Exhibit No.:	
Issues:	*Rate of Return and Capital Structure*
Witness:	*Zephania Marevangepo*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
Case No.:	*GR-2014-0152*
Date Testimony Prepared:	*August 15, 2014*

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION
UTILITY SERVICES – FINANCIAL ANALYSIS

SURREBUTTAL TESTIMONY

OF

ZEPHANIA MAREVANGEPO

LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP.
d/b/a LIBERTY UTILITIES

CASE NO. GR-2014-0152

Jefferson City, Missouri
August 2014

*** Denotes Proprietary Information ***

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OF THE SURREBUTTAL TESTIMONY OF

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Q. Please state your name.

A. My name is Zephania Marevangepo.

Q. Are you the same Zephania Marevangepo who prepared the Rate of Return Section of the Staff's Revenue Requirement Cost of Service Report ("Staff Report") and Rate of Return Rebuttal Testimony filed in this Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities ("Liberty Midstates" or "Company") rate case?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to certain rate of return and financial integrity issues that were separately sponsored by Liberty Midstates' witness - Robert Hevert.

<u>EXECUTIVE SUMMARY</u>

Q. Would you please summarize the specific rate of return positions addressed in the rebuttal testimony of Robert Hevert that you wish to address?

A. Robert Hevert sponsored a ratemaking capital structure, and corresponding debt cost, based on Liberty Utilities Company's ("LUCo") capital assignment process, which hypothetically assumes Liberty Midstates has a capital structure consisting of

* * percent equity and * * long-term debt. Staff's recommendation was based on LUCo – Liberty Midstates' parent company, actual market-tested capital structure (* * percent equity and * * long-term debt).

Q. What is Staff's basis for not recommending Liberty Midstates' capital structure for ratemaking purposes?

A. Staff established in its Staff Report that LUCo uses its internal finance department to manage and determine capital structures of its operations (including Liberty Midstates). Based on the understanding of this internal allocation process, Staff views Liberty Midstates' capital structure as a mere internally assigned capital structure that has no bearing on the cost of capital for Liberty Midstates.

Moreover, Staff also collectively established, in its Staff Report and rebuttal testimony, that Liberty Midstates, as an entity, (1) does not have a credit rating, (2) does not issue equity, (3) does not issue long-term debt, (4) does not raise its own short-term debt and (5) its capital structure has no bearing on the cost of capital required by investors.

All the activities listed above occur at the LUCo level. Consequently, Staff recommends that the Commission use LUCo's capital structure for purposes of determining Missouri customer rates.

Q. What cost of equity and embedded cost of debt did Robert Hevert and Staff recommend in this case?

A. Robert Hevert recommended 10.50 percent cost equity and a revised 4.50 percent embedded cost of debt. Staff recommended a cost of equity range of 8.20 – 9.20 percent, with a midpoint of 8.70 percent, and an updated * * percent embedded cost of long-term debt. Again, Robert Hevert's embedded cost of debt

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recommendation is based on debt internally assigned to Liberty Midstates and Staff's recommendation is based on LUCo's total debt long-term debt.

Q. How did Robert Hevert respond to Staff's capital structure recommendation?

A. ***__Capital Structure:__*** Robert Hevert, on page 42 of his rebuttal testimony, attempts to discredit Staff's recommendation of LUCo's capital structure for ratemaking purposes. On lines 19-21, Robert Hevert indicated that his Liberty Midstates capital structure is consistent with that of Algonquin Power & Utilities Corporation's ("APUC" – LUCo's and Liberty Midstates' ultimate parent company). Robert Hevert notes that APUC is the ultimate source of equity for LUCo and Liberty Midstates, as well as the driver of their credit rating.

Q. How does Staff wish to respond to this position?

A. Staff would like to highlight to the Commission that Robert Hevert's testimony and position are both misleading. APUC is not the sole driver of the credit rating assigned to LUCo by DBRS (A Canadian credit rating agency). However, it is the basis for the credit rating S&P assigns to LUCo. Even more misleading it the implication that Liberty Midstates' has a credit rating. Liberty Midstates does not issue debt so it has no need for a credit rating.

