

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Liberty Utilities)
(Midstates Natural Gas) Corp. d/b/a)
Liberty (MNG) Purchased Gas)
Adjustment (PGA) Tariff Filing)

Case No. GR-2022-0128
Tracking No. JG-2022-0148

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission and for its Recommendation, states as follows:

1. On November 4, 2021, Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty (MNG) (“Liberty”) filed a tariff sheet bearing an effective date of December 1, 2021, Tariff File No. JG-2022-0148, an accompanying cover letter with supporting worksheets, and direct testimony from Liberty witness Phillip Gillam. The tariff sheet was filed to reflect changes in Liberty’s Purchased Gas Adjustment (“PGA”) factors as a result of estimated changes in the cost of natural gas. Also included in this filing is the annual change to the Actual Cost Adjustment (“ACA”) factor and a request by Liberty to extend the ACA recovery period due to the February 2021 Cold Weather Event.

2. The Commission issued an order on November 5, 2021, directing Staff to file a recommendation regarding Liberty’s request and corresponding tariff sheet, Tariff File No. JG-2022-0148, no later than November 12, 2021.

3. Staff has reviewed Liberty’s filing and has determined it was calculated in conformance with Liberty’s PGA Clause. Staff does not oppose the approval of this tariff sheet on less than thirty (30) days’ notice. Such action is supported by Liberty’s Commission-approved PGA clause allowing for notice of ten (10) business days for

PGA change (both increases and decreases) filings. Therefore, Staff recommends the Commission approve the revised tariff sheet (No. JG-2022-0148), filed on November 5, 2021, on an interim basis, subject to refund, for service on and after December 1, 2021.

4. Staff acknowledges the February 2021 Cold Weather Event had a significant impact on certain natural gas prices,¹ and in Staff's opinion, is an extraordinary event as contemplated in Liberty's tariff. Staff, therefore, recommends the Commission grant Liberty's request stated in the direct testimony of Liberty witness Phillip Gilliam to extend its ACA recovery period.

5. Due to the limited time available to review the documentation supporting the ACA factor submitted in this filing, Staff requests permission to submit its results and recommendations regarding the information included in this ACA filing to the Commission on or before December 15, 2022.

WHEREFORE, for the foregoing reasons and those stated in Staff's Memorandum attached hereto, Staff recommends that the Commission issue an order approving Liberty's request to extend its ACA recovery period and the revised tariff sheet in Tracking No. JG-2022-0148, on an interim, subject to refund status; and further order Staff to file its recommendation Liberty's ACA filing no later than December 15, 2022.

¹ See Case Nos. AO-2021-0264 and GO-2021-0366.

Respectfully submitted,

/s/ Jamie S. Myers

Jamie S. Myers
Deputy Staff Counsel
Missouri Bar Number 68291
P.O. Box 360
Jefferson City, MO 65102
573-526-6036 (Voice)
573-526-6969 (Fax)
jamie.myers@psc.mo.gov

Attorney for Staff of the
Missouri Public Service Commission

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record on this 12th day of November, 2021.

/s/ Jamie S. Myers

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2022-0128, Tariff No. JG-2022-0148
Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty

FROM: Michael J. Ensrud, Research/Data Analyst - Procurement Analysis Dept.

/s/ David M. Sommerer 11/12/2021 /s/ Jamie Myers 11/12/2021
Financial and Business Analysis Div./Date Staff Counsel's Office/Date

SUBJECT: Staff Recommendation for Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Scheduled Winter PGA Filing, Effective Date December 1, 2021

DATE: November 12, 2021

On November 4, 2021, Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty (“Liberty” or “Company”), filed a tariff sheet bearing a proposed effective date of December 1, 2021. In addition Liberty filed a single page cover letter, testimony, and supporting worksheets. The tariff sheets were filed to reflect changes in Liberty’s Purchased Gas Adjustment (PGA) factors as the result of estimated changes in the cost of natural gas for the upcoming winter season and changes in the Actual Cost Adjustment (ACA) factors.

Beyond the requirements of past PGA filings, this PGA contains a proposal for deferred recovery of natural gas costs that is newly authorized by the Missouri Public Service Commission’s (“Commission”) Order in Case No. GT-2022-0079. Case No. GT-2022-0079 allows expansion of PGA recovery beyond the 12 month limitation that existed prior to Case No. GT-2022-0079.

