

Exhibit No.:
Issue: Revenue and Expense Items
Witness: Charlotte T. North
Type of Exhibit: Direct Testimony
Sponsoring Party: Liberty Utilities
(Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Case No.: GR-2018-0013
Date Testimony Prepared: September 29, 2017

**Before the Public Service Commission
of the State of Missouri**

Direct Testimony

of

Charlotte T. North

On behalf of

**Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Utilities**

September 2017



DIRECT TESTIMONY
OF
CHARLOTTE T. NORTH
LIBERTY UTILITIES
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. GR-2018-0013

1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Charlotte T. North. My business address is 602 South Joplin Avenue,
4 Joplin, MO 64802.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Liberty Utilities Services Corp. as the Supervisor of Rates and
7 Regulatory Affairs for the Liberty Utilities Central Region, which includes Liberty
8 Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities, The Empire District
9 Electric Company (“Empire”), and Liberty Utilities (Missouri Water) LLC.

10 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

11 A. I am testifying on behalf of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a
12 Liberty Utilities (“Liberty Utilities” or “Company”).

13 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

14 A. I graduated from College of the Ozarks, Point Lookout, Missouri in 2000 with a
15 Bachelor of Science degree with a major in Accounting.

16 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

17 A. I was hired by Empire in July 2016 as a Rates Analyst and promoted to my current
18 position as a Supervisor in the Rates and Regulatory Affairs Department in May
19 2017. Prior to joining Empire I worked for six years in the Regulated Insurance
20 Industry in Springfield, Missouri as a Director of Accounting. In addition, I have

1 nine years of public accounting experience working for both a national and big four
2 accounting firm. My primary roles at these organizations included serving as a
3 supervisor for financial statement audits and a tax compliance consultant. I have been
4 a Certified Public Accountant (“CPA”) in the state of Missouri since 2006.

5 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC**
6 **SERVICE COMMISSION OR ANY OTHER REGULATORY AGENCY?**

7 A. No.

8 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
9 **PROCEEDING?**

10 A. The purpose of my Direct Testimony is to support the Company’s operating revenue
11 and expense components of the revenue requirement calculation specifically as it
12 relates to test year balances and certain pro forma adjustments for known and
13 measurable changes.

14 **Q. ARE YOU SPONSORING ANY SCHEDULES?**

15 A. Yes. I am sponsoring the following schedules:

- 16 • WP 1 Operating Income and Operating Income Adjustments
- 17 • WP 2 Revenue
- 18 • WP 4 OM Expense
- 19 • WP 5 Taxes Other Than Income Taxes
- 20 • WP 6 Depreciation Expense
- 21 • WP ADJ 7 Rate Case Expense
- 22 • WP ADJ 8 Energy Efficiency
- 23 • WP ADJ 9 Depreciation Rate Change
- 24 • WP ADJ 13 Property Tax

- 1 • WP ADJ 15 Miscellaneous Adjustments
- 2 • WP AJD 16 Bad Debt Percentage
- 3 • WP AJD 18 Health Care
- 4 • WP ADJ 19 ISRS Reconciliation Adjustment

5 **Q. WAS THE INFORMATION CONTAINED IN THE SCHEDULES OBTAINED**
6 **OR DERIVED FROM THE BOOKS AND RECORDS OF THE COMPANY?**

7 A. Yes, the information contained in the schedules I am sponsoring have been obtained
8 or derived from the books and records of Liberty Utilities for the twelve months
9 ended June 30, 2017, updated for certain known and measurable items through March
10 31, 2018.

11 **Q. PLEASE DESCRIBE THE COMPANY'S STATEMENT OF OPERATING**
12 **INCOME.**

13 A. The Company's test year operating income is reflected on WP-1 Operating Income.
14 The known and measurable changes are outlined and included in the Company's
15 revenue requirement on WP-1 Operating Income Adjustments. WP-1 Operating
16 Income reflects the Company's operating revenues and expenses for the test period
17 ending June 30, 2017, as well as the impact of the pro forma adjustments.

18 **Q. WHAT ARE THE COMPANY'S OPERATING REVENUES FOR THE TEST**
19 **PERIOD?**

20 A. As shown on WP-1 Operating Income, the Company's operating revenues for the test
21 year are \$24,259,642. In addition to the test year operating revenues, WP-1
22 Operating Income includes known and measurable changes to operating income for
23 normalized revenue, a correction and annualization of revenue for a large general
24 service customer, and infrastructure system replacement surcharge ("ISRS")

1 revenues, totaling \$1,588,299. The Company's adjusted operating revenues at
2 present rates, included in its revenue requirement are \$25,847,941.

3 **Q. PLEASE DESCRIBE THE OPERATING EXPENSES INCLUDED IN THE**
4 **COMPANY'S REVENUE REQUIREMENT.**

5 A. As shown on WP-1 Operating Income, the Company's operating expenses for the test
6 year are \$19,307,130. In addition to the test year operating expenses, WP-1
7 Operating Income includes known and measurable changes for several adjustments
8 outlined on WP-1 Operating Income Adjustments totaling \$3,077,229. The
9 Company's adjusted operating expenses at present rates, excluding state and federal
10 income taxes are \$22,384,358.

