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Witness: Jill Schwartz
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Sponsoring Party: Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities
Case No. GR-2018-0013
Date Testimony Prepared: April 2018

Before the Public Service Commission
of the State of Missouri

Rebuttal Testimony

of

Jill Schwartz

On behalf of

Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Utilities

April 2018

Liberty Utilities

REBUTTAL TESTIMONY
OF
JILL SCHWARTZ
LIBERTY UTILITIES
BEFORE THE
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I. WITNESS IDENTIFICATION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jill Schwartz. My business address is 602 South Joplin Avenue, Joplin, Missouri.

Q. ARE YOU THE SAME JILL SCHWARTZ WHO PREVIOUSLY FILED DIRECT TESTIMONY IN THIS PROCEEDING ON BEHALF OF LIBERTY UTILITIES?

A. Yes, I previously submitted direct testimony on behalf of Liberty Utilities in this case.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. The purpose of my rebuttal testimony is three-fold. First, I will address the comments made by our customers at the local public hearings held in this case and provide the Company's perspective on what bearing we believe they should have on specific matters at issue in this proceeding. Second, I will provide a brief overview of the Company's rebuttal filing as it pertains to some of the more significant issues in this case. Finally, I will respond to a number of the recommendations made or positions taken by witnesses for the Staff of the

Missouri Public Service Commission ("Staff") and the Division of Energy ("DE") on a number of discrete issues. In terms of rate design, these include recommendations that have been made regarding rate consolidation, class cost of service allocations, inclining block rates and how these matters relate to the establishment of a weather normalization adjustment rider. With respect to revenue requirement and tariff issues, these include positions that have been taken by Staff in its Cost of Service Report ("COS Report") relating to a number of matters. Among others, these include incentive compensation costs, corporate allocations and the Company's cost allocation manual, rate inclusion for the Company's Hannibal shop, surveillance reporting, provisions to govern excess flow value replacements, and various rate base adjustments, among several others. Finally, I will address from a policy standpoint the Company's position on a number of the suggestions made by DE in its direct testimony in this proceeding.

Q. WILL SOME OF THESE ISSUES ALSO BE ADDRESSED BY OTHER COMPANY WITNESSES?

A. Yes, and I will identify who those witnesses are in my discussion of specific issues.

III. LOCAL PUBLIC HEARINGS

Q. DID YOU ATTEND EACH OF THE LOCAL PUBLIC HEARINGS HELD IN THIS CASE?

A. Yes, I attended all of the local public hearings, including those held in Butler, Sikeston, Jackson, Hannibal, and Kirksville, Missouri.

Q. DID OTHER REPRESENTATIVES OF THE COMPANY ALSO ATTEND?

A. Yes. Liberty Utilities views the local public hearings scheduled by the Commission not only as an important opportunity for our customers to express to the Commission whatever concerns they may have regarding the cost or quality of their utility service, but also an additional opportunity for our local employees and management to hear first-hand what customers have to say about these critical subjects. Accordingly, our operational, customer service and regulatory personnel also attended each of the hearings.

Q. WHAT IN YOUR VIEW WERE THE MAJOR TAKEAWAYS FROM THE TESTIMONY PROVIDED BY CUSTOMERS AT THE PUBLIC HEARINGS?

A. I think there were two major takeaways. First, I think the extraordinarily small number of customers who expressed concerns about either the quality or cost of the utility service they receive from Liberty Utilities reflects well on the degree to which the Company is meeting these critical needs. Over the course of the 5 public hearings that were held in the Company's Northeast ("NEMO"), Southeast ("SEMO") and Western ("WEMO") Districts in Missouri, a total of 16 customers testified out of an overall customer base of approximately 55,000 customers. While we recognize it is always important to be responsive to the concerns of our customers – no matter how many or how few may be expressing them – we believe this result should give the Commission a high level of comfort that the Company is fulfilling its public utility obligations in an exemplary way.

