BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Liberty Utilities	)	
(Midstates Natural Gas) Corp. d/b/a	)	
Liberty Utilities' Tariff Revisions Designed	)	
To Implement a General Rate Increase	)	Case No. GR-2014-0152
For Natural Gas Service in the Missouri	)	
Service Areas of the Company.	)	

PARTIAL STIPULATION AND AGREEMENT AS TO CERTAIN ISSUES

COME NOW Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities ("Liberty Utilities" or "Company"), the Staff of the Missouri Public Service Commission ("Staff"), and the Office of the Public Counsel ("OPC") (collectively "Signatories") and state the following for this Partial Stipulation and Agreement ("Stipulation") to resolve certain issues in this case.

A. SETTLEMENT OF ISSUES WITH A REVENUE REQUIREMENT IMPACT

1. The Signatories agree to settle all of the following issues:

- Advertising
- Transition/Transaction Costs
- Utilities Costs
- Postage Expense
- Outside Services
- Dues & Donations
- Miscellaneous Expense
- Lease Expense
- Injuries and Damages
- PSC Assessment
- Payroll Tax
- Property Tax
- Energy Efficiency Amortization
- Legal Expense
- Relocation Expense

- Corporate Costs
- Bad Debt
- 401(k)
- Incentive Compensation
- Storage gas
- ADIT
- Customer Advances
- Customer Deposits
- Rate Base offset
- Prepaids
- Energy Efficiency regulatory asset
- Cash Working Capital
- Depreciation rates, except for the issue listed in Paragraph 17 below
- Revenues, Customer Growth/Decline, and Weather Normalization (except for the issue listed in Paragraph 17 below)

2. **Rate Case Expense** – The Signatories agree to a three year normalization period. The Signatories agree that additional rate case expense incurred of $37,768 will be included in rates. Additional amounts incurred will be reviewed for possible inclusion at future stages of this rate case pending the outcome of settlement negotiations and/or litigation. If a settlement is reached on all issues, the cutoff for inclusion of rate case expense shall be two weeks after the filing of the Stipulation and Agreement resolving all issues, or two weeks after the presentation of the Stipulation and Agreement at an on-the-record hearing, whichever is later. If the case continues to litigation, the cutoff for inclusion of the rate case expense shall be two weeks after the filing of the final post-hearing briefs. The Company and Staff will jointly file a late-filed exhibit identifying the final amount of rate case expenses to be included in revenue requirement.

3. **Pensions/OPEBs**—

A. The purpose of this section of this Stipulation and Agreement is to establish the ratemaking treatment applicable to pension costs and Other Post-Employment Benefits ("OPEBs") costs for Liberty Utilities. The funds provided for pensions and OPEBs in the cost of service are designated specifically for reasonable and prudently incurred pensions and OPEBs costs by Liberty Utilities, and will be fully tracked and reconciled in future proceedings. The mechanism of recovery through rates for both pensions and OPEB costs is a tracking mechanism. The overall goal of this tracking mechanism is to ensure exact recovery of pension and OPEBs costs by Liberty Utilities. For purposes of this section of the Stipulation and Agreement, it is assumed that the amount in rates is the exact amount collected by the Company, and the amount of amortizations are also the exact amounts collected by the Company or credited to customers. Amounts recovered in rates that are more than actual payments creates overfunding by customers and shall be returned to customers subsequently in the ratemaking process. Amounts recovered in rates that are less than actual payments creates underfunding by customers and shall be recovered by the Company subsequently in the ratemaking process. To accomplish the objectives above, the Signatories agree to the following provisions.

B. Beginning with the effective date of rates in this case, Liberty Utilities shall be authorized to record as a regulatory asset/liability, as appropriate, the difference between the pension expense used in setting rates ($154,350; amount stated prior to application of transfers to construction) and the pension expense as recorded for financial reporting purposes as determined in accordance with Generally Accepted Accounting Principles pursuant to Accounting Standards Codification (ASC) 715 (previously FAS 87 and FAS 88, or such standard as the FASB may issue to supercede, amend, or interpret the existing standards), and such difference shall be recovered from or returned to customers in future rates. The difference between the amount of pension expense included in Liberty Utilities' rates and the amount funded by Liberty Utilities shall be included in the Company's rate base in future proceedings.