The specific tariff language added authorizes recovery periods to be extended (fluctuating up to five (5) years) as the result of the GT-2022-0079 proceeding. Tariff Sheet No. 43 authorizes extended recovery periods under certain circumstances. That Tariff Sheet now contains:

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. [Emphasis added.]

In the testimony of Witness Phillip Gillam, Liberty attributes the following as being the justification for multiple year recovery - meaning the “extraordinary event” that triggers this form of relief:

The purpose of my testimony in this Purchased Gas Adjustment (“PGA”) / Actual Cost Adjustment (“ACA”) proceeding is to address the Company’s

request to extended recovery from most of its customers of **extraordinary gas costs** and to propose a carrying cost rate for the recovery period. Page 3, lines 14-17. [Emphasis added.]

This filing is Liberty's proposal to implement the Tariff Sheet No. 43 tariff change that allows recovery (spreading past gas costs) over a period longer than 12 months future usage. The tariff change gives Liberty the flexibility of spreading those costs up to five (5) years. In this case, Liberty is requesting deferral periods of **three years** for each of its service areas except for Kirksville. The Kirksville service area was described as not being significantly impacted by the extreme weather "due to utilization of available storage". (See page 5, lines 13-15, of Mr. Gillam's testimony).

The cover letter also references the magnitude of Total PGA (Regular PGA plus ACA) rate increase that will be forthcoming:

As a result of this filing, for the Liberty West Area (WEMO), the effect of these changes will increase the firm PGA rate from the current \$0.31944 per Ccf (100 cubic feet) to \$0.71708 per Ccf. For the Kirksville area, the effect of these changes will increase the firm PGA rate from the current \$0.21708 per Ccf to \$0.38409 per Ccf. For the Northeast Area (NEMO), the effect of these changes will increase the firm PGA rate from the current \$0.18555 per Ccf to \$0.59928 per Ccf. For the Southeast Area (SEMO), the effect of these changes will increase the firm PGA rate from the current \$0.27687 per Ccf to \$0.64267 per Ccf.

Mr. Phillip Gillam's testimony for Liberty further supports the position that Storm Uri caused "**extraordinary gas costs**" to occur. Liberty's position can be capsulized as the Storm Uri justifies "extended recovery". He states the following:

Q. For what period is the Company seeking to recover its costs in this filing?

A. The Company is seeking to recover estimated PGA costs from September 2021 through August 2022 and cost over or under-recoveries from September 2020 through August 2021. Specifically, the Company is seeking to recover the estimated Regular Purchased Gas Adjustment ("RPGA") Factor costs and the ACA Factor, which is the difference between its actual gas costs and actual cost recoveries. (Mr. Gillam Direct Testimony, Page 3 & Page 4)

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

A. During the month of February 2021, from February 10 through February 18, 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 run up increased the Company’s cost to serve its customers. In total, the Company’s cost of gas for this period attributed to Storm Uri was approximately \$7.7 million as compared to a typical February of approximately \$2.2 million and \$21.8 million annually. (Direct Testimony - Mr. Phillip Gillam / Page 4)

Liberty’s proposal for the 2020-2021 ACA under-recovery balance is to spread the impact over three years for all systems except Kirksville. Even after taking into account the proposed deferral treatment, Liberty is still recommending significant increases over existing ACA rates for these systems, with the exception of Kirksville.

Table 1. Current and Proposed Firm Sales ACA Rates by Service Territory (\$/Ccf)			
	<u>Current</u>	<u>Proposed</u>	<u>Difference</u>
Kirksville	-0.16072	-0.16781	-0.00709
Northeast Missouri	-0.15555	0.07718	0.23273
Southeast Missouri	-0.12783	0.06987	0.19770
Western Missouri	0.02834	0.27468	0.24634

Table 2. Current and Proposed Interruptible ACA Rates by Service Territory (\$/Ccf)			
	<u>Current</u>	<u>Proposed</u>	<u>Difference</u>
Kirksville	-0.23967	-0.32599	-0.08632
Northeast Missouri	-0.15302	0.02188	0.17490
Southeast Missouri	-0.20159	0.01037	0.21196
Western Missouri	0.02849	0.27999	0.25150

The remaining three (3) aforementioned service areas, excluding Kirksville, will have their under-collections (monies owed Liberty) collected over three (3) years. The magnitude of the charges are demonstrated in the following:

However, each of the Company’s other service areas were impacted. Specifically, for the period in question, the Company experienced an under-collection of \$4,002,123 for the Northeast Missouri area, \$ 6,021,510 for the Southeast Missouri service area, and \$3,019,011 for the Western

Missouri service area. My calculations are shown in Exhibit 2. The Company is seeking to extend the period in which it will recover the under-collections in its service areas other than Kirksville. (Direct Testimony - Mr. Phillip Gillam / Page 5)

In addition to the significant increases related to ACA under-recoveries, current estimated natural gas prices as reflected in the Regular PGA estimate have increased significantly over last year's mandatory PGA filing. Customers will be paying both for past price increases from Storm URI and present increases in current natural gas costs. The increases are still significant despite the mitigation of the Storm URI impacts due to spreading past costs incurred over three years (with the exception of Kirksville) in lieu of the traditional 12 months.