Q. How do the credit rating agencies rate APUC and LUCo?

A. DBRS (a Canadian credit rating agency) rates LUCo and APUC separately and differently. DBRS currently rates LUCo as ***** ***** – which is an equivalent of a Standard and Poor's ("S&P" – a United States credit rating agency) ***** ***** credit rating; and APUC as ***** ***** – which is an equivalent of S&P's ***** ***** credit rating.

DBRS differentiates LUCo's credit rating from APUC's credit rating by assigning LUCo a higher credit rating. *

*

S&P assigns a corporate (APUC) credit rating of * * to LUCo based on APUC's consolidated business and financial risk profiles.

Q. How do you wish to respond to Robert Hevert's claim that APUC is the driver of LUCo's credit rating?

A. Staff already established earlier that DBRS' credit ratings of its primary subsidiaries (LUCo and APCo) are not driven by APUC but vice versa.

Q. How did Robert Hevert respond to Staff's embedded cost of debt recommendation?

A. ***<u>Embedded Cost of Debt:</u>*** Robert Hevert, in his rebuttal testimony, insists on recommending an embedded cost of debt based on debt assigned to Liberty Midstates' capital structure. Staff believes LUCo's capital structure and the debt cost related to the total debt contained in that capital structure should be considered for ratemaking purposes because this is a market-tested capital structure consistent with that of the natural gas distribution industry.

Q. What is Staff's opinion of Robert Hevert's assertion, on page 45 of his rebuttal testimony, that the use of APUC's capital structure in a 2006 water rate case set the precedent for using APUC's capital structure in Liberty Midstates' rate cases?

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[1] *

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A. The facts and circumstances have changed. Staff also believes the consolidated capital structure is appropriate because the parent company's operations are confined to regulated utility operations. Staff recommended a hypothetical capital structure at the time of APUC's water case because APUC was not restricted to regulated water and sewer utility operations. In the instant case, Staff is recommending LUCo's capital structure because APUC has diversified operations and LUCo's capital structure and debt issuances are managed based on the business risk of LUCo's regulated utility operations. Based on APUC's higher equity ratio, it appears that APUC carries more equity to offset the business risk from its non-regulated operations.

Staff understands that the APUC capital structure was approved and ordered in the water rate case (WR-2006-0425) because there was no intermediate holding company for APUC's regulated utility operations, let alone an intermediate company that issued its own debt that was rated separately.

Staff specifically notes that **(1)** all the credit rating facts – *highlighted above and also explained in greater detail in Staff's Cost of Service Revenue Requirement Report ("Cost of Service Report")* and **(2)** the presently known corporate structures of APUC and LUCo, did not exist at the time when the Commission ordered the use of APUC's capital structure for the water rate case.

<u>ROBERT HEVERT'S RATE OF RETURN REBUTTAL TESTIMONY</u>

CAPITAL STRUCTURE

Q. Would you please explain the differences between Robert Hevert's and Staff's capital structure recommendations?

A. Staff recommended LUCo's consolidated capital structure consisting of ***** ***** percent common equity and ***** ***** percent long-term debt. Robert Hevert recommended Liberty Midstates' allocated capital structure consisting of * * percent equity and * * percent long-term debt. Staff recommends the Commission reject the use of Liberty Midstates' allocated capital structure for purposes of determining customer rates in this case.

Q. What is Robert Hevert's principal conclusions regarding Staff's recommendation of LUCo's capital structure for ratemaking purposes?

A. Robert Hevert only claimed, on page 42 of his rebuttal testimony, that Staff's reasoning for not recommending Liberty Midstates' capital structure is misplaced; and then went on to explain how Liberty Midstates' allocated capital structure is consistent with that of regulated natural gas proxy groups presented in his and Staff's schedules. Robert Hevert also claims that APUC is the ultimate driver of LUCo's and Liberty Midstates' credit ratings.

