Exhibit No.: _____
Issues: PGA/ACA Recovery Periods and Carrying Cost Rate
Witness: Phillip Gillam
Type of Exhibit: Direct Testimony
Sponsoring Party: Liberty Utilities (Midstates Natural Gas) Corp.
Case No.: GR-2022-___
Date Testimony Prepared: November 2021

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Phillip Gillam

on behalf of

Liberty Utilities (Midstates Natural Gas) Corp.

November 2021

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LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP.
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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I. Introduction

Q. Please state your name and business address.

A. My name is Phillip Gillam. My business address is 602 S. Joplin Avenue, Joplin, Missouri, 64802.

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

A. I am employed by Liberty Utilities Services Corp., as the Senior Manager, Rates and Regulatory Affairs for the Liberty Central Region, which includes Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty ("Liberty" or the "Company").

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of Liberty in this proceeding before the Missouri Public Service Commission ("Commission").

Q. Please describe your educational and professional background.

A. I hold a Bachelor of Science degree in accounting from the University of Arkansas at Little Rock. I am a Certified Public Accountant (inactive) in Arkansas and belong to the Arkansas Society of Certified Public Accountants and the American Institute of Certified Public Accountants. From 1978 through 1980, I worked for the University of Arkansas Industrial Research & Extension Center as an Analyst, Small Business Development Center. I began working for the predecessor of Entergy Arkansas, Inc. ("EAI"), Arkansas Power & Light Company ("AP&L") in 1980 as a Staff Accountant I in the Property Accounting Section. I was responsible for Property Accounting related special projects and year-end tax information reporting. I was promoted to Staff Accountant III in 1982 and transferred to the Taxes & Special Studies Section where I was responsible for preparing accounting data for various rate filings and state and federal income tax reports. In 1983, I accepted the position of Supervisor of Taxes & Special Studies where I was directly responsible for state and local tax filings such as sales tax and ad valorem taxes, as well as preparing and reviewing accounting data, testimony and exhibits for various rate filings. In 1988, I was reassigned to Property Accounting as a Supervisor where I was responsible for the accounting of AP&L's non-nuclear generation and transmission plant assets, which included Construction Work in Progress ("CWIP") accounting, the Continuing Property Record ("CPR"), and year-end and ad hoc projects. In 1991, I accepted a position in New Orleans, Louisiana, as Manager of Property Accounting for Louisiana Power & Light Company and New Orleans Public Service, Inc. where I was responsible for all Property Accounting functions and activities including CWIP, CPR, year-end and ad hoc projects. In 1996, I accepted a position with Entergy Service, Inc. as Property Accounting Manager where I was responsible for the accounting of the Entergy Operating Companies' generation plant assets. In 1999, I accepted a position as Manager of Corporate Reporting in charge of Corporate Governance of the Property Accounting function including plant accounting policies, capital accounting process oversight and plant accounting special projects. In 2002, I moved to Little Rock to assume the role of Director, Revenue Requirements and Analyses. In that role, I was responsible for the development of cost-of-service studies and other revenue requirement analyses for each jurisdiction. In 2014, I was reassigned to the role of Manager, Regulatory Filings, Entergy New Orleans, Inc. In this role, I was responsible for regulatory filings at the New Orleans City Council relating to various rate proceedings such as rate cases, Formula Rate Plan filings, and other special riders. In September, 2019, I assumed my current role as Senior Manager, Rates and Regulatory Affairs for the Liberty Central Region. I am currently responsible for regulatory matters for the Central Region's gas, water, and wastewater commodities.

Q. Have you previously testified in a proceeding before this Commission or any other utility regulatory agency?

A. I have not previously testified before this Commission, but I testified before the Arkansas Public Service Commission, the Louisiana Public Service Commission, the Mississippi Public Service Commission, the New Orleans City Council, and the Public Utility Commission of Texas in various rate proceedings while employed at Entergy. On behalf of The Empire District Electric Company, I have also provided testimony before the Arkansas Public Service Commission.

Q. What is the purpose of your Direct Testimony in this proceeding?

A. 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.

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.

II. Recovery Periods

Q. How, and over what recovery period, are over- or under-collections typically recovered or refunded?

A. Via the application of the ACA mechanism, if the Company has over-collected from customers, the ACA is negative and, if it has under-collected, the ACA is positive. Typically, the ACA rate is set to reconcile the over- or under-collection over a twelve-month period. Under normal circumstances, an ACA would be set for the recovery period December 2021 through November 2022.

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.

Q. Is an extended recovery period allowed under the Company's tariff?

A. Yes. On September 16, 2021, the Company submitted revised tariff sheets designed to narrowly amend the Company's Rider PGA to allow flexibility to extend the recovery period beyond 12 months (Commission Case No. GT-2022-0079, Tracking No. JG-2022-0058). Form No. 13, PSC MO No 2, 2nd Revised Sheet No. 43 and Original Sheet No. 43a took effect October 22, 2021. Regarding the possibility for an extended recovery period, the following language was added:

> 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 underrecovery) by estimated sales volumes for an extended period which shall not exceed 5 years.

Q. Did all of the Company's customers experience higher than normal costs during the period at issue?

A. No. The Company tracks over- or under-recoveries for later reconciliation via the ACA separately for each of its four service areas. Operations in the Kirksville service area were not significantly impacted by the extreme weather events I described above due to utilization of available storage gas**.** As a result, costs to customers in that area did not increase dramatically and the Company under-collected \$64,833 from customers during the twelve months that ended August 2021. 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.