Q. WHAT IS THE SECOND MAJOR TAKEAWAY FROM THE PUBLIC HEARINGS?

A. I think it is important to note that nearly all of the customers who testified at the local public hearings did so at the two held in our SEMO district, at Sikeston and Jackson. We had one customer testify in WEMO and no customers testify at the public hearings held in the NEMO district.

Q. WHY DO YOU BELIEVE THERE WAS THIS DISPARITY IN PARTICIPATION?

A. I believe we had a larger, albeit still modest, turnout at the public hearings in the SEMO district for one reason, namely the customer impact resulting from our rate consolidation proposal. Under that proposal, rates and charges for the SEMO District would increase more than those for the other districts in order to achieve parity between all districts.

Q. HOW IS THE COMPANY RESPONDING TO THESE CONCERNS?

A. Although the Company continues to believe that rate consolidation is appropriate from both a fairness and cost of service perspective, it has carefully considered the comments made by customers at the SEMO public hearings, as well as the input received from Staff and other parties on this subject. As a result of this evaluation, the Company is agreeing in its rebuttal testimony to a number of modifications to its initial position. As discussed below, these steps include acceptance, in the context of any overall rate design solution, of the Commission's Staff's partial consolidation proposal – a step that will significantly mitigate the impact of consolidation by accomplishing it at a more gradual pace.

They also include the Company's agreement to various energy efficiency and low-income proposals that will provide supplemental assistance to customers in the SEMO district, as well as other districts, who are struggling to pay their utility bills. All in all, I believe these steps demonstrate both the value of public hearings in helping to shape regulatory policy in a constructive way and the commitment of Liberty Utilities to respond in a positive and concrete way to the concerns of its customers.

IV. OVERVIEW OF REBUTTAL TESTIMONY

Q. DO YOU HAVE ANY GENERAL OBSERVATONS REGARDING THE COMPANY'S REBUTTAL TESTIMONY?

A. Yes. The overall revenue requirement being recommended by the Commission Staff is disappointing in a number of significant respects, and our rebuttal testimony will address in detail why we believe a more reasonable and fair approach needs to be taken on key cost of service issues. At the same time, I believe our rebuttal testimony is also reflective of the generally constructive approach that the parties to this case have taken to address a number of other issues in a practical and fair way that makes sense for our customers and the Company. For example, in its direct case, the Staff recognized that it was appropriate to pursue a partial rate consolidation for the Company's three operating districts, but on a more gradual basis than that initially proposed by the Company in this case. In response, both my rebuttal testimony and that of Company witness Tim Lyons reflects the Company's willingness to accept this recommendation as part of an overall rate design solution that would phase in additional progress towards consolidation and also include the adoption of a decoupling mechanism similar to that proposed by the Company in the direct testimonies of Bob Hevert and Tim Lyons, or similar to that proposed by the Staff and approved by the Commission in the recent Spire rate cases. Our rebuttal testimony also reflects our general concurrence in the class cost of service and other rate design recommendations presented by the Staff, including our openness to studying the merits and feasibility of implementing in our next rate case an inclining block rate on a pilot project basis in our WEMO district.

Q. DO THESE RATE DESIGN ACCOMMODATIONS ALSO HELP TO ADDRESS SOME OF THE CONCERNS THAT WERE EXPRESSED AT THE LOCAL PUBLIC HEARINGS IN THIS CASE?

A. Yes, I believe they do. As I discussed in the section of my testimony that addresses the local public hearings held in this case, nearly all of the concerns expressed by customers related to the customer impacts of going to a full rate consolidation in the SEMO district, especially in terms of the increases in customer charges that would be necessary to accommodate a full rate consolidation all at once. I believe the Staff's proposal for a partial rate consolidation and the Company's concurrence in that proposal, subject to a gradual phase in, goes a long way towards addressing these concerns. As discussed in our rebuttal testimony, we also believe that approval of a decoupling mechanism in this case would provide the Company with additional tools and flexibility to mitigate customer charge increases in the future.

