BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Liberty Utilities (Midstates Natural Gas) Corp.'s Purchased Gas Adjustment Tariff Filing	)))	Case No. GR-2022-0128

RESPONSE TO COMMISSION ORDER

COMES NOW Liberty Utilities (Midstates Natural Gas) Corp. ("Liberty"), and for its Response to Commission Order, respectfully states as follows to the Missouri Public Service Commission ("Commission"):

1. Liberty submitted its Purchased Gas Adjustment ("PGA") Actual Cost Adjustment ("ACA") filing for the 2020-2021 period in this case on November 4, 2021. This filing revised the ACA rates based upon Liberty's calculations of its ACA account balance.

2. On December 9, 2022, the Staff of the Commission ("Staff") filed a recommendation and memorandum regarding its review of Liberty's 2020-2021 ACA filing. On December 13, 2022, the Commission issued its *Order Directing Response*, directing Liberty to respond to Staff's recommendations by January 9, 2023.

3. As detailed in the memorandum attached hereto, Liberty accepts Staff's analysis and recommendations.

WHEREFORE, Liberty submits this Response to Commission Order and requests such relief as is just and proper under the circumstances.

Respectfully submitted,

/s/ Diana C. Carter
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CERTIFICATE OF SERVICE

I hereby certify that the above document was filed in EFIS on this 9th day of January, 2023, with a copy sent to all counsel of record.

/s/ Diana C. Carter

<u>2020-2021 PGA-ACA GR-2022-0128</u>

I. BILLED REVENUE AND ACTUAL GAS COSTS

ACA Balances

Staff's report and analysis noted the beginning ACA balances reported by Liberty did not include adjustments ordered in Case No. GR-2021-0101 (2019-2020 ACA period). Therefore, Staff revised the Company's beginning balances to reflect changes agreed upon in that case. Liberty agrees with this revision. The adjusted ACA balances ordered in Case No. GR-2021-0101 is noted below:

All Areas:	Company Filed Balance 8/31/2020	Staff Adjustments	Staff Proposed Balances 8/31/2020
NEMO Area			
Demand ACA	$(35,082)	$(20,912)	$(55,993)
Commodity ACA	$(2,169,783)	$(40,302)	$(2,210,084)
SEMO Area			
Demand ACA	$1,899,814	$0	$1,899,814
Commodity ACA	$(5,322,799)	$(113)	$(5,322,912)
WEMO Area			
Demand ACA	$(522)	$7,733	$7,211
Commodity ACA	$100,704	$53,481	$154,184
Kirksville Area			
Demand ACA	$511,325	$8,130	$519,456
Commodity ACA	($1,741,283)	$(8,171)	$(1,749,454)

Billed Revenues

Staff found as a result of testing and revenue reconciliation that Exhibit II-B Recoveries of the ACA workbook referenced inaccurate Demand and Commodity rates resulting in recommended the below referenced revenue reclassification between Demand and Commodity for NEMO, WEMO, and Kirksville service areas. Kirksville was also found to have excluded $133 of aggregation revenues. Furthermore, Staff recommends Liberty ensure that all supporting summary schedules are agreed to the ACA workbooks prior to submission.

Revenue Adjustments by Service Area			
NEMO	Reported	Corrected	(Under)/ Overstated
Demand	($1,309,808)	($1,680,983)	($371,175)
Commodity	($1,986,371)	($1,615,196)	$371,175
WEMO			
Demand	($207,390)	($219,097)	($11,707)
Commodity	($988,888)	($977,181)	$11,707
Kirksville			
Demand	($1,033,192)	($1,045,517)	($12,325)
Commodity	($378,420)	($366,228)	$12,192

The Company agrees with these findings and recommendations.

Natural Gas Costs

Staff reviewed invoices for all natural gas purchases made during the review period and reconciled invoiced rates to gas supply contracts and other sources such as First of Month (FOM) pricing and pipeline tariffs. Staff adjusted hedging gains/losses to agree with remittances/invoices provided and re-allocated across all service areas based on gross, first of month volumes. Staff also noted inconsistencies in the Company's scheduling fees due to selected pipeline rates moving from monthly to daily rates without a corresponding revision to the scheduling fee calculation. Staff adjusted Liberty's natural gas costs to account for the underbilled scheduling fees. The Gas Cost adjustments by Service area is outlined below. The Company accepts Staff's analysis and recommendations regarding natural gas costs. Furthermore, Liberty agrees with Staff's recommendation to review scheduling fees and rebill transportation customers as needed.

Gas Cost Adjustments by Service Area			
	Reported	Corrected	Under/(Overstated)
NEMO			
Demand	$2,151,022	$2,151,022	$0

Commodity	$5,147,280	$5,120,983	$(26,297)
SEMO			
Demand	$4,488,120	$4,488,120	$0
Commodity	$9,585,608	$9,381,352	$(204,256)
WEMO			
Demand	$188,276	$188,276	$(0)
Commodity	$4,027,013	$4,028,055	$1,042
Kirksville			
Demand	$1,405,968	$1,405,968	$0
Commodity	$70,477	$52,100	$(18,377)

Imbalance/Cash Outs

During Staff's analysis it recalculated and compared imbalance/cash out calculations to the ACA as a result of the Liberty issued Operational Flow Orders ("OFO") during Winter Storm Uri. Staff calculations indicate that Liberty did not adhere to Liberty's approved tariff sheets by excluding the OFO charge of $25 per Dth which resulted in an understatement of revenues in the amount of $165,100 in the SEMO Service Area and $10,950 in the NEMO Service Area. The Company accepts this recommendation.