C. Liberty Utilities commits to contributing amounts to the pension fund equal to expense as calculated pursuant to ASC 715, but substituting the ratemaking amortization method for gains and losses (as described in Paragraph 3.I.) for the financial reporting method used by the actuary, subject to the following conditions:

(1). Such funding shall be equal to the greater of the annual ERISA minimum or the annual pension expense as determined above, subject to the provisions of Paragraph 3.I.

(2). In the event that the contribution amount determined pursuant to the above is insufficient to avoid the benefit restrictions specified for at-risk plans pursuant to the Pension Protection Act of 2006, such contribution may be increased to a level sufficient to avoid such restrictions.

(3). In the event that the contribution amount determined pursuant to the above is insufficient to avoid any Pension Benefit Guaranty Corporation (PBGC) variable premiums, such contribution may be increased to a level sufficient to avoid such premiums.

D. Additional contributions made subject to these conditions will receive regulatory treatment as provided in paragraph B. Liberty Utilities shall inform Staff and OPC of contributions of additional amounts to its pension trust funds pursuant to this Paragraph in a timely manner. Such contributions will be examined in the context of future rate cases and a determination will be made at that time as to the appropriate and proper level recognized for ratemaking purposes.

E. The Signatories further agree that the gains and losses for all pension lump-sum settlements shall be calculated only to the minimum extent permitted by ASC 715 (formerly FAS 88).

F. Beginning with the effective date of rates in this case, Liberty Utilities shall be authorized to record as a regulatory asset/liability, as appropriate, the difference between the Other Post-Employment Benefits (OPEBs) expense used in setting rates ($474,068; amount stated prior to application of transfers to construction) and the OPEB expense as recorded for financial reporting purposes as determined in accordance with Generally Accepted Accounting Principles pursuant to Accounting Standards Codification (ASC) 715 (previously FAS 106, or such standard as the FASB may issue to supersede, amend, or interpret the existing standards), and such difference shall be recovered from or returned to customers in future rates. The difference between the amount of OPEB expense included in Liberty Utilities' rates and the amount funded by Liberty Utilities shall be included in the Company's rate base in future proceedings.

G. Liberty Utilities commits to contributing amounts to its independent external funding mechanisms equal to OPEB expense as calculated pursuant to ASC 715, but substituting the ratemaking amortization method for gains and losses (as described in Paragraph 3.I) for the financial reporting method used by the actuary.

H. The provisions of ASC 715 (previously FAS 158) require certain adjustments to the prepaid pension asset/OPEB asset and/or accrued liability with a corresponding adjustment to equity (i.e., decreases/increases to Other Comprehensive Income). The Company will be allowed to maintain a regulatory asset/liability to offset any adjustments that would otherwise be recorded to equity caused by applying the provisions of ASC 715 or any other FASB statement or procedure that requires accounting adjustments to equity due to funded status or other attributes of the pension or OPEB plans. The parties acknowledge that the adjustments described in this paragraph shall not increase or decrease rate base.

I. For ratemaking purposes, the component of pension and OPEB expense related to amortization of previously unrecognized gains/losses shall be determined as follows: The amortization each year for regulatory and funding purposes shall be based on a balance at the beginning of the year consisting of the following:

20% of the gains or losses incurred in the first year prior, plus

40% of the gains or losses incurred in the second year prior, plus

60% of the gains or losses incurred in the third year prior, plus

80% of the gains or losses incurred in the fourth year prior, plus

100% of the gains or losses incurred in the fifth year prior

The balance calculated pursuant to the above shall be subject to five year amortization. This procedure prohibits the use of the corridor approach for ratemaking purposes.

J. In the event that the ASC 715 OPEB expense becomes negative, the Company shall set up a regulatory liability to offset the negative expense. In future years, when such expense becomes positive again, the amount in rates will remain zero until the prepaid asset, if any, which was created by the negative expense, is reduced to zero. The regulatory liability will be reduced by the same rate as the prepaid asset. The regulatory liability is a non-cash item and should be excluded from rate base in future years.

4. **Capitalized Depreciation--**Liberty Utilities agrees to adopt the depreciation capitalization method described in Paragraph 9.C.3. of Staff's Direct Report (page 74), effective as of August 1, 2012. On the effective date of rates in this case, the Company's plant and depreciation reserve balances shall be adjusted as if such method had been in place beginning August 1, 2012 with offsetting entries to depreciation expense.

5. **Rate Base Offset--**The Company agrees to continue to include a rate base offset on its books and records for ratemaking purposes as set out in the Stipulation and Agreement in Case No. GM-2012-0037, Section II, A., 2. The included amount of the rate base offset at March 31, 2014, is $13,616,667.