Q. ARE THERE OTHER ISSUES WHERE PROGRESS HAS BEEN MADE IN RESOLVING DIFFERENCES?

A. Yes. We have also made an effort to respond in a positive way to a number of other concerns raised by the Commission Staff relating to the ownership of the Company's Hannibal Shop, certain recommendations for tracking information relating to corporate allocations and other issues, and efforts to pass through to customers the financial benefits of the recent federal Tax Law, all of which will be addressed in our rebuttal testimony.

Q. IS THIS CONSTRUCTIVE APPROACH TO RESOLVING ISSUES ALSO REFLECTED IN THE COMPANY'S REBUTTAL TO THE TESTIMONY OF OTHER PARTIES?

A. Yes, I believe it is. For example, in its direct testimony, DE proposed a number of enhancements to the Company's energy efficiency, weatherization and low-income programs. DE has also proposed the establishment of a "red-tag" program that would help low-customers avoid an interruption of service by authorizing modest expenditure to fix or otherwise address a safety defect in the customer's natural gas equipment. We have given serious consideration to these suggestions and Company witness Nathaniel Hackney has addressed in his rebuttal testimony the Company's willingness to implement them on reasonable terms, which would include the adoption of a decoupling or weather normalization adjustment rider in this case.

Q. ARE THERE STILL AREAS WHERE DIFFERENCES REMAIN AMONG THE PARTIES?

A. Yes. And at this stage of the proceedings it can be expected that not all differences will have been resolved. The Company is committed to working hard to resolve these issues as well as this case progresses. For now, however, we believe there are certain areas where the positions currently taken by other parties are not reasonable or appropriate and, failing an agreement on those issues, should not be adopted by the Commission. Our rebuttal testimony on these issues can be summarized as follows:

ROE and Capital Structure

Company witness Keith Magee's rebuttal testimony addresses Staff's recommendation and analyses relating to the return on equity (ROE) and capital structure that should be approved by the Commission to establish rates in this case. Mr. Magee addresses why the Company's initial ROE recommendation in this case remains reasonable, particularly when considering more recent financial and market information that is now available since the Company filed its case in September of 2017. At the same time, Mr. Magee also explains that while Staff has proposed a fairly reasonable ROE of 10 percent in its direct case, the analysis Staff relied on to develop a significantly lower range of ROE's is not reasonable or appropriate and, consistent with Staff's own recommendation, should not be used to set an ROE in this case.

Perhaps most significantly, Mr. Magee explains why the Staff's use of an adjusted capital structure in this case – a structure that would produce an extremely low equity component of around 40 percent – is especially inappropriate. Specifically, Mr. Magee demonstrates why such a capital structure is inconsistent with the equity component previously approved for the Company for setting rates, radically below the equity components approved for the Company's peer utilities, and contrary to how the Company should be capitalized to carry out its public service obligations.

Depreciation

Company witnesses Charlie Evans and Dane Watson address in their rebuttal testimony the various recommendations that have been made by the Staff relating to certain depreciation issues. Among other matters, Mr. Evans explains why the Company's inclusion in its cost of service of capitalized depreciation for its building structures is fair and reasonable and should not be disallowed as suggested by the Staff.

Mr. Watson also explains in his rebuttal testimony why it is imperative to approve depreciation rates for the Company's meters that are based on shorter service lives than the approximately 40 years being proposed by Staff.

Finally, Company witness James Fallert will discuss why the depreciation rates applied by the Company to certain computer hardware and software was consistent with the Commission's determinations in our last rate case and why Staff proposed adjustment to the depreciation reserve relating to this issue is should therefore be rejected.

Taxes

Company witness James Fallert addresses the tax issues that have surfaced in this case. The Staff has proposed in its direct case full recognition of the revenue requirement reductions associated with the change in corporate tax rates resulting from the Tax Cuts and Jobs Act of 2017 (the Tax Act). As Mr. Fallert explains, the Company believes it is entirely appropriate to flow these tax benefits through to customers on a prospective basis once this case is concluded and will reflect these impacts in its updated filing.

