

MEMORANDUM

TO: Missouri Public Service Commission
Official Case, Case No. GR-2019-0123
Liberty Utilities (Midstates Natural Gas) Corp.

FROM: Catherine F. Lucia, Utility Regulatory Auditor IV – Procurement Analysis
Kwang Y. Choe, PhD, Regulatory Economist - Procurement Analysis
Keenan B. Patterson, PE, Regulatory Engineer - Procurement Analysis

/s/ David M. Sommerer 12-10-19 /s/ Karen Bretz 12-10-19
Project Coordinator / Date Staff Counsel's Office / Date

SUBJECT: Staff Recommendation in Case GR-2019-0123, Liberty Utilities
(Midstates Natural Gas) Corp. 2017-2018 Actual Cost Adjustment Filing

DATE: December 10, 2019

Procurement Analysis Staff reviewed Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty Utilities' ("Liberty" or "Company") 2017-2018 Actual Cost Adjustment (ACA) filing. This filing was made on November 2, 2018 for rates to become effective on December 1, 2018 in all areas served by Liberty in Missouri. This filing was docketed as Case No. GR-2019-0123.

This memorandum is organized into four sections. Each section contains detailed explanations of Staff's concerns and recommendations. The four sections are:

Section No.	Topic	Page
I	Billed Revenue and Actual Gas Costs	3
II	Reliability Analysis and Gas Supply Planning	4
III	Hedging	5
IV	Recommendations	7

Staff's analysis consisted of:

1. A review and evaluation of the Company's billed revenues and its natural gas costs for the period of September 1, 2017 to August 31, 2018. A comparison of billed revenue recovery with actual costs will yield either an over-recovery or under-recovery of the ACA costs.

2. A reliability analysis of the Company's estimated peak day requirements and capacity levels to meet those requirements.
3. An examination of the Company's gas purchasing practices to determine the prudence of the Company's purchasing decisions.
4. A hedging review to determine the reasonableness of the Company's hedging plans for this ACA period.

Liberty's Missouri service territory

Liberty's systems in Missouri are grouped into three geographic areas: Northeast, Southeast and West. For gas cost recovery, there are four PGA/ACA rate divisions, three of which are made up of the three geographic divisions. A fourth PGA division, Kirksville, is separate from the Northeast area. A more detailed description, with the associated interstate pipelines serving these areas, follows:

The West area (WEMO) includes Butler, which is served by Panhandle Eastern Pipe Line Company (PEPL), and Stateline (also known as Rich-Hill/Hume), which is served by Southern Star Central Gas Pipeline, Inc. (SSCGP). The West area serves an average of 3,842 firm sales customers.

The Northeast area (NEMO) includes Hannibal-Canton, Bowling Green, and Palmyra served by PEPL. The NEMO area serves an average of 12,879 firm sales customers.

The Kirksville area, served by ANR Pipeline Company (ANR), serves an average of 5,260 firm sales customers.

The Southeast area (SEMO) includes Jackson, served by Natural Gas Pipeline Co. of America (NGPL); Piedmont, served by Mississippi River Transmission Corp. (MRT); and the Southeast Missouri Integrated system, served by Texas Eastern Transmission, LP (TETCO) and Ozark Gas Transmission, LLC. The Southeast area also includes the former Neelyville/Quilin service area. Together they serve an average of 31,263 firm sales customers.

The total customer count for all divisions is an average of 53,245 firm sales customers.

STAFF TECHNICAL REPORT AND ANALYSIS

I. BILLED REVENUE AND ACTUAL GAS COSTS

Staff discovered two errors in the Recommendations section of its prior ACA period’s Memorandum in Case No. GR-2019-0077 (the 2016-2017 ACA period).

The first is a transposition error of the Company Filed Balance 8/31/17 for the Demand ACA in the Kirksville Area. Below are the balances Staff filed for the Kirksville Area:

All Areas:¹	Company Filed Balance 8/31/17	Staff Adjustments²	Staff Proposed Balances 8/31/17
Kirksville Area			
Demand ACA	\$ 721,471.24	\$ (1,952.65) (A)	\$ 719,464.59
Commodity ACA	\$ (593,625.56)	\$ (5,576.05) (A)	\$ (599,201.61)

The Demand ACA amount of \$721,**471**.24 should have been recorded as \$721,**417**.24. Staff Proposed Balances 8/31/17 Demand ACA under-recovery amount of \$719,464.59, which includes Staff Adjustments, is accurate. This transposition error had a zero dollar impact on the rate and does not require further action; therefore, it is provided only for accuracy of records. The Commodity ACA line in the above table is correct.

Second, for the SEMO Area, Staff noted a significant difference between what the Commission ordered as the approved Commodity ACA balances in Case No. GR-2018-0077 (the 2016-2017 ACA period) and the Company’s beginning Commodity ACA balances for that area for Case No. GR-2019-0123 (the 2017-2018 ACA period). In general, the ending approved balance in the previous ACA case is the beginning ACA balance or starting point for the current ACA case.

Upon further inspection, Staff noted that the amount cited as the Company Filed Balance 8/31/17 for the SEMO Commodity ACA in the Commission’s January 30, 2019 “Order Establishing Ending ACA Balances” did not reflect the true ending balance that the Company filed in Case No.