6. **Statement of Rate Base**—The Signatories agree that, for purposes of this Stipulation, the Company's rate base as of March 31, 2014, is as follows:

Total Company: $ 87,683,162, NEMO: $38,926,259, SEMO: $42,695,859, WEMO: $6,061,024.

B. <u>SETTLEMENT OF ISSUES WITH NO REVENUE REQUIREMENT IMPACT</u>

7. **Lead/Lag Study** -- The Company agrees to perform a lead/lag study and provide such results as part of its next rate case filing.

8. **Cost Allocation Manual ("CAM")** —The Company agrees to meet with Staff and OPC after this rate case concludes to discuss provision of additional documentation and any possible revisions to its annual CAM and Affiliated Transactions filing, and the Signatories agree to remove the issue from this rate case.

9. **Compressed Natural Gas ("CNG")**—The Company agrees to withdraw its proposed CNG tariff from this rate case, and the Staff and OPC agree to meet with Company after this rate case concludes to discuss the possibility of future implementation of a tariff related to a CNG service and related issues.

10. **Main Extension Tariff--**The Company agrees to withdraw its request to revise its Main Extension Tariff.

11. **Transportation Service Tariffs--**The Signatories agree to Staff's proposed tariff language for transportation service and Missouri School Transportation Service Tariffs (includes

all proposed tariff changes on pages 7-12 of Staff's Class Cost of Service and Rate Design Report).

12. **Natural Gas Transportation Service Tariff--**The Signatories agree to Staff's Natural Gas Transportation Service Tariff language (includes all proposed tariff changes on pages 12-14 of Staff's Class Cost of Service and Rate Design Report).

13. **Previous Stipulation--**Company agrees to continued adherence to the Stipulation and Agreement in Case No. GM-2012-0037, unless any provisions contained therein have been superseded or otherwise modified by the Commission.

14. **Revenue Records and Customer Counts--**Company agrees to keep the revenue records for usage and customer counts for each district and class by bill cycle for Liberty Utilities' next rate case.

15. **Infrastructure System Replacement Surcharge ("ISRS")--**The Signatories agree that the ISRS should be reset to $0 at conclusion of the rate case.

C. REVENUE REQUIREMENT

16. The Signatories agree that for purposes of this Stipulation and to settle all issues other than the remaining issues listed below (prior to any future agreements among the parties and/or resolution of such remaining issues by the Commission), the revenue requirement increase or (decrease) for the Company associated with this Stipulation will be as follows:

District Name	Revenue Requirement
Northeast Missouri (NEMO)	$941,936
Southeast Missouri (SEMO)	($1,063,063)
Western Missouri (WEMO)	$123,846
Total Company	**$2,719**

D. REMAINING ISSUES TO BE RESOLVED

17. The following remaining issues have not been resolved by this Stipulation and will be litigated before the Commission, pending further settlement discussions:

- Cost of Capital – Capital Structure, Cost of Debt, Return on Equity
  Value: $2,512,670
- Depreciation—Rates to be utilized for corporate plant accounts 399.1, 399.3, 399.4 and 399.5
  Value: $1,060,358
- Cost of Removal value: $218,617
- Special Contracts (SourceGas, Noranda, and General Mills (contracts, revenues and tariff language)
  Value: **__________**
- ISRS (OPC issue – value to be determined)
- Rate Design and Related Issues
- Energy Efficiency and Weatherization Program—Division of Energy

E. GENERAL PROVISIONS OF STIPULATION

18. Contingent upon Commission approval of this Stipulation without modification, the Signatories hereby stipulate to the admission into the evidentiary record of the pre-filed testimony and schedules of their witnesses on the issues that are resolved by this Stipulation without the necessity of those witnesses taking the stand unless called by the Commission to answer questions.

19. This Stipulation is being entered into solely for the purpose of settling the issues/adjustments in this case explicitly set forth above. Unless otherwise explicitly provided herein, none of the Signatories to this Stipulation shall be deemed to have approved or acquiesced in any ratemaking or procedural principle, including, without limitation, any cost of

service methodology or determination, method of cost determination or cost allocation or revenue-related methodology. Except as explicitly provided herein, none of the Signatories shall be prejudiced or bound in any manner by the terms of this Stipulation in this or any other proceeding, other than a proceeding to enforce the terms of this Stipulation, regardless of whether this Stipulation is approved.