The Company is not yet prepared, however, to recognize a reduction associated with its Accumulated Deferred Income Taxes or ADIT. Work remains to be done by the parties to calculate an agreed-upon allowance for this item. Assuming we can do that and establish reasonable safeguards to ensure that the approach will not result in a normalization violation with the ISRS, the Company will be willing to recognize that impact as well.

At the same time, as Mr. Tim Lyons also explains in his rebuttal testimony, this historic opportunity to flow-through federal tax benefits in this case also provides an opportunity and, we believe, an obligation to re-examine and adopt a new approach for recognizing the ongoing impact of local property tax increases that are occurring in this case and that, like the impacts of federal Tax Act, will occur in the future.

<u>Incentive Compensation</u>

In its COS Report, the Staff disallowed a portion of the incentive compensation paid by the Company to its management and union employees on the grounds that such compensation was based on financial or earnings-related goals. Since that time, the Staff has advised the Company that it will withdraw its adjustment for the incentive compensation that was paid to Union employees. While we appreciate that accommodation, the Company strongly believes that the incentive compensation disallowed for management employees because it was based on financial goals should also be restored. As I will explain in my rebuttal testimony, incentive compensation is widely used by most businesses today to provide additional incentives to employees so that they will perform in a way that benefits both the business and its customers. All of the incentive compensation metrics used by Liberty Utilities, including those related to financial measures, are likewise designed to benefit both customers and the utility alike.

Because of these favorable purposes and impacts (and the fact that the allowable base compensation levels paid by the Company would have to be higher absent such incentive compensation), we firmly believe these incentive compensation costs should be fully reflected in rates. We think this is especially true for Liberty Utilities, since the financial or earnings-based portion of its incentive compensation program for most employees is a relatively modest component (less than 20 percent) of its balanced scorecard for awarding such compensation – a factor that the Commission recognized in a previous Ameren case justifies the recovery of such costs.

Corporate Allocations/CAM/Affiliate Transactions

In its COS Report, the outside consultant engaged by the Staff for this case takes issue with the quality and timeliness of the information provided by the Company to support its allocation of various corporate support services from affiliate companies. He also proposes a disallowance of such costs in response to this alleged flaw, as well as other reasons such as the appropriate treatment of incentive compensation. Finally, he recommends that various changes be made to the Company's processes relating to corporate allocations to address these concerns in the future.

As I will discuss in my rebuttal testimony, Liberty Utilities and its affiliates are particularly sensitive to the need to allocate costs in a transparent and appropriate way given the large number of jurisdictions in which we operate. Contrary to Staff's assertions, we believe we have a robust system in place to ensure this happens, although it may not be the kind of system Staff's outside consultant would prefer. We also believe that the reasonableness of our allocations for corporate support services is confirmed by the fact that our Missouri customers are paying less for such services in the test year than they were in the prior year and the fact that Staff is attempting to capture an even larger share of these benefits through an inappropriate "annualization" of synergies achieved from our growth activities. As I will discuss in my rebuttal testimony, the Company is also willing to consider a number of the process recommendations made by Staff that pertain specifically to the Company's gas utility operations in Missouri.

At the same time, however, we believe that most of Staff's recommendations should be considered in the proceeding that has been established by the Commission to consider the development and approval of a Cost Allocation Manual ("CAM") that would apply to the electric, gas and water utilities own by the Company and its affiliates in Missouri. In short, we believe from an efficiency, effectiveness and fairness standpoint, it only makes sense to consider these allocation issues on the kind of coordinated and comprehensive basis afforded by the CAM proceeding.

V. RESPONSE TO SPECIFIC ISSUES

A. Rate Design/Class Cost of Service/Weather Rider

Q. WHAT IS YOUR UNDERSTANDING OF THE RECOMMENDATIONS BEING MADE BY THE STAFF RELATING TO CLASS COST OF SERVICE ALLOCATIONS AND RATE DESIGN?