Carrying (Interest) Costs

Due to the adjustments recommended by Staff which impact billed revenues and/or the natural gas cost they also recommend an applicable adjustment to the interest computed on the average of the accumulated beginning and ending monthly over/under recoveries. Outlined below are Staff's Carrying (Interest) Costs adjustments. The Company accepts this recommendation.

Carrying (Interest) Cost Adjustments by Service Area			
	Reported	Corrected	Under/(Overstated)
NEMO			
Demand	$3,945	$1,320	$(2,625)
Commodity	$(6,423)	$(4,825)	$1,598
SEMO			
Demand	$17,882	$17,882	$0
Commodity	$(25,129)	$(26,569)	$(1,440)

WEMO			
Demand	$(332)	$(309)	$24
Commodity	$22,280	$23,032	$752
Kirksville			
Demand	$8,077	$8,097	$20
Commodity	$(23,001)	$24,179	$(1,179)

Board of Directors Minutes

During an on-site review of confidential documents, Staff viewed copies of slides presented at the Company's 2021 2nd Quarter Regional Quarterly Board Meeting. One slide covering internal controls over financial reporting noted observations that could be assessed as deficiencies for the 2020 calendar year. Staff recommends the Company provide an update on the status and resolution of the three (3) deficiencies noted for Liberty Midstates across its jurisdictions. The Company notes these deficiencies were not related to the PGA or ACA, were nonrecurring, and were resolved during the 2020 calendar year. The detail and resolution of the deficiencies will be made available to Staff at their request.

II. RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

As noted at page 7 of 12 of the Staff Memorandum, "Staff has no proposed financial adjustments for the 2019-2020 ACA period related to reliability analysis and gas supply planning." However, Staff provided other comments and recommendations on specific Reliability and Gas Supply Planning that are outlined below.

Reserve Margins

In prior ACA cases, Staff noted issues related to reserve margin in certain service areas. As a result of these issues Staff recommends the Company "continue to monitor and address transportation needs for its various service areas." The Company accepts this recommendation.

Transportation Customers and School Aggregation

In Staff's review they compared the monthly imbalances of school aggregation pools to other transportation customers. Staff indicates School pools tend to be less in balance than firm transportation pools. Therefore, Staff recommends that "Liberty review its school aggregation provisions to assure that they properly incentivize school aggregation pool operators to balance use and deliveries." Liberty agrees with this recommendation.

III. HEDGING

Staff reviews the prudence of the Company's hedging decision-making based on what the Company reasonably knew, or reasonably could have known, at the time it made its hedging decisions. In Staff's report it notes that Liberty "has improved its hedge planning practices with its consideration of additional financial instruments in addition to swaps." Staff made no financial adjustments related to hedging. However, Staff recommends the following related to the Company hedging plan:

- Continually monitor and be aware of any significant changes in natural gas supply and demand fundamentals over time
- Continue to assess and document the effectiveness of its hedges for the 2021-2022 ACA and beyond, including determining the consistency of hedging implementation with the Company's plan, as well as, analyzing outcomes and potential improvements for the future hedging plan and implementation.
- The Company evaluate whether the hedging plan for each of the four systems has operational implications for warm and cold weather conditions.
- The Company continue to monitor the market movements diligently, employ disciplined (triggered primarily by the passage of time) as well as discretionary (hedge decisions

influenced by the Company's view of favorable pricing environments) approaches in its hedging practices, and look into the possibility of expanding its gas portfolio to include physical as well as financial hedges, in additions to storage, that more closely track physical risk.

Liberty accepts these recommendations. In addition, the Company regularly meets with Staff to review its hedging plans and provides information to allow Staff to assess the effectiveness of the Company's plans and will continue to do so.

IV. WINTER STORM URI

Staff examined documentation to analyze the prudency of the Company's actions and decisions related to Winter Storm Uri in February of 2021 including natural gas purchases, storage utilization, and hedging. Based on this examination, Staff did not recommend any adjustments to the Company's ACA balances.

V. LIBERTY'S RESPONSE TO ACA ACCOUNT BALANCE RECOMMENDATIONS

Liberty accepts the ACA balances recommended by Staff. The Company agrees to incorporate the (over)/under-recovered ending ACA balances proposed by Staff below, as of August 31, 2021.

All Areas:	Company Filed Balance 8/31/21	Staff Adjustments*	Staff Proposed Balances 8/31/21
NEMO Area			
Demand ACA	$ 810,077	$ (394,711)	$ 415,366
Commodity ACA	$ 984,703	$ 306,174	$ 1,290,877
SEMO Area			
Demand ACA	$ 1,687,362	$ 0	$ 1,687,362
Commodity ACA	$ 903,916	$ (205,809)	$ 698,107
WEMO Area			
Demand ACA	$ (19,968)	$ (3,950)	$ (23,918)
Commodity ACA	$ 3,161,108	$ 66,981	$ 3,228,089
Kirksville Area			
Demand ACA	$ 892,179	$ (4,176)	$ 888,003
Commodity ACA	$ (2,072,227)	$ (15,535)	$ (2,087,762)

* Reconciliation of Staff Adjustments by ACA Period			
NEMO	2019-2020	2020-2021	Total Adjustment
Demand	($20,912)	($373,799)	($394,711)
Commodity	($40,302)	$346,476	$306,174
SEMO			
Demand	$0	$0	$0
Commodity	($113)	($205,696)	($205,809)
WEMO			
Demand	$7,733	($11,683)	($3,950)
Commodity	$53,481	$13,500	$66,981
Kirksville			
Demand	$8,130	($12,306)	($4,176)
Commodity	($8,171)	($7,364)	($15,535)