Q. Does Staff believe its reasoning for not recommending Liberty Midstates' assigned capital structure is misplaced?

A. No. Staff collectively established in its Cost of Service Report and rebuttal testimony that Liberty Midstates, as an entity, (1) does not have a credit rating, (2) does not issue equity, (3) does not issue long-term debt, (4) does not raise its own short-term debt and (5) its capital structure has no bearing on the cost of capital required by investors.

All the activities listed above occur at the LUCo level. Consequently, Staff recommends that the Commission use LUCo's capital structure for purposes of determining Missouri customer rates.

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Q. Is it not true that five factors you highlighted above are collectively supposed to be the primary drivers when selecting a market-driven capital structure that should be considered for purposes of setting rates?

A. Yes. The capital structure for ratemaking should be a separate, identifiable capital structure and one that drives a company's cost of capital. To complement the five factors Staff highlighted earlier, Staff notes that the capital structure selection process should at least be verified by first, determining if the company at least issues its own debt and then determining if the identifiable capital structure is determinative of the cost of debt issued by this entity. This is true for LUCo, but not for Liberty Midstates.

Q. What is Staff's opinion of Robert Hevert's claim that APUC's is the ultimate driver of LUCo's and Liberty Midstates' credit ratings?

A. It is a misplaced statement. For one, Liberty Midstates does not have a credit rating. However, LUCo and APUC are separately rated by DBRS but collectively rated by S&P.

Q. Please explain how LUCo and APUC are both rated by DBRS.

A. While DBRS (a Canadian credit rating agency) publishes separate credit ratings for LUCo and APUC, Staff notes that those two ratings are separate and different.

As Staff already highlighted in its summary, DBRS' credit rating on LUCo is * * and APUC is * *. **

*

To that point, *

*

Q. Please explain how LUCo and APUC are both rated by S&P.

A. S&P assigns a corporate (APUC) credit rating of * * to LUCo based on APUC's consolidated business and financial risk profiles.

Business Risk: S&P's "strong" business risk rating on APUC is driven by S&P's positive opinion of the cash flows generated by regulated operations (LUCo) and acknowledgement of regulatory mechanism that ensure full recovery of all fixed and variable costs. S&P also acknowledges the benefits of APCo.'s long-term Power Purchase Agreements (PPAs).[4]

Financial Risk: S&P's "Significant" financial risk rating on APUC is driven by S&P's opinion that APUC continue to benefit from relatively stable cash flows from LUCo.[5]

[2] *
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[3] *
*

[4] S&P Capital IQ, Global Credit Portal: Summary: Algonquin Power & Utilities Corp., 24-Apr-2014.
[5] S&P Capital IQ, Global Credit Portal: Summary: Algonquin Power & Utilities Corp., 24-Apr-2014.

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Q. What does Staff conclude from this credit rating analysis?

A. LUCo and APCo are the primary operating subsidiaries that drive APUC's credit rating with LUCo being the lower business risk operating subsidiary. It is a fundamental concept that the lower business risk subsidiary can issue more debt than the higher business risk subsidiary. Liberty Midstates ratepayers should not have to pay an equity return on the higher equity ratio needed to offset Algonquin Power's higher business risk.

Q. What is Staff's response to Robert Hevert's claim on page 42 of his testimony that Liberty Midstates' allocated capital structure is consistent with that of his and Staff's proxy groups?

A. Robert Hevert is making an inappropriate comparison and not providing enough information about the context of these capital structures. Ratemaking capital structures are usually adjusted from the per-books capital structures due to various treatments, mechanisms and adjustments afforded or performed in different jurisdictions.

If Robert Hevert had wanted to inform the Commission of the context of the allowed ROE data, then he would have also provided the corresponding approved capital structure to which it was applied. So if one were to appropriately apply the consistency measure against approved ratemaking capital structures, Staff believes its recommendation to use LUCo's capital structure, as it related specifically to the common equity ratio, is consistent with a simple average of capital structures reported by Regulatory Research Associates (RRA) from 2000 to 2014 *(only two quarters worth of data is available for 2014)*.