A. As discussed in more detail by Company witness Tim Lyons, while there are some differences in the methodologies used by the Staff and Company to allocate the Company's cost of service between and within our rate classes, those differences are relatively modest. The same thing is true with respect to Staff's rate design recommendations. Given these similarities, the Company believes that the Staff's basic class cost of service and rate design recommendations generally provide an acceptable basis for resolving these issues in this case. The Company is also willing to adopt several of Staff's other rate design recommendations, but strongly believes that the proposals made by Staff need to be supplemented with the adoption of a decoupling mechanism or weather normalization adjustment rider for the Company's residential and small general service customer classes.

Q. WHAT ADDITIONAL RATE DESIGN RECOMMENDATIONS BY THE STAFF IS THE COMPANY WILLING TO AGREE TO IN THIS PROCEEDING?

A. The first involves Staff's proposal to implement a partial rate consolidation for the Company's three operating districts in this case. In its direct case, the Company had proposed to move to full rate consolidation for that would have equalized both customer and usage charges for customers in all three districts. The Company made this proposal for a number of reasons that remain valid today, including the fact that the cost of serving customers in each district is roughly equivalent and that achieving rate parity is therefore the most fair and reasonable goal for all customers. That said, we also recognize as I previously indicated in discussing the comments we received at the local public hearings, that customer impact considerations can play an appropriate role in determining the pace at which such consolidation is achieved. Given this consideration, the Company is agreeable for purposes of the rates established in this case to the partial rate consolidation approach being recommended by the Commission Staff.

Q. WHAT KIND OF PARTIAL RATE CONSOLIDATION IS THE STAFF PROPOSING?

A. As I understand it, the Staff is proposing to achieve rate parity in the usage charges applicable in each districts, but is also recommending that the customer charge for residential customers in the SEMO district be increased to $16 per month, rather than the $22 per month that would be required to make them equivalent to the residential customer charges proposed for our other two districts. We believe this is a reasonable first step in the direction of full rate consolidation, which can hopefully be achieved in the Company's next rate case, and should be approved by the Commission as part of an overall resolution of all rate design issues in this case.

Q. SHOULD ADDITIONAL STEPS BE TAKEN TOWARD THE GOAL OF FULL RATE CONSOLIDATION PRIOR TO THE COMPANY'S NEXT RATE CASE?

A. Yes, in the interests of making gradual but steady progress towards this goal, the Company recommends that the Commission approve additional, revenue-neutral, adjustments to the Company's base rates on an annual basis. Under this approach, the monthly residential customer charge for the SEMO district would be increased by $2 each year with corresponding reductions to residential usage charges in all districts in an amount sufficient to be revenue neutral to the Company. The ultimate goal would be to mitigate the impact of consolidation on SEMO customers by stretching it out over several years while still achieving rate parity by the Company's next rate case.

Q. WHAT IS THE SECOND STAFF RECOMMENDATION THAT YOU WOULD LIKE TO ADDRESS?

A. In its Class Cost of Service Report, the Staff has also proposed, as an alternative, that the Commission adopt an inclining block rate to be applicable to residential customers during the summer period.

Q. WHAT IS THE COMPANY'S POSITION REGARDING THIS RECOMMENDATION?

A. The Company has a number of concerns regarding the potential impact of implementing an inclining block rate. These include concerns relating to the potential impact of an inclining block rate on the recoverability of the Company's fixed costs, the potentially counterproductive message it sends to higher load factor customers that permit the Company to utilize its distribution system in the most effective way possible, and the interjection of additional complexity into the Company's billing processes. With these caveats, however, we would be open to exploring the potential development of a pilot program where an inclining block, summer rate for residential customers could be implemented on an experimental basis. Given its size, we believe the Company's WEMO District would be the most suitable candidate for this kind of pilot program. Because encouraging energy efficiency is one of the primary goals of such a rate structure, the Company would recommend that the development of such a rate be considered by the Company's Energy Efficiency Advisory Group with the goal of implementing such a pilot project in the Company's next rate case.

Q. DOES THE COMPANY BELIEVE THAT THE WEATHER NORMALIZATION ADJUSTMENT RIDER OR "WNAR" RECENTLY APPROVED BY THE COMMISSION IN THE SPIRE RATE CASES WOULD BE BENEFICIAL IN THIS CASE?

