

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

In the Matter of Liberty Utilities (Missouri) File No. WR-2018-0170
Water) LLC’s Application for a Rate Increase.) SR-2018-0171

**POSITION STATEMENT OF
LIBERTY UTILITIES (MISSOURI WATER) LLC**

COMES NOW Liberty Utilities (Missouri Water) LLC (“Liberty Utilities” or “Company”), by and through counsel, and, states its positions on the issues jointly identified on August 10, 2018:

1. Cost of Service – What is the appropriate cost of service for Liberty Utilities?
 - a. Return on equity – What is the appropriate return on equity for Liberty Utilities?

By application of the quarterly growth discounted cash flow (DCF) model, the capital asset pricing model (CAPM) and the risk premium model, the Company’s revenue requirement should be determined by use of a return on equity (ROE) capital of 10.25% which is within a range of 9.90% to 10.35% representing the range of equity investors’ required return for utilities having similar risk characteristics. This is consistent with the ROE proposed in the Liberty Utilities (Midstates Natural Gas) Corp.’s rate case (File No. GR-2018-0013). (Schwartz Dir.; Magee Surreb.)

- b. Capital structure – What is the appropriate capital structure for Liberty Utilities?

The Commission should employ Liberty Utilities’ recommended capital structure in this case of 53 percent equity and 47 percent long-term debt which is consistent with the cost of capital proposed in the Liberty Utilities (Midstates Natural Gas) Corp.’s rate case (File No. GR-2018-0013), because gas utilities and water utilities generally have similar risk

profiles. This capital structure appropriately reflects the cost of capital actually deployed for the purpose of providing safe and adequate service to the Company's water and wastewater companies. (Schwartz, Dir.; Magee Surreb.)

If the Commission were to adopt the Company's recommended cost of capital in this case (both items 1.a. and 1.b., above) it would represent an approximate \$60,000 increase to Staff's revenue requirement. (Schwartz, Dir. and Surreb.)

- c. Rate case expense – What is the appropriate amount of rate case expense and amortization period?

Liberty Utilities has incurred, and continues to incur, out-of-pocket expenses to process this rate case. These costs are necessary to identify and address matters in dispute and to present them for resolution by the Commission. The Company should be allowed to recover reasonable and prudent expenses incurred at least through September 11, 2018, when reply briefs are currently scheduled to be filed and a majority of the costs will be captured. Liberty Utilities should be given a reasonable amount of time after that date to submit invoices for qualifying expenses.

The Company has committed in its pre-filed testimony and in the filed Non-Unanimous Stipulation and Agreement to file another rate case within two years after the implementation of new rates in this case, so rate case expense as determined by the Commission should be normalized over a period of 2 years for purposes of setting rates in this case. (Schwartz, Dir., Reb. and Surreb.)

2. Customer Service Issues – Has Liberty Utilities adequately responded to customer service issues?

The Company believes that it has adequately responded to, or is in the process of responding to, customer service issues.

A number of comments have been submitted on the page reserved for this case on the Commission's electronic filing and information system (EFIS) concerning service quality measures. As a consequence, the Company's operations staff was tasked to review them and to identify matters already addressed and to address any new or outstanding issues. Liberty Utilities believes that several of the issues identified had already been addressed prior to the submission of its rate increase request and that customers have been contacted directly about their concerns. Most of the taste/smell comments are derivative of the Company adding chlorination systems to prevent bacterial contamination as a public health precaution. Concerning complaints about low pressure, Liberty Utilities is employing monitoring technology and is currently installing generators to pressurized systems to provide water service during power outages. (Schwartz, Dir.)

With respect to the testimony of Mr. Allsbury for Ozark Mountain Condominium Association (OMCA), the incidents have been, or in the process of being, resolved and the water system is currently repaired and providing reliable service. Additionally, Liberty Utilities has terminated its contract with its outside contractor and has taken operational responsibilities in-house to provide for better accountability and efficiency. (Schwartz, Reb.; Roos, Reb.)

A number of service-related issues were brought up by customers at one or more of the local public hearings in Pineville, Branson and Pacific. Working with its customers and Staff, the Company is actively looking into practices and customer communications that it can employ to be more informative and responsive to those concerns. Additionally, Liberty

Utilities has entered into a Stipulation and Agreement with Staff that includes a requirement that the Company take several specific actions to improve service quality to its water and wastewater customers. (Schwartz, Surreb.)

3. Rate Design – What is the proper rate design for the various Liberty Utilities water and sewer systems?
 - a. Phase-In of Rates – Should rates for Holiday Hills, Ozark Mountain, and Timber Creek service areas be phased-in over a period of five years? Should carrying costs be allowed to be recovered if rates are phased-in?

New rates in this case should not be phased-in for Holiday Hills, Ozark Mountain and Timber Creek service areas. Silverleaf /Orange Lake witness Stannard’s proposal would have the Company earning less than its revenue requirement for several years and, additionally, would not compensate it for the carrying costs associated with deferred revenues. Also, it will cause rather significant yearly changes and swings in customer bills which will only serve to cause more confusion and frustration than will a one-time transition to the new rate schedules based on the standard practice for implementing customer and commodity charges. (Schwartz, Surreb.)

Additionally, Mr. Stannard’s rate phase-in proposal is not authorized by law. The Commission only has statutory authority to order a rate increase phase-in for electric utilities caused by an unusually large increase in rate base. See, 393.155 RSMo. There is no similar enabling legislation for water or wastewater utilities.

- b. Customer Charge – What is the appropriate customer charge?

Generally, the Company does not contest the method employed by Staff to determine the appropriate customer charge for its various water and wastewater systems, however, those charges will need to be re-calculated depending on how the Commission

ultimately rules on the outstanding revenue requirement issues (*See, §1, supra*), whether the Commission approves the rate consolidation as to the KMB water and wastewater systems agreed-to by Staff and the Company or whether the Commission adopts and approves the terms of the Non-Unanimous Stipulation and Agreement by and between the Company and Staff filed on August 3, 2018.

c. Commodity Charge – What is the appropriate commodity charge?

Generally, the Company does not contest the method employed by Staff to determine the appropriate commodity charge for its various water and wastewater systems, however, those charges will need to be re-calculated depending on how the Commission ultimately rules on the outstanding revenue requirement issues (*See, §1, supra*), whether it approves the rate consolidation as to the KMB water and wastewater systems agreed-to by Staff and the Company or whether the Commission adopts and approves the terms of the Non-Unanimous Stipulation and Agreement by and between the Company and Staff filed on August 3, 2018.

4. Silver Leaf / Orange Lake Exemption – Should Silverleaf / Orange Lake be exempted from consideration in a subsequent rate case?

Silverleaf/Orange Lake should not be excluded from Liberty Utilities' next rate case. Liberty Utilities can only achieve fair and reasonable rates for all of its various systems and customers if all revenues, expenses and investments are reviewed at the same time and to ensure the proper allocation of the costs of shared services and corporate overhead allocations. Additionally, the Company's longer term objective is to continue to move in the direction of rate consolidation of its water and sewer systems to achieve a more

efficient management of costs for these smaller systems, so Silverleaf/Orange Lake need to be a part of that process. Finally, the issue is premature and should not be decided at this time. (Schwartz, Surreb.)

Respectfully submitted,

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CERTIFICATE OF SERVICE

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