Staff's recommended capital structure consists of ***   *** percent equity, RRA's simple average based on 323 cases is 48.99 percent equity and Robert Hevert's capital structure consists of *   * percent equity ratio.

Q. How do you wish to respond to Robert Hevert's claim on page 42 of his testimony that Staff rejected APUC's capital structure because APUC is a Canadian corporation?

A. Staff was merely stating the capital structures it reviewed while, at the same time, indicating the incorporated domicile of each of the entities that carry the capital structures. For instance, clarifying that APUC is a (1) rated entity and (2) Canadian Corporation with a significant amount of unregulated business interests in Canada was meant to compare it to LUCo which is a (1) rated entity *(i.e. it is the driver of the cost of capital for all of its operations),* (2) United States Corporation (Delaware) with 100 percent regulated business interests in the United States and (3) guarantor of all secured debt that is used to support all of LUCo's United States' regulated operations.

In light of the above mentioned facts and comparisons, Staff established that it was appropriate to use a ratemaking capital structure based on an entity that not only drives the cost of capital for Liberty Midstates but is also immediately and structurally close to the Missouri operations in question.

EMBEDDED COST OF DEBT AND UPDATES

Q. Would you please explain the differences between Robert Hevert's and Staff's embedded cost of debt recommendations?

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A. Robert Hevert initially sponsored an embedded cost of debt of 4.78 percent, which is based on the debt allocated to Liberty Midstates' capital structure; and revised it to 4.50 percent in his rebuttal testimony.[6]

As Staff noted in its rebuttal testimony, because the allocation of the cost of debt capital suffers from the same problems as the allocation of the amount of debt for a capital structure, Staff recommended the use of a consolidated embedded cost of debt based on LUCo's consolidated capital structure. Staff updated its embedded cost of debt recommendation to ***   *** percent.[7]

Q. Why did the Company revise its embedded cost of debt down?

A. I don't know. However, Staff notes that the Company filed its direct testimony with an embedded cost of debt of ***   *** percent. When Staff asked for further detail that supported the ***   *** percent cost of debt, the Company simply indicated that there was an error in its calculation and then filed a revised embedded cost of debt schedule.

<u>Capital structure and embedded cost of debt conclusions</u>

Q. Does Staff believe Robert Hevert provided any significant support for why the Commission should adopt his recommendation of a Liberty Midstates allocated capital structure and the corresponding debt cost for ratemaking purposes?

A. No.

COST OF EQUITY

<u>Practical differences between Staff's and Robert Hevert's ROEs</u>

Q. Would you please state and explain Robert Hevert's and Staff's cost of equity recommendations?

[6] Robert Hevert Rebuttal Testimony, page 46, line 1.
[7] Zephania Marevangepo Rebuttal Testimony, page 6, lines 11-19.

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A. Robert Hevert recommended a 10.50 percent return on common equity ("ROE") based on his estimated cost of common equity range of 10 – 10.50 percent. Robert Hevert, on page 46 of his direct testimony, suggests that a 10 – 10.50 percent cost of common equity range represents a spectrum of required rate of returns that are currently anticipated by natural gas utilities' equity investors.

Staff recommends the ROE be set based on its estimated cost of equity range of 8.20 – 9.20 percent with a midpoint of 8.70 percent.

Q. What major cost of equity issues did Robert Hevert address in his rebuttal testimony?

A. Robert Hevert stated on page 3 of his rebuttal testimony that Staff's ROE midpoint recommendation of 8.70 percent is unreasonably low; and is about 60 basis points below any return authorized by any regulatory commission in the last 30 years.

