by Liberty's 92 management employees. The  
17 total test year estimated amount of inappropriate charges is \$105,275. I applied the  
18 Missouri Only Factor of 66.36% to approximate the dollar amount of inappropriate charges  
19 to Liberty's test year accounts. Finally, I normalized this adjustment of \$69,861 by  
20 recognizing the assumption that lower and middle level management may not incur  
21 expenses at the same level as officer employees. This adjustment reduced the total  
22 allocation of the inappropriate charges to remove from test year expense accounts by 40%.

1 As mentioned earlier, OPC recommends disallowing from recovery a total of \$41,916 in  
2 inappropriate management expenses at this time.

3 **Q. What does OPC consider management employees?**

4 A. OPC considers all non-union workers, with the exception of independent contractors, as  
5 management employees.

6 **Q. How did OPC obtain the number of management employees and the Missouri only  
7 factor for this analysis?**

8 A. OPC retrieved this information from Company filed workpapers.

9 **Q. Have you found many instances where Liberty management does not enforce its  
10 Expense Policy?**

11 A. Yes. After an extensive review of invoices, journals and the Expense Policy, I conclude  
12 that management does not consistently follow the policies set forth in the Expense Policy.

13 **Q. Which parts of the Expense Policy has OPC found that Laclede has not consistently  
14 followed?**

15 A. The Liberty Travel & Entertainment Policy attached in my direct testimony, under the title  
16 airfare the policy states that travelers are expected to book airfare through RSX/NuTravel.  
17 I deleted a charge for \$972.43 because this charge did not follow Liberty's policy.

18 Under Non-reimbursable Travel Expenses section, one of the items listed is Airline  
19 upgrades (including Early Bird Check-in). In regards to this policy, I removed the  
20 following:

- 21 1. \$29.00 for seat upgrade to American Airlines
- 22 2. \$53.52 for seat upgrade to American Airlines

1 3. \$97.25 for Premium Economy to United Airlines

2 Under Business Meals, it states, Itemized receipts are encouraged and original receipts  
3 should be available upon request. Please include on each receipt the list of attendees and  
4 the purpose for the meal. There are several charges without receipts or attendees listed.

5 **Q. Does Liberty's Expense Policy address the utility cost reimbursement for the**  
6 **consumption of alcohol?**

7 A. No.

8 **Q. Does OPC have any recommendations regarding Liberty's cost reimbursement for**  
9 **employee consumption of alcohol?**

10 A. Yes. OPC has taken the position in previous rate cases that alcohol purchases made by  
11 utility employees is not an appropriate charge to force on the company's ratepayers. OPC  
12 takes this same position in this rate case, as ratepayers should be required to pay in rates  
13 for the consumption of alcohol.

14 **Q. Please list some charges that OPC excluded from MAWC's expenses.**

15 A. Below are ten expenses OPC excluded, in US dollars, in its final adjustment:

- 16 1. \$711.00 at Mythos in Joplin, MO, dinner for 8 people for Team Leadership. The receipt  
17 contained alcoholic beverages on the receipt for an unidentifiable the amount.
- 18 2. \$255.00 for Membership Dues at Twin Hills Country Club in Joplin, MO. Membership to  
19 a country club is not a utility purpose.
- 20 3. \$212.67 for a rental car with Enterprise in Mississauga, ON, Canada for an Oracle  
21 Software Review Meeting. OPC considers this charge imprudent because this  
22 meeting did not require the officer to go to Canada; it could have easily been done  
23 in house.

