

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

In the Matter of Liberty Utilities (Midstates)
Natural Gas) Corp.’s Purchased Gas) Case No. GR-2019-0123
Adjustment Tariff Filing)

RESPONSE TO STAFF RECOMMENDATION AND COMMISSION ORDER

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

1. On December 10, 2019, the Staff of the Commission (“Staff”) filed its recommendation and memorandum regarding Liberty Utilities’ 2017-2018 Actual Cost Adjustment (“ACA”) filing. Staff did not propose any financial adjustments to the Company’s ACA balances, but Staff offered non-financial recommendations regarding various aspects of the Company’s operations.

2. Also on December 10, 2019, the Commission issued its *Order Directing Response*, directing Liberty Utilities to respond to Staff’s recommendations by January 24, 2020.

3. On page eight of Staff’s memorandum, Staff sets forth a table regarding the ACA balances for the SEMO, Kirksville, WEMO, and NEMO service areas and recommends that the Commission issue an order requiring Liberty Utilities to incorporate the (over)/under-recovered ending ACA balances contained in Staff’s proposed balances 8/31/18 column. Liberty Utilities accepts the ACA balances recommended by Staff.

4. The Company generally accepts Staff’s non-financial recommendations as well, as set forth below.

Billed Revenue and Actual Gas Costs

5. As indicated on page four of Staff's memorandum, Staff proposed no prudence disallowances related to this section of Staff's recommendation for this ACA period. Liberty Utilities agrees with and accepts Staff's analysis regarding Billed Revenue and Actual Gas Costs.

Reliability Analysis and Gas Supply Planning

6. As noted at page five of Staff's memorandum, Staff proposed no financial adjustments for the 2017-2018 ACA period related to reliability analysis and gas supply Planning. Staff, however, raised a concern with regard to reserve margins and stated that Staff is monitoring reserve margin issues in the Liberty Utilities service areas and anticipates addressing those issues in future reports to the Commission.

7. Liberty Utilities remains dedicated to maintaining appropriate reserve margins in all of its service areas. The Company provides updates on its design days, the methods and calculations supporting them, and the associated reserve margins in each ACA docket and annually files its design studies with the Commission. Upon completion of the design day studies, the Company takes actions to ensure positive reserve margins are maintained.

8. The Company's method to calculate its design day demand is regularly communicated to Staff. Design days are determined using the coldest days experienced in each service area within the past 30 years. Liberty Utilities' design methodology includes further risk protection by adding an additional statistical contingency to the calculated design day demand. In other words, the Company's methodology uses a regression model to calculate the design day demand that is based on the coldest day experienced in the past 30 years, and then adds approximately 5% to the regression model results. Should capacity equal this design day demand, there would be no reserve margin.

9. The Company understands that Staff prefers that Missouri gas companies maintain a positive reserve margin, as demonstrated by Staff's recommendation. The Company interprets Staff's recommendation in this docket to target a reserve margin above 1.8%, at a minimum, and where practical and economic for customers to ensure reliable supply. The Company's design day methods are identical to those used by Liberty Utilities in other states, but the Company understands that the desired "reserve margins" may vary by state. Liberty Utilities does not have full awareness of the design day methods used by other Missouri LDCs, nor does it know what is "typically targeted by Missouri LDCs."

10. It was the Company's prior understanding that the regular filings of design day material were adequately reporting the reserve margins of the Company. Based on the prior agreement and Staff's recommendation in this docket, however, the Company prepared a report on its reserve margins (attached as Exhibit A-Public and Exhibit A-Confidential). The Company's latest forecasts for winter 2019/2020 maintain positive reserve margins in each of the three areas identified.

11. Liberty Utilities will continue to share its studies each year with Staff, to continue to ensure safe, reliable service is maintained to its customers. Lastly, Liberty Utilities has been communicating with Staff to understand its analysis and comments on the weather risks and demand probabilities and will continue to do so.

Hedging

12. Staff proposed no financial adjustments related to hedging. On page seven of Staff's memorandum, however, Staff recommends that Liberty Utilities "continually monitor and be aware of any significant changes in natural gas supply and demand fundamentals over time." Staff also recommends that the Company "continue to assess and document the effectiveness

of its hedges for the 2018-2019 ACA and beyond,” “evaluate whether the hedging plan for each of the four systems has operational implications for warm and cold weather conditions,” and continue to monitor the market movements diligently, employ disciplined and discretionary approaches in its hedging practices, and look into the possibility of expanding its gas portfolio.

13. Liberty Utilities accepts these recommendations. 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 Liberty Utilities will continue to do so.

WHEREFORE, Liberty Utilities submits this Response to Staff Recommendation and Commission Order. Liberty Utilities 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 23rd day of January, 2020, with notice of the same sent to all counsel of record.

/s/ Diana C. Carter

Liberty Utilities (Midstates Natural Gas) Corp.
Report on Reserve Margins
Case Nos. GR-2018-0077 and GR-2019-0123

With regard to reserve margins, at pages 3-4 of the Staff Memorandum in Case No. GR-2018-0077, Staff states as follows:

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Staff recommends that Liberty submit a report on its plans to address projected low reserve margins in these areas: Jackson, Kirksville and SEMO. The plan should be submitted with or before Liberty’s 2018-2019 ACA filing in the fall of 2019 and filed in Case No. GR-2019-0123, the 2017-2018 ACA case. Liberty should address these issues as part of the report:

- the risk of curtailment or cuts in these areas including the probability of such events, the number and types of customers that might be affected, estimated duration and the potential costs to Liberty and its customers,
 - trends in demand including customer growth, types of customers and gas use patterns,
 - current and potential future supply, storage and transportation of gas either through expansion of current contracts or through new sources, including summaries of communications with current and potential suppliers, asset manager, pipelines and other vendors,
 - other steps Liberty intends to take to mitigate risk including reducing demand, increasing efficiency, distribution system improvements and other actions to reduce risk,
 - a summary of Liberty’s management and decision-making process for prioritizing and selecting actions it may implement, and
 - timeframes in which it might implement planned actions.
1. The risk of curtailment or cuts in the Jackson MO, Kirksville MO, and SEMO areas including the probability of such events, the number and types of customers that might be affected, estimated duration and the potential costs to Liberty and its customers.

