

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

In the Matter of the Application of Liberty)
Utilities (Midstates Natural Gas) Corp. to Change) Case No. GT-2022-0118
Its Infrastructure System Replacement Surcharge)

**VERIFIED INFRASTRUCTURE SYSTEM
REPLACEMENT SURCHARGE APPLICATION**

COMES NOW Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty and submits this Verified Infrastructure System Replacement Surcharge (“ISRS”) Application. In this regard, Liberty petitions to change its ISRS, as set forth below, and respectfully states as follows to the Missouri Public Service Commission (“Commission”):

1. Liberty Utilities (Midstates Natural Gas) Corp. (the “Company” or “Liberty”) is a corporation organized and existing under the laws of the state of Missouri and is primarily engaged in the business of distributing and transporting natural gas to approximately 53,000 customers in the West, Northeast and Southeast portions of Missouri. A Certificate of Good Standing evidencing Liberty’s standing to do business in Missouri was attached as Exhibit 1 to the Application filed in Case No. GE-2019-0251. The information on such Certificate is currently applicable and correct.
2. The Company is a “gas corporation” and a “public utility,” as those terms are defined by RSMo. §386.020 and, therefore, is subject to the general regulatory jurisdiction of the Commission as provided by law.
3. Liberty has no pending actions or final unsatisfied judgments or decisions against it from any state or federal agency or court which involve customer service or rates, and Liberty is current on its annual report and assessment fee obligations to the Commission, and no such report or assessment fee is overdue.
4. Communications in regard to this verified application should be addressed to the undersigned counsel and:

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5. This docket was initiated with Liberty's submission of a Notice of Intended Case Filing on October 29, 2021, pursuant to Commission Rule 20 CSR 4240-4.107, and Liberty's Application is being submitted herein pursuant to RSMo. §§393.1009-393.1015 and Commission Rules 20 CSR 4240-2.060, 2.080, and 3.265.

6. Liberty's current ISRS was established in Commission Case No. GT-2021-0073, effective June 1, 2021. That filing covered ISRS costs incurred during the period April 1, 2018, through October 31, 2020. The Company has continued to make ISRS eligible investments, and Liberty submits this Application to change its ISRS to reflect these additional investments covering the period November 1, 2020, through October 31, 2021.

7. In accordance with RSMo. §393.1009-393.1015 and Commission Rule 3.265, the revised ISRS rate schedule reflects the appropriate pre-tax ISRS revenues necessary to produce net operating income equal to the weighted cost of capital multiplied by the net original cost of the requested infrastructure replacements during the period that are eligible for the ISRS.

8. With this Application, Liberty also seeks to recover all state, federal, and local income or excise taxes applicable to such ISRS income and to recover all other ISRS costs such as depreciation expense and property taxes due within 12 months of this filing.

A. Eligibility of Costs

9. Attached to this Application as Appendix A is Liberty's recommended revenue requirement and supporting calculations. The infrastructure system replacements listed on Appendix A are eligible gas utility plant projects categorized as one of the following: a) mains, valves, service

lines, regulator stations, vaults, and other pipeline system components installed to comply with state or federal safety requirements as replacements for existing facilities that have worn out or are in deteriorated condition; or b) main relining projects, service line insertion projects, joint encapsulation projects, and other similar projects extending the useful life, or enhancing the integrity of pipeline system components undertaken to comply with state or federal safety requirements; or c) unreimbursed infrastructure facility relocations due to the construction or improvement of a highway, road, street, public way or other public work required by or on behalf of the United States, the State of Missouri, a political subdivision of the State of Missouri, or another entity having the power of eminent domain.

10. Capital data used for the ISRS filing was reported directly from Liberty's plant accounting system. Utilizing this project-based plant accounting system, each project placed in service in the state of Missouri was reviewed to ensure that it was an eligible "gas utility plant project" as defined in RSMo. §393.1009.

11. This review was facilitated through the application of several data components maintained for each project in the plant accounting system. The in-service date was used to eliminate any projects that did not fall within the filing window of the ISRS. The budget category was used to eliminate projects that did not fall into the classifications of System Integrity, System Improvements, Public Improvements, and Maintenance. The project description was reviewed to ensure that the project was consistent with the intent of the ISRS. The business segment field was used to assign the cost to the appropriate rate division. Lastly, the FERC activity code determined whether the costs were for an addition or a retirement.

12. The data for additions is presented in Application Appendix A, Schedule 1, and retirements are listed in Application Appendix A, Schedule 2. In Appendix A Schedules 1 and 2, the data by project is summarized for each rate division at the utility account level, with the in-service

date and additional cost amount provided for the project. Accumulated depreciation is calculated by multiplying the monthly depreciation rate by the number of months the asset has been in service. The depreciation expense column contains the annual depreciation cost for the asset. Subtotals are provided for each rate division and class of assets.