- 1                   4. \$183.69 at Club 609 in Joplin, MO, dinner for 3 for Regulatory Planning Meeting.  
2                   Meal charges for high amounts per person should have an itemized receipt when  
3                   the establishment serves alcohol. If an itemized receipt is not available, it is in  
4                   direct violation of Liberty's policy.
- 5                   5. \$126.21 at W Hotels in New York City, NY, refreshments for NYSE. Meal charges  
6                   for high amounts per person should have an itemized receipt when the  
7                   establishment serves alcohol. If an itemized receipt is not available, it is in direct  
8                   violation of Liberty's policy.
- 9                   6. \$111.76 at Carpaccio in Niagara Falls, ON, Canada, dinner for 20 for Safety  
10                  Symposium. Alcohol was included on the receipt. OPC only removed this portion  
11                  from the charge.
- 12                 7. \$96.07 at Tailfin's Ale House & Oyster Bar in Destin, FL, dinner for 4 during the  
13                 Gas Master Symposium. According to the agenda, dinner was provided all three  
14                 days of this conference, therefore there should not be a dinner charge for this trip.
- 15                 8. \$73.30 to Aarorport Services in Concord, ON, Canada for a Corporate Offsite  
16                 Meeting. This company is a limousine service. OPC considers this an unreasonable  
17                 expense, taxi services are more economical and reasonable charges to ratepayers.
- 18                 9. \$72.05 at Texas Roadhouse in Joplin, MO, dinner for Compliance Meeting. No  
19                 listed attendees with this charge. Meal charges for high amounts per person should  
20                 have an itemized receipt when the establishment serves alcohol. If an itemized  
21                 receipt is not available, it is in direct violation of Liberty's policy.
- 22                 10. \$52.59 at St. Louis Brew Pub in St. Louis, MO, dinner for 2. Alcohol was included  
23                 on the receipt. OPC only removed this portion from the charge.

1 **Q. Did OPC request additional information for description of charges?**

2 A. Yes. OPC's data request 1205 asked for Liberty to list and describe the benefits to Liberty  
3 Missouri ratepayers receive because of Liberty's participation in and the costs incurred  
4 associated with Gas Master Symposium.

5 Liberty responded that it provides its employees an opportunity to learn about relevant  
6 topics and improve their ability to conduct their jobs safely and capably.

7 **Q. Did OPC agree that the Gas Master Symposium offers Liberty employees with  
8 information to provide safe and adequate service?**

9 A. No. Attached Schedule ACC-R-2 shows the agenda for the 2016 Gas Master Symposium  
10 that Liberty employees attended. In the three days of this event, a total of nine hours were  
11 spent in what is called Breakout Sessions. This averages three hours per day. Day one  
12 offered a Reception Cruise. Day 2 offered a total of three hours for breaks and Dinner.  
13 Day 3 offered a boat ride with lunch, golf, and ceremony at Margaritaville. OPC does not  
14 agree that ratepayers need to pay the expenses for a symposium providing what is  
15 essentially a company paid vacation for Liberty employees.

16 **Q. Did OPC have any difficulties with the data Liberty supplied?**

17 A. Yes. The data requests OPC sent to Liberty requested information regarding officer  
18 charges and their FERC accounts. Two officers did not have the required information with  
19 the invoices and excel sheets.

20 Another issue was that the excel sheets did not provide adequate accounting for the charges  
21 made. The amounts seemed to be from several invoices, but I could not ascertain which  
22 invoices went into them. No FERC accounts were listed on the excel sheet, only on the  
23 cover of each monthly expense report. The way these amounts were inputted into the excel  
24 sheet showed a Missouri allocation amount, for gas, but there were some monthly expense

1 reports that had included water and electric in the description. There was also a case of  
2 duplicate invoices. I could not readily determine if this duplication exists in the journal  
3 accounting of this charge.

4 **Q. What recommendations does OPC have regarding these issues?**

5 A. First, a better detailed excel journal for charges made would be a great starting point. The  
6 following would be a good accounting start for Liberty:

7

Trans Id	Name	Trans Date	Post Date	Merchant Name	Merchant Location	Description	Miles	Mileage Rate	Utility Type	State	Amount	Currency	FERC Acct #	Dept. ID	Employee ID
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8

9 By using this type of accounting, the invoices match the journal entries making it easier to  
10 cross check for errors and/or possible duplications.