Liberty Utilities (Midstates Natural Gas) Corp. (“Liberty Utilities” or the “Company”) considers the risk of supply curtailment or cuts, and the probability of such events, in the Jackson MO, Kirksville MO and SEMO service areas, to be remote, as discussed in the Company’s response to Staff data request 61 in Case No. GR-2018-0077:

Prior to the beginning of each winter season (November 1-March 31) Liberty uses a peak forecast design day study to evaluate customer capacity needs at historic cold temperatures. The design day study is a mature process having been used successfully for years and is approved by the MO Commission. The peak design day study calculation is updated each year to include the most recent winter's weather. Therefore the study results reflect recent weather patterns and customer baseload and heating increment demand. In addition the peak forecast design day study file includes an analysis of weather-normalized forecast volumes versus actual volumes of the coldest days of the winter to validate the accuracy of the forecasts.

2. Trends in demand including customer growth, types of customers and gas use patterns.

Liberty Utilities analyzes trends in demand including customer growth and types of customers and gas pattern use by analysis of information provided in the following data requests in Case No. GR-2018-0077:

MPSC DR0052 Customer Count: Year on year review of customer counts.

MPSC DR0061 Peak Forecasted Design Day Study:

-Year on year comparison of forecast normal volumes.

-Review of weather-normalized forecast volumes versus actual volumes.

DR0051 – Gas Procurement Reports and Routine analyses prepared during the ACA year.

3. Current and potential future supply, storage and transportation of gas either through expansion of current contracts or through new sources, including summaries of communications with current and potential suppliers, asset manager, pipelines and other vendors.

Liberty Utilities analyzes current and potential future supply, storage and transportation of gas either through expansion of current contracts or through new sources. The Company regularly communicates with existing suppliers, asset managers, and storage and transportation providers. Liberty Utilities provided considerable documentation on its processes and arrangements with gas supply vendors in response to the following data requests in Case No. GR-2018-0077:

DR0045 – Gas Supply Manual, Request for Proposal (RFP) – Process defined on pages 7-11.

DR0046 – NGPL Jackson MO RFP

DR0046 – Tetco and Ozark SEMO RFP

DR0046 – ANR Kirksville MO RFP

DR0047 – 2016-2017, Spring/Fall RFP Bids and Evaluation of 2016-2017 Spring/Fall RFP Bids

DR0048 – LDC Best Practices for Gas Supply Purchases

DR0049 – Modification to RFP processes

DR0050 – NGPL Jackson MO, AMA Transaction Confirmation with ** _____
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DR0050 – NGPL Jackson MO, AMA Transaction Confirmation with ** _____
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DR0050 – Tetco SEMO MO AMA Transaction Confirmation with ** _____
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DR0050 – ANR Kirksville MO AMA Transaction Confirmation with ** _____
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DR0051 – Gas Procurement Reports and Routine analyses prepared during the ACA year

4. Other steps Liberty intends to take to mitigate risk including reducing demand, increasing efficiency, distribution system improvements and other actions to reduce risk.

As noted in the response to item 1, Liberty Utilities considers this risk to be remote. Liberty Utilities mitigates current and future risk by understanding customer demand and following its well-documented supply planning and purchasing practices. Liberty Utilities diligently reviews and tracks supply data that comes from the Missouri service territory and collaborates with Liberty Gas Control and the Liberty MO field service team to proactively address customer demand as well any pipeline or distribution engineering challenges. The processes that Liberty Utilities uses to manage demand risk are mature and are documented in Case No. GR-2018-0077.

5. A summary of Liberty’s management and decision-making process for prioritizing and selecting actions it may implement, and timeframes in which it might implement planned actions.

Liberty Utilities has noted in the responses above the management and decision-making process for prioritizing and selecting actions it implements. Liberty Utilities appreciates Staff’s comments and recommendations on service area reserve margins. Liberty Utilities has incorporated the Staff comments into each subsequent winter capacity review. For example, in the 2019-2020 winter capacity review, Liberty Utilities has maintained positive reserve margins for the service areas identified by Staff and has managed the reserve margin either by

management of large customers ** _____** or through adding a peaking service ** _____
 _____**.

Liberty Utilities would like to note that, despite obtaining a peaking service to supplement available capacity to the area, the ** _____

_____** Liberty believes it obtained a reasonable level of peaking service that would ensure reliability to this area at a reasonable cost for its customers.

The reserve margins for the three areas for winter 2019-2020 are provided in the table below (confidential in its entirety). As discussed, a positive margin was maintained in all areas for the winter 2019-2020 period. Please recall that Liberty Utilities’ design demands are based on the coldest days experienced in each area over the past 30 years. In other words, the design day demand is already based on a very rigorous weather condition. ** _____

_____** Liberty attempts to do so where economically reasonable and where a likely risk may be present.

For the current winter, Liberty obtained a peaking service prior to the winter for the ** _____** areas to maintain a positive reserve margin. ** _____

Service Area	Peak Forecast Design Day 2019-2020 –Dth	2019-2020 Capacity - Dth	Reserve Margin- Dth	Reserve Margin-%

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