20. This Stipulation is a negotiated settlement. Except as specified herein, other than in a proceeding to enforce the terms of this Stipulation, the Signatories to this Stipulation shall not be prejudiced, bound by, or in any way affected by the terms of this Stipulation: (a) in any future proceeding; (b) in any proceeding currently pending under a separate docket; and/or (c) in this proceeding should the Commission decide not to approve this Stipulation, or in any way condition its approval of same.

21. This Stipulation has resulted from extensive negotiations among the Signatories, and the terms hereof are interdependent. If the Commission does not approve this Stipulation unconditionally and without modification, then this Stipulation shall be void and no Signatory shall be bound by any of the agreements or provisions hereof.

22. This Stipulation embodies the entirety of the agreements between the Signatories in this case on the issues addressed herein, and may be modified by the Signatories only by a written amendment executed by all of the Signatories.

23. If approved and adopted by the Commission, this Stipulation shall constitute a binding agreement among the Signatories. The Signatories shall cooperate in defending the validity and enforceability of this Stipulation and the operation of this Stipulation according to its terms.

24. If the Commission does not approve this Stipulation without condition or

modification, and notwithstanding the provision herein that it shall become void, (1) neither this Stipulation nor any matters associated with its consideration by the Commission shall be considered or argued to be a waiver of the rights that any Signatory has for a decision in accordance with RSMo. §536.080 or Article V, Section 18 of the Missouri Constitution, and (2) the Signatories shall retain all procedural and due process rights as fully as though this Stipulation had not been presented for approval, and any suggestions, memoranda, testimony, or exhibits that have been offered or received in support of this Stipulation shall become privileged as reflecting the substantive content of settlement discussions and shall be stricken from and not be considered as part of the administrative or evidentiary record before the Commission for any purpose whatsoever.

25. If the Commission accepts the specific terms of this Stipulation without condition or modification, except for the remaining issues contained in paragraph 17, the Signatories each waive their respective rights to call, examine and cross-examine witnesses pursuant to §536.070(2) RSMo., present oral argument and written briefs pursuant to RSMo. §536.080.1, their respective rights to the reading of the transcript by the Commission pursuant to RSMo. §536.080.2, their respective rights to seek rehearing pursuant to RSMo. §386.500, and their respective rights to judicial review pursuant to RSMo. §386.510. These waivers apply only to a Commission order approving this Stipulation without condition or modification issued in this proceeding and only to the issues that are resolved hereby. These waivers do not apply to any matters raised in any prior or subsequent Commission proceeding nor any matters not explicitly resolved by this Stipulation.

F. <u>REPRESENTATION REGARDING NON-SIGNATORY PARTIES</u>

26. Counsel for the Missouri Division of Energy ("DOE") and Noranda Aluminum,

Inc. ("Noranda") have authorized the Signatories to represent in this Stipulation that DOE and Noranda do not oppose this Stipulation and do not request a hearing thereon.

WHEREFORE, for the foregoing reasons, the Signatories respectfully request that the Commission issue an Order approving the terms and conditions of this partial stipulation and agreement.

Respectfully submitted,

/s/ Jeffery A. Keevil

Jeffrey A. Keevil, MBN 33825
Senior Counsel
Staff Counsel's Office
Missouri Public Service Commission
200 Madison Street, Suite 800
P.O. Box 360
Jefferson City, MO 65102
573/526-4887
573/751-9285 (fax)
Jeff.Keevil@psc.mo.gov

ATTORNEY FOR STAFF

/s/ Marc Poston

Marc Poston, MBN 45722
Deputy Public Counsel
Office of the Public Counsel
200 Madison Street, Suite 650
P.O. Box 2230
Jefferson City, MO 65102
573/751-5558
573/751-5562 (fax)
marc.poston@ded.mo.gov

ATTORNEY FOR PUBLIC COUNSEL

/s/ James M. Fischer

James M. Fischer, MBN 27543
Larry W. Dority, MBN 25617
FISCHER & DORITY, P.C.
101 Madison Street, Suite 400
Jefferson City, MO 65101
Telephone: (573) 636-6758
Facsimile : (573) 636-0383
jfischerpc@aol.com
lwdority@sprintmail.com

ATTORNEYS FOR LIBERTY UTILITIES
(MIDSTATES NATURAL GAS) CORP.
D/B/A LIBERTY UTILITIES

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 12th day of August, 2014.

/s/ James M. Fischer

James M. Fischer