11 Second, Liberty's current expense policy does not require itemized receipts. It states that  
12 receipts should be available to Liberty upon request. OPC has had difficulty obtaining  
13 receipts from Liberty for costs it seeks to recover, because, in part, they are not in their  
14 possession. Liberty's policy also requires an attendees list however this appears to not be  
15 enforced. OPC recommends Liberty *require* itemized receipts as well as a listing of all  
16 attendees. This will prevent ratepayers from charges made for spouses and other non-  
17 utility related guests that may also be included. It will provide details on whether alcohol  
18 is included with the purchase.

19 Finally, OPC recommends using clear and concise allocations for each charge. In a  
20 discussion, OPC had with Liberty regarding the officers without FERC accounts listed or  
21 even invoices missing from the data requests, OPC and Liberty had a telephone meeting to  
22 determine how to get these FERC accounts and the amounts charged to Liberty. During  
23 this discussion, Liberty had to go through three different source files to locate the Missouri  
24 charges made by the officers located in Canada. Liberty explained in another discussion,

1 that they receive a statement of charges from Liberty Utilities Corp. (LUC) and Algonquin  
2 Power & Utilities Corp. (APUC) regarding charges these officers made to Liberty. Liberty  
3 then pays these charges as a lump sum, which is how they record these charges. There are  
4 no real invoices attached with this statement. OPC recommends all officers allocating  
5 expense charges to Liberty must provide invoices and Liberty should record these invoices  
6 in the same excel format OPC recommended above.

7 By doing these recommendations, Liberty will not only have a transparent expense reports  
8 accounting system, but also a clear showing of which company and region these charges  
9 are allocated to. When dealing with multiple utility types and regions showing clear  
10 journals are important not only for auditing purposes, but for the company itself.

11 In addition to the above recommendations, OPC also recommends Liberty to charge all  
12 charges below the line, and then once verified the invoices and charges moved to the  
13 appropriate account. This will prevent ratepayer from paying for imprudent and  
14 unreasonable charges.

15 **Cash Working Capital (CWC)**

16 **Q. Did OPC review Liberty's CWC analysis?**

17 A. OPC did a limited review of Liberty's CWC analysis.

18 **Q. Does OPC have any concerns with this CWC study?**

19 A. On page 80, lines 15-16 Staff witness Ferguson states that Liberty is currently in a net  
20 operating loss ("NOL") situation and is taken in a period where a company's allowable tax  
21 deductions are greater than its taxable income. This testimony shows that Liberty is not  
22 paying federal or state income taxes.

1           Given these circumstances and the fact that the design of a CWC study is to calculate actual  
2           cash inflows and outflows, current income taxes should not be included in the CWC study.  
3           OPC calculated its adjustment by simply removing current income tax dollars from Liberty's  
4           calculation of its CWC rate base addition. The rate base amount removed from Liberty's  
5           CWC balance is \$12,582 for federal income tax and \$3,575 for state income tax.

6           **ISRS Costs**

7           **Q.    Has OPC requested information from Liberty concerning ISRS agreements made in**  
8           **Case No. GR-2014-0152 Revised Second Partial Stipulation and Agreement As to**  
9           **Certain Issues?**

10          A.    Yes. OPC sent data requests 1209-12013 requesting ISRS charges made in their ISRS filings  
11          Case No. GO-2015-0350 and Case No. GO-2015-0095.

12          **Q.    Has OPC finished its review of this information?**

13          A.    No. Due to time constraints, OPC has been unable to review the information in its entirety  
14          for this rebuttal testimony.

15          **ISRS Reconciliation**

16          **Q.    Does OPC agree with Staff on whether Liberty should perform the ISRS reconciliation**  
17          **as part of its first ISRS filing following the current rate case?**

18          A.    Yes. Commission Rule 4 CSR 240-3.265(17) requires natural gas utilities to submit a  
19          reconciliation and proposed ISRS rate schedule revisions to the Commission for approval to  
20          recover or refund the difference between the revenues resulting from the ISRS and the  
21          appropriate pretax revenues as found by the Commission. Since Liberty did not follow the  
22          Commission Rule, it is not appropriate to seek recovery of under-collected ISRS amounts in  
23          this rate case.

1 **Q. Does this conclude your direct testimony?**

2 A. Yes, it does.