The present filing does not immediately reflect any rate impact from Liberty's proposal to use a value equal to its Weighted Average Cost of Capital ("WACC") of 7.4 % (Liberty WACC from GR-2018-0013), as compared to the more typical application of carrying costs equal to the current price rate minus 2.0%. However, at some time in the future the Company does state that it will propose this carrying cost for application to the deferred costs. On page 8, lines 7-9, the Company states that... "there is no reason in this case why the Company's shareholders should be required to pay to extend the recovery of prudently incurred costs."

The Staff does not necessarily agree at this time that the WACC is the appropriate carrying cost rate. Due to the fact that the prudence of the underlying Storm URI cost will not be reviewed until 2022, with any hearing addressing the prudence likely scheduled for early 2023, Staff recommends that the Company should not be allowed to accrue the higher WACC until the Commission has ruled on the underlying prudence of the costs. The Staff would further note that discovery is necessary to inquire as to whether the WACC truly represents the Company's access to debt sources that could have funded impacts from Storm URI, and there have been significant over-recoveries from past ACAs for which the normal prime minus two percent carrying cost valuation was applied.

On November 5, 2021 the Commission issued its "**Order Directing Expedited Staff Recommendation and Setting Time for Reponses**". The order directs Staff to file its recommendation no later than November 12, 2021.

Case No. GR-2022-0128, under which these changes were filed, was established to track Liberty's PGA factors to be reviewed in its 2020-2021 ACA filing. Case No. GR-2021-0101 was established to track the Company's PGA factors to be reviewed in its (2019-2020) ACA filing. These rate changes should be made on an interim basis, subject to refund pending final Commission decisions in ACA Case No. GR-2022-0128 and ACA Case No. GR-2021-0101.

Due to the limited time available to review the documentation supporting the ACA factors submitted in this filing, the Procurement Analysis Department (PAD) requests permission to submit its results and recommendations regarding the information included in this ACA filing to the Commission on or before December 15, 2022.

The Staff has verified that the Company has filed its annual report and is not delinquent on any assessment. Staff has reviewed this filing and is not aware of any issue currently pending before the Commission that affects or is affected by this filing, other than those mentioned above.

Staff has reviewed this filing and determined that the rates on the proposed tariff sheets were calculated in conformance with Liberty's PGA Clause. Staff asks the Commission to take notice of Liberty's tariff language that allows for approval of these tariff sheets on less than thirty (30) days' notice is demonstrated by Liberty's Commission-approved PGA clause allowing for ten (10) business days' for PGA change filings. The Staff is able to support a recommendation of approval in part because the calculations of the PGA and ACA factors do not include the higher carrying costs discussed in the Company's Direct Testimony. Therefore, Staff recommends that the following tariff sheets filed on November 4, 2021 be approved on an interim basis, subject to refund:

P.S.C.MO. No. 2, 28th Revised Sheet No. 44

This tariff sheet represents the Company's Winter PGA filing for its four PGA service areas and reflects changes in the PGA factors and the ACA factors. This tariff sheet bears an issue date of November 4, 2021, and a proposed effective date of December 1, 2021

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

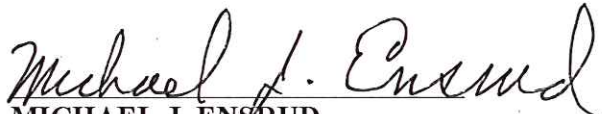
In the Matter of Liberty Utilities (Midstates)
Natural Gas) Corp. d/b/a Liberty (MNG)) Case No. GR-2022-0128
Purchased Gas Adjustment (PGA) Tariff Filing)

AFFIDAVIT OF MICHAEL J. ENSRUD

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

COMES NOW MICHAEL J. ENSRUD 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.


MICHAEL J. ENSRUD

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 12th day of November 2021.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070


Notary Public