11 **Q. WHAT IS THE COMPANY'S NET OPERATING INCOME AS ADJUSTED**
12 **UNDER PRESENT RATES?**

13 A. As reflected on WP-1 Operating Income, the Company's adjusted net operating
14 income after taxes at present rates is \$2,975,280.

15 **Q. HAVE ADJUSTMENTS BEEN MADE TO THE COMPANY'S OPERATING**
16 **REVENUE AND EXPENSES?**

17 A. Yes. As seen on Direct Exhibit WP-1 Operating Income Adjustments, Columns (b)-
18 (t), pro forma adjustments have been made to test period revenues and operating
19 expenses including: an ISRS Revenue Reconciliation Adjustment, Rate Case
20 Expense, Energy Efficiency Regulatory Asset Amortization Expense, Depreciation
21 Expense, Dues and Memberships, Advertising, Property Taxes, Uncollectible
22 Expense and Health Care Expenses.

23 **Q. PLEASE EXPLAIN THE ADJUSTMENT AS OUTLINED IN WP ADJ 19 ISRS**
24 **RECONCILIATION TO OPERATING REVENUE FOR THE**

1 **INFRASTRUCURE SYSTEM REPLACEMENT SURCHARGE (“ISRS”)**
2 **RECONCILIATION?**

3 A. The Company’s existing ISRS was established in Case Nos. GO-2015-0350 and GO-
4 2016-0206. The Company calculated the amount of ISRS revenue it has earned from
5 its customers during the test year. This amount was compared to the authorized
6 recovery balances in Case Nos. GO-2015-0350 and GO-2016-0206 and the difference
7 between the two amounts represent the adjustment reflected on WP ADJ 19 ISRS
8 Reconciliation Adjustment. Furthermore, in accordance with the ISRS Statutes, the
9 Company’s ISRS will be zeroed out and rolled into rate base amounts which are
10 being requested in this case.

11 **Q. PLEASE DESCRIBE THE ADJUSTMENT AS OUTLINED IN WP ADJ 7**
12 **RATE CASE EXPENSES?**

13 A. Liberty Utilities estimates that it will spend approximately \$974,000 to prepare, file
14 and litigate this proceeding. The Company currently anticipates that it will file its
15 next rate case not sooner than three years from now, and thus proposes to amortize
16 the total rate case expense over three years. Accordingly, Liberty Utilities has
17 included an adjustment to Operating Expense of \$324,524. Of course, the Company
18 may recover only the *actual* rate case expense incurred, so the Commission’s final
19 order in this case should allow for the recovery of actual rate case expense, as
20 determined through the appropriate filings following briefing of the case.

21 **Q. PLEASE DESCRIBE THE ADJUSTMENT AS OUTLINED IN WP ADJ 8**
22 **ENERGY EFFICIENCY?**

23 A. Liberty Utilities made an adjustment to amortization expense to reflect the continued
24 amortization expense for the Energy Efficiency Regulatory Asset which was

1 established in Rate Case GR-2014-0152. The amortization expense is adjusted to
2 reflect the known and measurable balance of the asset through March 31, 2018 our
3 anticipated “true-up” period. This adjustment is reflected on Direct Exhibit WP-1
4 Operating Income, column (g).

5 **Q. PLEASE EXPLAIN THE ADJUSTMENTS AS OUTLINED IN WP ADJ 9**
6 **DEPRECIATION RATE CHANGE?**

7 A. As stipulated in the Revised Second Partial Stipulation and Agreement dated
8 September 10, 2014 the Company agreed to present a full and complete detailed
9 depreciation study. To comply with this stipulation the Company contracted with
10 Alliance Consulting to conduct a depreciation study. The details of the study are
11 addressed by Liberty Utility witness, Mr. Dane Watson. The impact of the
12 depreciation study recommended revised rates. Once these revised rates are applied
13 to our test year end plant balances it results in an increase to depreciation expense of
14 \$1,289,637, as shown on Direct Exhibit WP-1 Operating Income Adjustments,
15 Column (h).

16 **Q. DID THE COMPANY MAKE ANY ADDITIONAL ADJUSTMENTS TO**
17 **DEPRECIATION EXPENSE?**

18 A. Yes. In addition to the above adjustment the Company included an additional
19 adjustment to depreciation expense as it relates to the pro forma plant additions which
20 are to be placed in service by March 31, 2018. The Company calculated the
21 depreciation expense adjustment utilizing the depreciation rates proposed in the
22 Depreciation study supplied in this case. These adjustments resulted in an increase to
23 depreciation expense of \$553,977 as detailed on Direct Exhibit WP-1 Operating
24 Income Adjustment, line 9 columns (b)- (e).

