

Exhibit No.:
Issue(s):
Witness/Type of Exhibit:
Sponsoring Party:
Case No.:

Proposed Trackers
Riley/Direct
Public Counsel
GR-2018-0013

DIRECT TESTIMONY

OF

JOHN S. RILEY

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

March 2, 2018

DIRECT TESTIMONY
OF
JOHN S. RILEY
LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP. D/B/A LIBERTY
UTILITIES
CASE NO. GR-2018-0013

1 **Q. What is your name and what is your business address.**

2 A. John S. Riley, PO Box 2230, Jefferson City, Missouri 65102

3 **Q. By whom are you employed and in what capacity?**

4 A. I am employed by the Missouri Office of the Public Counsel (“OPC”) as a Public Utility
5 Accountant III.

6 **Q. What is your educational background?**

7 A. I earned a B.S. in Business Administration with a major in Accounting from Missouri State
8 University.

9 **Q. What is your professional work experience?**

10 A. I was employed by the OPC from 1987 to 1990 as a Public Utility Accountant. In this capacity
11 I participated in rate cases and other regulatory proceedings before the Public Service
12 Commission (“Commission”). From 1994 to 2000 I was employed as an auditor with the
13 Missouri Department of Revenue. I was employed as an Accounting Specialist with the
14 Office of the State Court Administrator until 2013. In 2013, I accepted a position as the Court
15 Administrator for the 19th Judicial Circuit until April, 2016 when I joined the OPC.

16 **Q. Are you a Certified Public Accountant (“CPA”) licensed in the State of Missouri?**

17 A. Yes. I am also a member of the Institute of Internal Auditors (“IIA”)

1 **Q. Have you previously filed testimony before the Missouri Public Service Commission**
2 **(“Commission” or “PSC”)?**

3 A. Yes I have. A listing of my Case filings is attached as JSR-D-1

4 **Q. What is the purpose of your direct testimony?**

5 A. To address the proposed trackers offered in the testimony of Liberty Utilities witness Timothy
6 S. Lyons.

7 **Q. What has been the Commission’s position regarding trackers?**

8 A. The Commission has determined trackers should be reserved for extraordinary items or
9 expenses that are significant and problematic to calculate with a high degree of accuracy.
10 None of these trackers meet the criteria and should not be accepted by the Commission.¹

11 **Q. Please provide a brief description and analysis of Liberty’s request for a capital**
12 **reliability tracker proposed by Mr. Lyons.**

13 A. The first tracker mentioned on page 34 of Lyons’ Class Cost of Service testimony is a capital
14 reliability tracker. Also referred to in testimony as a “CR Tracker”. Mr. Lyons proposes the
15 Commission allow Liberty to “defer through a regulatory asset for future recovery in rates
16 carrying costs associated with incremental capital spending that has not been included in the
17 Company’s rate base used to set current base rates (i.e., capital spending that is not reflected
18 in current base rates).²

19 The witness goes on to describe how the Company would determine and calculate carrying
20 costs by separately identifying 1) pre-tax average cost of capital on each year’s current capital
21 spending, 2) the depreciation on the current year’s capital spending, and 3) any property tax

¹ Property tax trackers were specifically rejected in ER-2014-0370, KCPL Report & Order, pages 55 & 56, WR-2016-0064, Hillcrest, pages 18 & 19 for the very reasons cited above

² Lyons CCOS direct testimony, page 34, lines 10-13

1 that can be calculated against the current year capital spending.³ Of course, the capital
2 expenditures are any capital spending since the last rate case.

3 **Q. Is this an extraordinary item or expense that is significant and problematic to calculate**
4 **with a high degree of accuracy?**

5 A. No, it is not.

6 **Q. Doesn't traditional rate base ratemaking address these three components and include**
7 **them in the cost of service or in rate base directly?**

8 A. Yes. Liberty is proposing a change from the traditional recognition of allowance for funds
9 used during construction ("AFUDC") and the capitalizing of property tax on projects not yet
10 used and useful. It appears that Liberty would rather collect, in current cost of service, the
11 ongoing interest charges, property tax and depreciation on an unfinished (construction not yet
12 included in rate base) project instead of capitalizing these costs into the project and receiving
13 a rate of return on the costs for the rest of the rate base useful life.

14 **Q. You have testified that this is not a significant expense. Is there any other reason why**
15 **should the Commission reject this idea?**

16 A. The foremost reason to disallow this idea is that the expenses Liberty wants to separately
17 identify and include in the cost of service as an amortization will have been recognized as part
18 of the capital project when it is determined to be used and useful and will be included in rate
19 base. These cost will not need to be tracked because they have "fallen through the cracks"
20 but will be included in the overall cost of the project and afforded a rate of return.

³ Lyons CCOS direct testimony. Summation of the three bullet points on page 36

1 **Q. Why would Liberty propose a capital reliability tracker when the costs that it wishes to**
2 **track and defer are capitalized in the future rate base investment?**

3 A. I see no benefit in setting precedent of tracking AFUDC in this case for recovery in the next
4 case. Capitalizing these costs is a traditional ratemaking procedure and the Company will
5 recover all its cost without a tracker. There is no reason to deviate from the standard.

6 **Q. Is Liberty proposing any other trackers in this case?**

7 A. Yes. Liberty is proposing three operations and maintenance (“O&M”) trackers consisting of
8 property tax, bad debt expense and vegetation management expense.

9 **Q. Are these extraordinary items or expenses that are significant and problematic to**
10 **calculate with a high degree of accuracy?**

11 A. No. OPC recommends the Commission not allow trackers for these expenses either.

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

13 A. Yes.

John S. Riley, CPA
Summary of Case Participation

ST LOUIS COUNTY WATER COMPANY	CASE NO. WR-88-5
SOUTHWESTERN BELL TELEPHONE COMPANY	CASE NO. TC-89-21
EMPIRE DISTRICT ELECTRIC COMPANY	CASE NO. ER-2016-0023
KCP&L GREATER MISSOURI OPERATIONS COMPANY	CASE NO. ER-2016-0156
KANSAS CITY POWER & LIGHT COMPANY	CASE NO. ER-2016-0285
AMEREN MISSOURI	CASE NO. ER-2016-0179
EMPIRE DISTRICT ELECTRIC PRUDENCE REVIEW	CASE NO. EO-2017-0065
LACLEDE GAS COMPANY	CASE NO. GR-2017-0215
MISSOURI AMERICAN WATER COMPANY	CASE NO. WU-2017-0351
EMPIRE DISTRICT ELECTRIC COMPANY	CASE NO. EO-2018-0092
LIBERTY (MIDSTATE NATURAL GAS)	CASE NO. GR-2018-0013