¹ Missouri Public Service Commission, “Order Establishing Ending ACA Balances,” Case No. GR-2018-0077, (issued Jan. 30, 2019, effective Feb. 9, 2019) P. 2.

² Missouri Public Service Commission, “Order Establishing Ending ACA Balances,” Case No. GR-2017-0089 (issued Jan. 31, 2018, effective Feb. 10, 2018) P. 2.

GR-2018-0077. This was due to a Staff addition error that resulted in a misstatement of both the Company-filed and Staff’s proposed ending Commodity ACA balance for the SEMO Area in Case No. GR-2018-0077.

Below are the balances Staff filed for the SEMO Area:

All Areas: ³	Company Filed Balance 8/31/17	Staff Adjustments ⁴	Staff Proposed Balances 8/31/17
SEMO Area			
Demand ACA	\$ 2,001,688.86	\$ 75,209.70 (A)	\$ 2,076,898.56
Commodity ACA	\$ (696,964.15)	\$ (2,512.77) (A) \$ (10,627.63) (A)	\$ (710,104.55)

The Commodity ACA amount of \$(696,964.15) should have been \$(1,721,938.00). The Commodity ACA amount with the addition of Staff Adjustments should have been an over-recovery of \$(1,735,078.40), rather than an over-recovery of \$(710,104.55). The Demand ACA line in the above table is correct.

The Company filed the correct beginning balance for the SEMO Commodity ACA in its 2017-2018 ACA filing in Case No. GR-2019-0123, and it does not require further adjustment. By using the Company’s correct beginning Commodity ACA balance for the SEMO Area, the misreported balance from the previous ACA is corrected in the current ACA.

No rate impact has occurred, to date, because the Company’s filing in Case No. GR-2019-0123 reflects the correct SEMO Commodity ACA balance from the previous ACA case (Case No. GR-2018-0077).

Staff proposes no prudence disallowances related to this section of Staff’s recommendation for this ACA period.

³ Missouri Public Service Commission, “Order Establishing Ending ACA Balances,” Case No. GR-2018-0077, (issued Jan. 30, 2019, effective Feb. 9, 2019) P. 2.

⁴ Missouri Public Service Commission, “Order Establishing Ending ACA Balances,” Case No. GR-2017-0089 (issued Jan. 31, 2018, effective Feb. 10, 2018) P. 2.

_____ ** Staff recommends the Company continually monitor and be aware of any significant changes in natural gas supply and demand fundamentals over time.

Staff also recommends the Company continue to assess and document the effectiveness of its hedges for the 2018-2019 ACA and beyond. The analysis should include, but not be limited to, whether the hedging implementation was consistent with the hedging plan, identifying the benefits/costs based on the outcomes from the hedging strategy, and thus evaluating any potential improvements on the future hedging plan and its implementation. Additionally, Staff recommends the Company evaluate whether the hedging plan for each of the four systems has operational implications for warm and cold weather conditions. Finally, Staff recommends the Company continue to monitor the market movements diligently, employ *disciplined* (triggered primarily by the passage of time) as well as *discretionary* (hedge decision influenced by the Company's view of favorable pricing environments) approaches in its hedging practices, ** _____

_____ . **

An example of a physical hedge would be a fixed price gas supply contract.

The following table provides a summary, by service area, of how much gas was hedged as a percentage of normal required winter volumes:

**

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

**

There is no financial adjustment related to hedging.

IV. RECOMMENDATIONS

Staff recommends that the Commission issue an order requiring Liberty to:

1. Incorporate the (over)/under-recovered ending ACA balances in Staff’s Proposed Balances 8/31/18 column of the following table:

All Areas:	Company Filed Balance 8/31/18	Staff Adjustments	Staff Proposed Balances 8/31/18
<u>SEMO Area</u>			
Demand ACA	\$ 226,856.00	\$ 00.00	\$ 226,856.00
Commodity ACA	\$ (1,629,151.00)	\$ 00.00	\$ (1,629,151.00)
<u>Kirksville Area</u>			
Demand ACA	\$ (267,448.00)	\$ 00.00	\$ (267,448.00)
Commodity ACA	\$ (923,932.00)	\$ 00.00	\$ (923,932.00)
<u>WEMO Area</u>			
Demand ACA	\$ (18,022.00)	\$ 00.00	\$ (18,022.00)
Commodity ACA	\$ (32,181.00)	\$ 00.00	\$ (32,181.00)
<u>NEMO Area</u>			
Demand ACA	\$ (349,143.00)	\$ 00.00	\$ (349,143.00)
Commodity ACA	\$ (745,790.00)	\$ 00.00	\$ (745,790.00)

A positive ACA balance indicates an under-collection that must be recovered from customers. A negative ACA balance indicates an over-recovery that must be returned to customers.

2. Respond to Staff’s analysis in Section I – Billed Revenue and Actual Gas Costs.
3. Respond to Staff’s recommendations in Section III – Hedging.
4. Respond to recommendations included herein within 45 days.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Liberty Utilities)
(Midstates Natural Gas) Corp,) Case No. GR-2019-0123
d/b/a Liberty Utilities' Purchased Gas)
Adjustment Tariff Filing)

AFFIDAVIT OF KWANG Y. CHOE, PhD

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW KWANG Y. CHOE, PhD and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation* in Memorandum form; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.



KWANG Y. CHOE, PhD

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 10th day of December 2019.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2020
Commission Number: 12412070



Notary Public