A. For the same reasons, which the Company recommended that the Commission approve its proposed VBA rider in the Company's direct filing, it believes that the weather normalization adjustment rider approved by the Commission would be beneficial in this case. As Company witnesses Robert Hevert and Tim Lyons explained in their direct testimony, the VBA rider is a symmetrical mechanism that protects both customers and the Company from the over-recovery or underrecover of relatively fixed distribution costs due to revenue variations resulting from weather and other factors. As they pointed out, these and other mechanisms are widely accepted and used in other regulatory jurisdictions to ensure that what customers pay for utility service is more aligned with the costs actually incurred to serve them and does not vary significantly due to factors that are largely beyond the control of the Company.

Q. WHY WOULD THE COMPANY NOW AGREE TO ADOPT A WNAR MECHANSIM IN PLACE OF THE VBA IT INITIALLY PROPOSED?

A. We understand that implementing a mechanism of this nature was thoroughly discussed and addressed by both the parties and the Commission in Spire Missouri's recent rate case proceeding, Case Nos. GR-2017-0215 and GR-2017-0216. We have read the Commission's Amended Report and Order from those cases carefully and respect the work and thought that the Commission has already put into this issue, including its assessment of what kind of mechanism is best from a policy perspective and most consistent with the statutory provision (Section 386.266.3) that authorizes them. We accordingly want to build on that work effort by pursuing a similar mechanism in this place. We also believe it is only appropriate to make such a mechanism available to other gas utilities and their customers now that one has been approved by the Commission for the largest gas utility in the state. The specific details of the specific WNAR tariff being proposed by the Company is addressed in the rebuttal testimony of Tim Lyons.

Q. WOULD THE COMPANY PROPOSE ANY CHANGES TO THE WNAR APPROVED IN THE SPIRE CASES?

A. Aside from reflecting weather and usage data specific to Liberty Utilities' operations, there is only one difference, namely the Company is proposing that the WNAR also be applied to its Small General Service classes.

Q. WHY IS IT APPROPRIATE TO APPLY THE WNAR TO THE COMPANY'S SMALL GENERAL SERVICE CLASSES WHEN THAT WAS NOT DONE IN THE APPROVING A WNAR FOR SPIRE?

A. Again, as discussed by Company witness Lyons, there were a number of factors that led the Commission to not extend the WNAR to Spire's small general service classes that are not present with Liberty Utilities. These included, among others, concerns over potential rate switching between Spire's small and large general service classes that might occur in light of the restructuring of those classes being effectuated in those case – a factor that might inappropriately distort what was being adjusted for through the WNAR. Such a consideration is not a factor with Liberty Utilities and does not provide any meaningful barrier to extending the WNAR to the Company's Small General Service classes as contemplated by the enabling statute for such mechanisms. Accordingly, we believe this one adjustment to the WNAR should be approved by the Commission.

B. <u>Incentive Compensation Costs</u>

Q. WHAT IS YOUR UNDERSTANDING OF THE RECOMMENDATIONS BEING MADE BY THE COMMISSION STAFF REGARDING THE

RECOVERY OF THE INCENTIVE COMPENSATION COSTS INCURRED BY THE COMPANY TO PROVIDE UTILITY SERVICE?

A. At pages 61 to 66 of its COS Report, the Staff addresses a number of the Company incentive compensation programs, and proposes that certain amounts be disallowed for each. These disallowances are all based on theory that any incentive compensation based on financial or earnings-related metrics should not be recoverable in rates. Based on this theory, the Staff proposes to disallow 18.75 percent of the annual incentive compensation paid to union employees under the Company's Variable Pay Plan or "VPP", 18.75 percent of the annual incentive compensation paid to non-management employees under the Shared Bonus Pool Plan or "SBP", and 18.75 percent of the annual incentive compensation paid to salaried management employees under the Short Term Incentive Plan or "STIP".

