

**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-2018-0077**
Purchased Gas Adjustment Tariff Filing)

**STAFF RECOMMENDATION REGARDING LIBERTY UTILITIES'
2016-2017 ACTUAL COST ADJUSTMENT FILING**

COMES NOW the Staff of the Missouri Public Service Commission in the above-captioned matter and files its Actual Cost Adjustment (“ACA”) Recommendation in this case concerning Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities’ (“Liberty” or “Company”) 2016-2017 ACA filing as set forth in the accompanying Staff Recommendation Memorandum (Appendix A), and further states as follows:

1. Liberty filed its ACA for the 2016-2017 period in this case on November 3, 2017. This filing contained Liberty’s ACA account balance calculation.
2. The Procurement Analysis Department (“Staff”) has reviewed Liberty’s filing and submits its recommendation as further explained in the accompanying Staff Recommendation Memorandum, marked Appendix A (which is incorporated herein by reference). Staff’s analysis consisted of an examination of Liberty’s gas purchasing practices to evaluate the prudence of the Company’s purchasing decisions for this ACA period; a reliability analysis; and a hedging review. Staff’s review also included a comparison of the Company’s billed revenues and its actual gas costs to determine whether there exists an over-recovery or under-recovery of the ACA balances. An over-recovery by the Company is shown as a negative ACA balance that must be returned to customers; an under-recovery is shown as a positive ACA balance that must be collected from customers.

3. Based on its review, as discussed in detail in the accompanying Staff Recommendation Memorandum, Staff recommends the Commission issue an order requiring Liberty to adjust the ACA account balances in its next ACA filing to reflect the adjustments to the Company's filed ACA balances and to reflect the Staff Proposed Balances (ending August 31, 2017) as shown in the table in the "Recommendations" section of the Staff Recommendation Memorandum.

4. In addition to the monetary adjustments referenced above, based on its review Staff has certain other recommendations as reflected in the accompanying Staff Recommendation Memorandum. Staff recommends the Commission order Liberty to respond to these recommendations within forty-five (45) days.

WHEREFORE, for the reasons stated above and discussed in detail in the accompanying Staff Recommendation Memorandum, Staff recommends the Commission issue an order directing Liberty to respond within 45 days to Staff's recommendations discussed in Sections I through III of Staff's Recommendation Memorandum, and to reflect the adjustments and establish Liberty's ending ACA account balances as of August 31, 2017, as shown in the "Staff Proposed Balances 8/31/17" column of the table in the "Recommendations" section of the Staff Recommendation Memorandum.

Respectfully submitted,

/s/ Jeffrey A. Keevil

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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 of record this 17th day of December, 2018.

/s/ Jeffrey A. Keevil

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2018-0077, Liberty Utilities (Midstates Natural Gas) Corp.

FROM: David M. Sommerer, Regulatory Manager Procurement Analysis
Kwang Y. Choe, PhD, Regulatory Economist - Procurement Analysis
Keenan B. Patterson, PE, Regulatory Engineer - Procurement Analysis

/s/ David M. Sommerer 12/17/18
Project Coordinator/ Date

/s/ Jeffrey A. Keevil 12/17/18
Staff Counsel's Office/ Date

SUBJECT: Staff's Recommendation in Case GR-2018-0077, Liberty Utilities
(Midstates Natural Gas) Corp. 2016-2017 Actual Cost Adjustment Filing

DATE: December 17, 2018

Procurement Analysis Staff has reviewed Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty Utilities' ("Liberty" or "Company") 2016-2017 Actual Cost Adjustment (ACA) filing. This filing was made on November 3, 2017, for rates to become effective on December 1, 2017, in all areas served by Liberty in Missouri. This filing was docketed as Case No. GR-2018-0077.

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

Section No.	Topic	Page
I	Billed Revenue and Actual Gas Costs	3
II	Reliability Analysis and Gas Supply Planning	3
III	Hedging	4
IV	Recommendations	6

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, 2016, to August 31, 2017. A comparison of

** Denotes Confidential Information **

billed revenue recovery with actual costs will yield either an over-recovery or under-recovery of the ACA costs.

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 Company (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 Hannibal-Canton, Bowling Green and Palmyra served by PEPL. The NEMO area serves an average of 12,847 firm sales customers.

The Kirksville area, served by ANR Pipeline Company (ANR), serves an average of 5,219 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. Together they serve an average of 31,087 firm sales customers.

The total customer count for all divisions is an average of 52,991 firm sales customers.

STAFF TECHNICAL REPORT AND ANALYSIS

I. BILLED REVENUE AND ACTUAL GAS COSTS

Due to the timing of the Commission Order Establishing Ending ACA Balances in Case No. GR-2017-0089 issued January 31, 2018 as compared to the Company's 2016-2017 ACA filing date of November 3, 2017 in Case No. GR-2018-0077, certain approved adjustments were not incorporated in the Company's filed balances in this ACA filing. The Staff has proposed adjustments in all districts due to this timing difference.