Q. How does Staff wish to respond to this statement?

A. While it is true that Staff's ROE midpoint recommendation is lower than any authorized ROEs over the last 30 years, interest rates have also been lower than they have been in almost 50 years and they have remained low for the last five years despite continuous predictions that they will increase. Staff notes that its cost of equity estimate is consistent with the practical cost of equity estimates used by equity analysts and financial advisors –at least based on the highly confidential valuation and equity reports that have been reviewed by Staff over several years. The objective of the cost of capital witness is to emulate investors. Clearly, the estimates used by investment analysts are informative as to whether Staff or Robert Hevert are within reason on estimating the cost of equity.

Q. On page 4 of his testimony, Robert Hevert wonders why Staff did not reconcile its estimated cost of equity for Liberty Midstates to the higher returns authorized for other natural gas utilities. How does Staff wish to respond?

A. First off, Staff does not view the disparity as a reduction in perceived risk. Staff understands that a regulated utility's allowed ROE is not synonymous to a regulated utility's cost of equity. Cost of equity is what investors require to invest in utility stock and an allowed ROE is a return that is permitted by Commissions, which is then applied to rate base, to be used in the computation of an aggregate revenue requirement amount. The revenue requirement amount is in turn used, among other things, to provide for cash flows for cash and non-cash expenses as well as a return for investors.

Q. Is allowed ROE and cost of equity synonymous to an accounting ROE reported in a utility's financial statements?

A. No. ROE reported in a utility's financial statements is an accounting profitability ratio that measures the historical success and effectiveness of a utility's management in generating profit as measured against the investors' book value of equity at a point in time. Hence, it is calculated as net income divided by average shareholder's equity.

Simply put, (1) <u>accounting ROE</u>, as an average of historical profitability ratios for a given time period, should only be used as an *ex-post* method of estimating a utility's cost of equity only if the company has earned ROEs that are consistent with the cost of its equity. Even if a company's average earned ROEs had been consistent with its cost of common equity, economic and capital market conditions can cause these previously earned ROEs to prove too high or low for the current conditions. If earned ROEs are used to estimate the cost of common equity, either directly or via a risk premium estimate, a very long-term average should be used because this ratio in some cases is unstable due to factors, among others, such as regulatory lag, economic conditions, changes in weather, changes in input prices, inflation, growth, utility reinvestment, etc.

(2) Allowed ROEs, as authorized by commissions, is just one component of the aggregate revenue requirement used by investors to model cash flows to determine the intrinsic value of the regulated utility assets. Hence, the higher the authorized ROE, the greater the chance that the book value ROE will be higher that the market required return, i.e. the cost of equity. Again, using an average of historical allowed ROEs as a benchmark of what the commissions are likely to authorize in the future is an *ex-post* approach that seeks to hold everything else equal and assume that utilities are entitled to continue to receive such regulatory support for reasons not related to the cost of capital.

(3) Cost of Equity, as a rate, is a required return based on investors' forward-looking estimates of company-specific factors, industry-wide factors and macroeconomic factors. The cost of equity can be estimated through various means with the main goal in all methodologies being to emulate investors' decision making process, which includes determining the discount rate they apply to expected cash flows. Often, Staff looks to costs of equity estimates used by equity analysts and financial advisors to test the reasonableness of its own estimates and those of other witnesses. Hence, Staff's opinion is that its cost of equity estimates are quite reasonable as compared to those used in practice by investment professionals rather than comparing Staff's estimates to allowed ROEs or accounting ROEs.

Again, cost of equity, as a rate, is based on the price an investor is willing to pay for projected future cash flows. Accounting ROEs and allowed ROEs are not forward-looking projections of expected equity returns. However, allowed ROEs can be evaluated to determine how much commissions are willing to let allowed ROEs converge with the cost of equity.

Staff's and Robert Hevert's ROEs vs. RRA reported allowed ROEs

Q. In light of the discussion above, is Robert Hevert's 10.50 percent cost of equity recommendation practical?

A. Absolutely not. Staff believes the cost of equity for regulated natural gas utilities is somewhere between 7 to 8 percent range, but Staff adjusted its company-specific estimate up to 8.20-9.20 percent because of Liberty Utilities' lower credit rating. As Staff noted earlier, this range is consistent with the regulated natural gas utility cost of equity reported and/ or implied by equity analysts and financial advisors. Robert Hevert's recommendation is 130 basis points above the higher end of this acceptable range.