Q. DOES THE STAFF PROPOSE A LARGER PERCENTAGE REDUCTION FOR THE INCENTIVE COMPENSATION PAID TO MORE SENIOR MANAGEMENT EMPLOYEES?

A. Yes. The Staff proposes a larger disallowance of 75 percent of the incentive compensation awarded to senior management employees under the Long-Term Incentive Program or "STIP". Staff witnesses Dittmer also cites the incentive nature of the compensation paid to the top four executives of the Company's ultimate parent company as a factor supporting his proposed disallowance of 75 percent of their total compensation.

Q. HAS THE STAFF ALSO PROPOSED A DISALLOWANCE OF INCENTIVE COMPENSATION COSTS THAT HAVE PREVIOUSLY BEEN CAPITALIZED BY THE COMPANY?

A. Unfortunately, yes. At page 66 of its COS Report, the Staff proposes disallow an equivalent amount of incentive compensation that was capitalized from the March 2014 effective date of the Company's last rate case through the true-up period in this case.

Q. HAS THE STAFF ADVISED THE COMPANY THAT IT INTENDS TO MAKE CERTAIN ADJUSTMENTS TO THESE PROPOSED DISALLOWANCES?

A. Yes. In discussions subsequent to the filing of its direct case, the Staff indicated its intention to withdraw its adjustments relating to incentive compensation paid to the Company's VVP Program. We assume, although we have not discussed it specifically with Staff, that this means it would also eliminate from its proposed disallowance any capitalized incentive costs associated with the VVP Program. In any event, the Company reserves its right to address this issue in surrebuttal testimony should we be mistaken about Staff's intentions in this regard.

Q. DOES THE COMPANY AGREE WITH THE OTHER DISALLOWANCES PROPOSED BY STAFF WITH RESPECT TO THE REMAINING INCENTIVE COMPENSATION COSTS?

A. No. In fact, we strongly disagree with such disallowances on both a policy and fairness basis and recommend that they be rejected by the Commission.

Q. WHAT IS THE BASIS FOR THE COMPANY'S OBJECTION TO SUCH DISALLOWANCES?

A. There are a number of reasons why incentive compensation costs should be recoverable in the rates for utility service. First, it is important to keep in mind that incentive compensation plans of the kind offered by Liberty Utilities are a routine and widely-accepted mechanism for motivating employees to strive for excellence in whatever service, function, task or activity they are undertaking on behalf of the business and the customers it serves. In fact, it is a compensation element so widely-offered to employees in the modern business environment, that it has become a necessary part of overall compensation package necessary to retain and attractive employees, especially in the kind of challenging environment we have today for attracting talent.

Q. HAS THE COMMISSION ITSELF RECOGNIZED THE VALUE OF INCENTIVE COMPENSATION PLANS AS PART OF THE COMPENSATION OFFERED BY UTILITIES LIKE THE COMPANY?

A. Yes. To their credit, both the Commission and the Commission Staff have largely recognized the value of incentive compensation programs by recommending or approving that a significant portion of their associated costs be recovered in rates for service. In fact, Staff is making such a recommendation in this case for a significant portion of the costs incurred by the Company for its incentive compensation programs. The real dispute centers around those incentive compensation payments that are based on financial or earnings-related metrics. The Staff appears to believe that such costs should be automatically excluded from rates, while the Company believes that they are equally designed to benefit customers and should therefore be recoverable.

Q. HOW DOES INCENTIVE COMPENSATION BASED ON FINANCIAL OR EARNINGS-RELATED METRICS OR GOALS BENEFIT CUSTOMERS?

A. It is important to recognize that there are two aspects of utility service that are of paramount interest to customers – the quality of the utility service they receive and the cost of that service. By approving incentive compensation based on operational or service goals, the Commission has recognized that such incentive can benefit customers by improving the quality, timeliness or other customer-centric attributes of the service they receive. Customers also benefit, however, when employees respond positively to financially-based incentives. Whether that response results in increased revenues or decreased costs (and produces better earnings in the short-term) customers ultimately reap the benefits through lower rates when such increased revenues or reduced costs are captured in a rate case.