The Staff has proposed no prudence disallowances related to this section of Staff's recommendation for this ACA period.

II. RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

As a regulated gas corporation providing natural gas services to Missouri customers, a local distribution company (LDC) is responsible for conducting reasonable long-range supply planning and the decisions resulting from that planning. A purpose of the ACA process is to review the LDC's planning for gas supply, transportation and storage to meet its customers' needs. For this analysis, staff reviewed Liberty'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 margin and natural gas plans for various conditions.

Staff has no proposed financial adjustments for the 2016-2017 ACA period related to reliability analysis and gas supply planning. Staff's other comments and recommendations are discussed in the rest of this section.

Reserve Margins

As part of its planning process, Liberty calculated reserve margins in its service areas.

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The Staff reviews the prudence of a company's hedging decision-making based on what the company reasonably knew, or reasonably could have known, at the time it made its hedging decisions. Part of a company's hedging planning should be flexible, in part, to incorporate changing market circumstances to balance the cost of hedging against the goal of price stabilization, and thus to achieve a cost effective hedging outcome. For example, a company should evaluate whether the swaps and the volumes associated with them are appropriate under the current market where the market prices have become less volatile. **

** Staff

recommends the Company be aware of any fundamental shifts in the market dynamics while being cautious on market views.

Staff also recommends the Company continue to assess and document the effectiveness of its hedges for the 2018-2019 ACA and beyond. The analysis should include, but not be limited to, whether the hedging implementation was consistent with the hedging plan, identifying the benefits/costs based on the outcomes from the hedging strategy, and thus evaluating any potential improvements on the future hedging plan and its implementation. Additionally Staff recommends the Company evaluate whether the hedging plan for each of the four systems has operational implications for warm and cold weather conditions. Finally, Staff recommends the Company continue to monitor the market movements diligently, employ *disciplined* (triggered primarily by the passage of time) as well as *discretionary* (hedge decision influenced by the Company's view of favorable pricing environments) approaches in its hedging practices, **

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There is no financial adjustment related to Hedging.

IV. RECOMMENDATIONS

The Staff recommends that the Commission issue an order requiring Liberty to:

1. Adjust the ACA account balances in its next ACA filing to reflect the following Staff adjustments and to reflect the (over)/under-recovered ACA balances in the “Staff Proposed Balances 8/31/17” column of the following table:

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:	Company Filed Balance 8/31/17	Staff Adjustments	Staff Proposed Balances 8/31/17
<u>SEMO Area</u>			
Demand ACA	\$ 2,001,688.86	\$ 75,209.70 (A)	\$ 2,076,898.56
Commodity ACA	\$ (696,964.15)	\$ (2,512.77) (A) \$ (10,627.63) (A)	\$ (710,104.55)
<u>Kirksville Area</u>			
Demand ACA	\$ 721,471.24	\$ (1,952.65) (A)	\$ 719,464.59
Commodity ACA	\$ (593,625.56)	\$ (5,576.05) (A)	\$ (599,201.61)
<u>WEMO Area</u>			
Demand ACA	\$ (13,090.59)	\$ (30,084.46) (A)	\$ (43,175.05)
Commodity ACA	\$ (60,878.09)	\$ 30,084.46 (A)	\$ (30,793.63)
<u>NEMO Area</u>			
Demand ACA	\$ 340,540.53	\$ (1,050.16) (A)	\$ 339,490.37
Commodity ACA	\$ (23,282.68)	\$ (2,914.93) (A)	\$ (26,197.61)

(A) Commission Order issued 1/31/2018 approving adjusted amounts from GR-2017-0089

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' Purchased Gas)
Adjustment Tariff Filing) Case No. GR-2018-0077

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

COMES NOW DAVID M. SOMMERER 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.


DAVID M. SOMMERER

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 13th day of December, 2018.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2020
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.) Case No. GR-2018-0077
d/b/a Liberty Utilities' Purchased Gas)
Adjustment Tariff Filing)

AFFIDAVIT OF KWANG Y. CHOE, PhD

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.

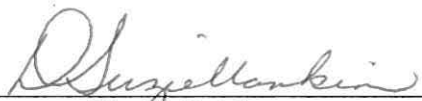


KWANG Y. CHOE, PhD

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
13th day of December, 2018.

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 12, 2020 Commission Number: 12412070
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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' Purchased Gas)
Adjustment Tariff Filing) Case No. GR-2018-0077

AFFIDAVIT OF KEENAN B. PATTERSON, PE

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

COMES NOW KEENAN B. PATTERSON, PE 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.


KEENAN B. PATTERSON, PE

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 13th day of December, 2018.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2020
Commission Number: 12412070


Notary Public