Q. In light of the differences in cost of equity and allowed ROEs explained earlier, what are the most recent reported allowed ROEs?

A. The most recent RRA publication, dated July 10, 2014, reported allowed ROEs that range from 9.47 percent to 9.84 percent for the period covering the full 12 months of 2013 and the first 6 months of 2014.

The average allowed ROEs of the four quarters of 2013 was 9.68 percent and for the first two quarters of 2014 was 9.71 percent.

Q. How does Staff's recommendation compare with the most recent allowed ROEs for regulated natural gas utilities?

A. While the Staff generally recommends the Commission authorize an ROE based on the midpoint of its estimated cost of equity range, Staff considers the upper end of its range (9.20 percent) to be within the zone of reasonableness. To that point, Staff's higher end is 51 basis points below the average (9.71 percent) allowed ROEs for the first 6 months of 2014 and 48 basis points below the average (9.68 percent) allowed ROEs for the 12 months of 2013.

Although there haven't been any allowed ROEs for gas distribution utilities in the 8 percent range since January 1, 2013, there have been allowed ROEs in the low 9 percent range.

Q. How does Robert Hevert's 10.50 percent recommendation compare with the most recent allowed ROEs for regulated natural gas utilities?

A. Robert Hevert's recommendation is 79 basis points higher than the average (9.71 percent) allowed ROEs for the first 6 months of 2014 and 82 basis points higher than the average (9.68 percent) allowed ROEs for the 12 months of 2013.

Although there have been allowed ROEs in the low 10 percent range since January 1, 2013, none have been as high as 10.5 percent.

Other cost of equity issues

Q. What did Staff determine to be the main driver of Robert Hevert's inflated ROE of 10.50 percent?

A. As already discussed on page12 of Staff's rebuttal testimony, it is Robert Hevert's inflated and unrealistic compounded 5.71percent ((1.0327*1.0236)-1) perpetual GDP growth rate assumption. Robert Hevert's perpetual growth rate assumption was based on a 3.27 percent historical average of real GDPs from 1929 to 2013 and a 2.36 percent projected inflation rate.[8]

[8] Robert Hevert rebuttal testimony: Page 20, lines 10-13.

Q. How does Staff wish to respond to Robert Hevert's computation of his projected perpetual GDP?

A. This methodology, which combines one piece based on historical data and another on projected data, is diametrically inconsistent with the logic, findings and conclusions that Robert Hevert stated on 13 and 14 of his direct testimony.

Q. What specific conclusions did Robert Hevert state in his rebuttal testimony?

A. Below is an excerpt from page 14 and 15 of Robert Hevert's testimony:

> "Philips' conclusion continues to hold true. Subsequent academic research has clearly and consistently indicated that measures of earnings and cash flow are strongly related to returns, and that analysts' forecasts of growth are superior to other measures of growth in predicting stock prices."
>
> "For example, Vander Weide and Carleton state that, "[our] results…are consistent with the hypothesis that investors use analysts' forecasts, rather than historically oriented growth calculations…"
>
> "Other research specifically notes the importance of analysts' growth estimates in determining the Cost of Equity, and in the valuation of equity securities. . ."
>
> "Similarly, Brigham, Shome and Vinson noted that 'evidence in the current literature indicates that (i) analysts' forecasts are superior to forecasts based solely on time series data; and (ii) investors do rely on analysts' forecasts.'"

Q. What logic was presented by Robert Hevert in the above excerpts when he was proving his support for using earnings over historical dividend data?

A. It is clear that Robert Hevert has shown detailed support and his unshaken preference for using projections or forecasts. However, for his perpetual growth, he conveniently used a combination of forecasts and historical data to compute a projected growth rate.

Q. Do you believe Robert Hevert had access to sources that could have provided him with both pieces of projected data that he could have used instead?