Q. Is there good cause to extend the recovery period in this case?

A. Yes. It is necessary to extend the recovery period, because recovering the costs in the typical fashion would be unduly burdensome to the Company's customers in the affected service areas. For example, recovering the Western Missouri firm sales under-collection over a twelve month period would require an ACA of \$0.8347, compared to the current rate of \$0.0283, resulting in a difference of \$0.8064 per Ccf that would increase the average residential customer's monthly bill by approximately \$41, assuming an average consumption of 51 Ccf for that month. It is the Company's view that sudden rate changes of this magnitude are undesirable.

Q. Over how long a period does the Company propose to recover its under-collections in its services areas other than Kirksville?

A. Three years.

Q. How did you choose that period?

A. Two important principles of utility ratemaking are the recovery of costs within a period that is reasonably close to the time in which those costs were incurred and the limitation of customers' exposure to sudden and extreme changes in rates, which is often referred to as "rate shock." I believe a three-year period strikes a reasonable balance between those two objectives.

Q. Are you also proposing to extend the period over which the cumulative over-collection balance is returned to the Company's Kirksville customers?

A. No. The cumulative over-collection balance will be returned to those customers over the typical twelve months.

III. Carrying Cost Rate

Q. What carrying charge do you recommend for the deferred ACA balances?

A. The Company is requesting a carrying charge of 7.4%, which is equal to the Company's Weighted Average Cost of Capital ("WACC"), which was established by the Commission in Case No. GR-2018-0013.

Q. Is this allowed under the Company's tariff?

A. Yes. Section III (Form No. 13, PSC MO No. 2, Original Sheet No. 43a, effective October 22, 2021) allows the Company to "propose a carrying cost, subject to review, appropriate for the length of the extended period" if the Commission allows an extended recovery period, not to exceed five years, for an extraordinary under-recovery ACA balance.

Q. Why is the WACC the appropriate carrying charge?

A. During the period in which the under-recoveries incurred, the Company incurred costs to provide service to its customers. In extending the period over which those costs are recovered, the Company is, in effect, lending its capital to customers for the amortization period. WACC is specifically intended to measure the cost of the Company's capital, based on its specific financial circumstances. This makes WACC the appropriate benchmark for the costs the Company's incurs by recovering over time.

Q. Is that to say that the carrying charges identified in the Company's tariff are incorrect?

A. No. Section III of the tariff indicates that monthly carrying charges associated with the *normal* ACA will be set at the prime interest rate on the first business day of the following month minus two percent (currently 3.25% - 2% or 1.25%), an amount that is, in this case, below the Company's WACC. That language sets a carrying charge applicable for the recovery of *normal* gas costs recovered over a *12-month* period. As a result, there is little impact on the Company's financial integrity from using the tariff rate instead of its WACC. In this proceeding, however, the Company is asking for the recovery of *extraordinary* gas costs over an extended period of time. Under those circumstances, the carrying charge is impactful. It is my understanding that this is why Section III of the tariff was revised to create the flexibility required to allow the Company to recover unusually high amounts over extended periods.

Q. Why is that important?

A. This is important for at least two reasons. First, equitable ratemaking requires that the Company be able to recover its costs. Deferring recovery over extended periods creates costs for the Company that must either be offset by recovery of an amount equal to the application of its WACC for unamortized balances or absorbed by its shareholders. 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.

Q. What is the other reason?

A. A second, closely related reason, is that I believe it is important that the Commission not create disincentives to utilities' abilities to develop solutions to extraordinary issues. In this case, the Company is, of its own volition, seeking to reduce impacts from an unprecedented weather event. If it is required to absorb the costs of doing so, utilities doing business in Missouri could be less willing to undertake similar actions if the cost of doing so is too great.

Q. Will the Company earn any extra profit if the Commission authorizes it to use its WACC as the carrying charge?

A. No. Applying the WACC will only provide the Company with a "make whole" payment that compensates it for the delayed access to its own capital.

Q. What are the Company's proposed ACA rates for each service area?

A. The Company's proposed ACA rates, as well as those currently in effect, are shown in Table 1 for firm sales customers and in Table 2 for interruptible customers, below:

Table 1. Current and Proposed Firm Sales ACA Rates by Service Territory ($/Ccf)

	Current	Proposed
Kirkville	$(0.15983)	$(0.16781)
Northeast Missouri	$(0.15555)	$0.07718
Southeast Missouri	$(0.12783)	$0.06987
Western Missouri	$0.02834	$0.27468

Table 2. Current and Proposed Interruptible ACA Rates by Service Territory ($/Ccf)

	Current	Proposed
Kirkville	$(0.23612)	$(0.32599)
Northeast Missouri	$(0.15302)	$0.02188
Southeast Missouri	$(0.20159)	$0.01037
Western Missouri	$0.02849	$0.27999

My calculations that underlie these rates are shown in Exhibit 1.

Q. Does this conclude your Direct Testimony at this time?

A. Yes.

AFFIDAVIT

I, Phillip Gillam, under penalty of perjury, on this 4th day of November, 2021, declare and confirm that I have personal knowledge of the matters set forth in this Direct Testimony and that the Direct Testimony is true and correct to the best of my knowledge and belief.

/s/ Phillip Gillam