13. In addition, the infrastructure system replacements listed on Appendix A are also eligible for ISRS treatment because they: a) did not increase revenues by directly connecting to new customers; b) are currently in service and used and useful; c) were not included in rate base in the most recently completed general rate case or as part of the last ISRS filing; and d) replaced and/or extended the useful life of existing infrastructure.

B. Rate Schedules, Calculations, and Supporting Documentation

14. Attached to this Application as Appendix B is the rate schedule, with supporting documents, proposed by Liberty in order to establish the ISRS to reflect the additional ISRS eligible investments that were not included in the previous ISRS filing.

15. The proposed rate schedule, on an annualized basis, will produce ISRS revenues of at least one-half of one percent of the base revenue level approved by the Commission in the most recent general rate proceeding, but not in excess of ten percent of the base revenue level.

16. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes current local, state, and federal income tax rates through a combined income tax rate conversion factor of 0.7584.

17. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes the capital structure that was approved in Liberty's most recent rate case and reflects an overall rate of return of 7.40%.

18. In determining the appropriate pre-tax ISRS revenues and consistent with the cost of debt approved in the last rate case, the proposed rate schedule utilizes a weighted average cost of

debt of 4.70%.

19. In determining the appropriate pre-tax ISRS revenues and consistent with the cost of equity approved in the last rate case, the proposed rate schedule utilizes a cost of common equity of 9.80%.

20. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes a current composite property tax rate for each of Liberty's three rate districts – Northeast (NEMO), Southeast (SEMO) and West (WEMO) – as follows: NEMO – 2.046%; SEMO – 1.597% and WEMO – 2.066%.

21. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes depreciation rates currently applicable to the eligible infrastructure system replacements as determined in Commission Case No. GR-2018-0013, the Company's most recent general rate case.

22. Consistent with RSMo. §393.1015.5(1), Liberty utilized the customer numbers and classes utilized to set rates in Commission Case No. GR-2018-0013.

23. In determining the appropriate monthly ISRS charge, the proposed rate schedule is based on a reasonable estimate of billing units in the period in which the charge will be in effect, which is derived by dividing the appropriate pre-tax revenues, as calculated above, by the customer numbers used to set rates in the most recently completed general rate proceeding, and then further dividing this quotient by twelve. *See* Application Appendix B, Schedule 4.

24. The monthly ISRS charge is apportioned between customer classes and the rate districts in the same manner utilized in setting rates in the most recently completed general rate proceeding. As determined in Case No. GR-2018-0013, Liberty's NEMO and WEMO districts were consolidated for all customer classes. The consolidation of these two districts is also reflected in the attached supporting schedules, with a single ISRS rate proposed for both.

C. Customer Notice and Additional Information

25. Application Appendix C, Attachment 2, contains Liberty's proposed one-time customer notice informing customers of the ISRS charge to be sent with the initial bills containing the new ISRS rate, as well as a copy of the annual notice Liberty will provide to affected customers each year explaining the ISRS and what it is designed to recover.

26. Updated information apprising customers of the ISRS will be posted on Liberty's website, and an example of the text is provided in Application Appendix C, Attachment 3. The information on this page of the website will reflect the information provided in the bill inserts.

27. Application Appendix C, Attachment 4, contains a Billing Code and Definitions Reference Guide provided to all call center employees, including a section pertaining specifically to the ISRS.

28. An example customer bill demonstrating how the ISRS is described on affected customers' bills is provided in Application Appendix C, Attachment 5.

WHEREFORE, Liberty respectfully submits this verified application and requests an order of the Commission approving Liberty's ISRS rate schedules in order to provide for the recovery of the eligible infrastructure system replacement investments made from November 1, 2020, through October 31, 2021. The Company requests such additional relief as is just and proper under the circumstances.

Respectfully submitted,

/s/ Diana C. Carter

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VERIFICATION

On behalf of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty, and pursuant to Commission Rule 20 CSR 4240-2.060(1)(M), the undersigned, upon his oath and under penalty of perjury, hereby states that the above filing is true and correct to the best of his information, knowledge, and belief.

/s/ Mike Beatty
Liberty Central Region Vice President

CERTIFICATE OF SERVICE

I hereby certify that the above document was filed in EFIS on this 30th day of December, 2021, and electronically delivered to the Staff of the Commission and the Office of the Public Counsel.

/s/ Diana C. Carter