A. Yes. Staff provided a table, which is also publicly available, on page 25 of its Cost of Service Report that indicated that most reliable sources (reported by Energy Information Administration (EIA)) of real GDP estimates project real GDP growth rate for 2011-2040 to range from 2.4 percent to 2.6 percent.

Q. Was the table referenced by Staff updated since the time developed cost of equity study?

A. Yes. EIA published its latest Annual Energy Outlook April 2014 based on 2012 to 2040 projections. However, the latest real GDP growth rate range and the simple average (2.45 percent) remained unchanged.

Q. How does Staff wish to respond to Robert Hevert's criticism that suggests that Staff's DCF model growth rate input does not have sufficiently long time horizons?

A. Such criticism has no merit. To Staff's knowledge, the 2011 to 2040 projections are the longest real GDP projections/ benchmarks published.

Q. How does Robert Hevert's 3.27 percent real GDP forward-looking estimate compare with the range from collective sources that are reported in EIA's Annual Energy Outlook publication?

A. It is unrealistic. Although Robert Hevert seems to place heavy emphasis on analysts' near-term EPS projections, he decided to disregard them and calculated his own inflated real GDP estimate anyway.

Cost of equity conclusions

Q. Does Robert Hevert's rebuttal testimony provide any additional and acceptable evidence for why his 10.50 percent cost of equity recommendation for Liberty Midstates is fair and reasonable?

A. No. Staff still notes that Robert Hevert's perpetual growth rates are not practical given the current and the projected economic conditions. Robert Hevert's 3.27 percent real perpetual GDP growth rate estimate (greater than the 2.6 percent higher end of Annual Energy Outlook projection) and 5.71 percent perpetual nominal GDP growth rate estimate (greater than 5 percent) are both beyond reason.

A 3.27 percent perpetual real GDP growth rate projection defies the judgment of all the very reliable sources of long-term (2011-2040) GDP growth projections as reported by Energy Information Administration.

ROBERT HEVERT'S FINANCIAL INTEGRITY TESTIMONY

Q. Please highlight the issues addressed in Robert Hevert's financial integrity testimony.

A. Robert Hevert computed a hypothetical impact *–on Liberty Midstates' hypothetical credit metrics and ROE–* that would result if the Commission were to adopt Staff's treatment of special contracts.

Q. Do you believe hypothetical impacts on financial integrity should be considered by the Commission when evaluating this issue?

A. No. The specific issue as to how Staff treated special contracts revenues is outside the scope of my testimony. However, it is my understanding that respective witnesses from Staff sponsored testimony addressing the issue in detail.

Q. Given Staff's special contracts position, what is your opinion of Robert Hevert's credit metrics analysis?

A. Robert Hevert's analysis is irrelevant.

Q. Did Mr. Hevert discuss the impact he believed your rate of return recommendation would have on Liberty Midstates' financial integrity?

A. Yes.

Q. What is your response?

A. Robert Hevert's testimony on financial integrity combines Staff's rate of return recommendation with adjustments related to Staff's treatment of revenues associated with specific transportation contracts. Mr. Hevert's financial integrity analysis as it relates to the special contracts should be disregarded because it treats Staff's position regarding the contracts as a punishment. Mr. Hevert seems to attempt to complicate the matter by assuming Staff's rate of return recommendation would affect the financial integrity of an entity that does not have a market-tested capital structure and does not issue its own debt.

Staff, therefore, notes that for as long as the analysis is based on those assumptions, Staff deems such an analysis to be irrelevant since it is based on what the Company wants, not what they deserve and/ or what is fair and reasonable to all customer classes.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

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' Tariff Revisions Designed To Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company	)))))	Case No. GR-2014-0152

AFFIDAVIT OF ZEHPANIA MAREVANGEPO

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Zephania Marevangepo, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 20 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Zephania Marevangepo

Subscribed and sworn to before me this 15th day of August, 2014.

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

D Suzie Mankin
Notary Public