1 **Q. PLEASE EXPLAIN THE ADJUSTMENT OUTLINED IN WP ADJ 15**
2 **MISCELLANEOUS ADJSUTMENTS FOR DUES & MEMBERSHIP**
3 **EXPENSE?**

4 A. The Company excluded as an adjustment from the Revenue Requirement calculation
5 dues & membership expenses that were deemed unrecoverable from the customers in
6 the Missouri jurisdictions. The adjustment amounted to a reduction of operating
7 expense of \$1,111 on Direct Exhibit WP-1 Operating Income Adjustments, Column
8 (k).

9 **Q. DID THE COMPANY HAVE ANY ADDITIONAL EXPENSES THAT**
10 **SHOULD BE EXCLUDED FROM THE REVENUE REQUIREMENT?**

11 A. Yes. The Company adjusted advertising expense for the cost of advertising that was
12 deemed unrecoverable from the customers in the Missouri jurisdictions. The
13 adjustment amounted to a reduction of operating expense of \$2,465 on Direct Exhibit
14 WP-1 Operating Income, Column (l).

15 **Q. WHY DID THE COMPANY MAKE AN ADJUSTMENT WP ADJ 13 FOR**
16 **PROPERTY TAX EXPENSE?**

17 A. The Company determined that the amount included in test year for property tax is not
18 reflective of a normal test year due to a large adjustment for a tax entry pertaining to
19 the allocation of assessed tax on Shared Services Property. This tax issue occurred in
20 December 2016. However, the Company does not anticipate incurring this increased
21 expense going forward.

22 **Q. WAS THERE ANY ADDITIONAL ADJUSTMENT MADE TO PROPERTY**
23 **TAX EXPENSE?**

1 A. Yes. The adjustment to Property Tax Expense also reflects the increase in anticipated
2 assessed valuations due to continued capital expenditures placed in service during
3 2017. The total adjustment to Property Tax Expense after the combined effects of the
4 normalized property tax and the increase in assessed valuations results in a reduction
5 to operating expense of \$22,657. This adjustment is detailed on Direct Exhibit WP-1
6 Operating Income Adjustment, Column (m).

7 **Q. WHY DID THE COMPANY ADJUST UNCOLLECTIBLE EXPENSE AS**
8 **OUTLINED IN WP ADJ 16 BAD DEBT EXPENSE?**

9 A. The Company believes the balance in the uncollectible expense account in the test
10 year to be lower than a typical test year. In third quarter 2016 the Accounting
11 Department aligned their Allowance for Uncollectible Expense with the Company
12 policy on this matter. This alignment resulted in an artificially low uncollectible
13 expense balance for the test year.

14 **Q. WHAT APPROACH DID THE COMPANY UTILIZE TO ADJUST**
15 **UNCOLLECTIBLE EXPENSE?**

16 A. The Company calculated uncollectible expense as a percentage of average revenue
17 using the prior three years of data (excluding test year). The average percentage of
18 uncollectible expense was then multiplied by test year normalized revenue to
19 calculate the test year adjusted uncollectible expense. The difference between the
20 calculated adjusted balance and our test year balance represents the Company's
21 adjustment to uncollectible expense. This resulted in an increase to expense of
22 \$188,907 on Direct Exhibit WP-1 Operating Income Adjustments, Column (r).

23 **Q. ARE THERE ANY ADDITIONAL ADJUSTMENTS RELATED TO**
24 **OPERATING EXPENSES?**

1 A. Yes. The Company reflected a derivative property tax adjustment related to pro
2 forma plant additions. The Company utilized a property tax rate calculated as a
3 percentage of adjusted property tax expense for test year as a total of net plant. This
4 adjustment resulted in an increase to expense of \$140,441 as detailed on WP-1
5 Operating Income Adjustment, Line 10 Columns (b) thru (e).

6 **Q. PLEASE EXPLAIN THE ADJUSTMENT AS OUTLINED IN WP ADJ 18**
7 **HEALTH CARE EXPENSE?**

8 A. Due to the continued increase in Health Care Expense for our employees Liberty
9 Utilities adjusted the balance of Employee Health Care. The adjustment reflects a
10 percentage of increase on current test year balances using a year over year trend
11 analysis. In addition, the Company anticipates signing 2018 Employee Health
12 Insurance Contracts in fourth quarter 2017. The contract will be effective January 1,
13 2018 within the “true-up” period. This adjustment is detailed on Direct Exhibit WP-1
14 Operating Income Adjustment, Column (s).

15 **Q. PLEASE EXPLAIN WHY THE ABOVE ADJUSTMENTS SHOULD BE**
16 **INCLUDED IN THE REVENUE REQUIREMENT CALCULATION AND**
17 **SUBSEQUENTLY INCLUDED IN CUSTOMER BASE RATES?**

18 A. The Company believes all of the adjustments outlined above are reasonable and
19 measurable and serve to properly reflect the most accurate balances of cost of service
20 which will allow Liberty Utilities to continue our pursuit of providing a customer
21 service experience that focuses on safety and reliability.

22 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

23 A. Yes.