Q. ARE THERE OTHER REASONS WHY INCLUDING FINANCIAL OR EARNINGS-BASED INCENTIVE COMPENSATION IN RATES IS APPROPRIATE?

A. Yes. In providing incentive compensation it is very important to have a "balanced scorecard" that emphasizes both service and cost-related goals, rather than just one to the exclusion of the other. If only service goals are emphasized, service-related improvements may be achieved, but the costs for doing so and the cost of service generally may become exorbitant. Conversely, if only financial or earnings-based goals are pursued, costs may be lower but service may deteriorate to unacceptable levels. Having a balanced scorecard that emphasizes both of these goals is essential for avoiding such distortions.

Q. ARE THE COMPANY'S INCENTIVE COMPENSATION SCORECARDS BALANCED IN THE MANNER?

A. Yes. In fact, in its COS Report, the Staff repeatedly refers to the scorecard used for the VVP, SBP and STIP plans as being "balanced", a conclusion that is further confirmed by the fact that Staff has only identified 18.5 percent of the costs associated with these plans as being financial or earnings-based.

Q. HAS THE COMMISSION PREVIOUSLY RECOGNIZED THAT THE COSTS ASSOCIATED WITH THESE KINDS OF BALANCED INCENTIVE COMPENSATION PLANS SHOULD BE RECOVERABLE IN RATES EVEN THOUGH THEY ARE PARTIALLY BASED ON FINANCIAL OR EARNINGS-BASED METRICS?

A. Yes. In a 2009 decision in an Ameren rate case (Case No. ER-2008-0318), the Commission appropriately recognized that it was reasonable and appropriate to permit the recovery of earnings-based incentive payments as long as they were made pursuant to a balanced scorecard that included a combination of operational, service and earning-based goals. While the Company believes that all of its incentive compensation payments should be recoverable in rates, at a minimum, these considerations support inclusion of all of the incentive compensation payments made by the Company in connection with its SBP and STIP Plans, as well as those associated with the VVP Plan that the Staff has already indicated it will include in the Company's cost of service.

Q. DO YOU HAVE ANY RESPONSE TO THE STAFF'S PROPOSAL TO DISALLOW ALL INCENTIVE COSTS CAPITALIZED BY THE COMPANY SINCE THE CONCLUSION OF ITS LAST RATE CASE?

A. Yes. I believe it is fundamentally inappropriate to disallow such capitalized incentive costs. Such costs were capitalized in good faith and it was not until the recent Spire cases that there was any indication from the Commission that such costs were subject to disallowance. It is simply inappropriate under these circumstances to expose the Company to write-offs of these costs because of a change in regulatory policy. The assets that include these capitalized incentive costs are being used today to provide service to the Company's customers and any Commission decision to disallow such capitalized costs should only apply prospectively, if it is done at all.

Q. IS THE STAFF'S RECOMMENDATION ON CAPITALIZED INCENTIVE COSTS CONSISTENT WITH WHAT THE COMMISSION DETERMINED IN THE SPIRE CASES ON THIS ISSUE?

A. No. While the Commission did approve a portion of Staff's proposed disallowance of such capitalized incentive costs in the Spire cases, it rejected Staff's proposal to go all the way back to the conclusion of Spire's previous rate case for purpose of identifying what capitalized incentive costs should be removed from cost of service. Instead, the Commission determined that only the incentive costs capitalized since the beginning of the test year in those cases should be disallowed. While I do not believe that any disallowance of these capitalized incentive costs is appropriate, Staff's proposal to disallow costs that were incurred prior to the test year in this case should clearly be rejected.

C. Corporate Allocations/CAM/Affiliate Transactions

Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF THE RECOMMENDATIONS MADE BY THE STAFF REGARDING THE COMPANY'S ALLOCATION OF SHARED CORPORATE SUPPORT SERVICE COSTS FROM ITS CORPORATE AFFILIATES TO LIBERTY UTILITIES.

A. At pages 26 to 49 of its COS Report, the Staff has a fairly extensive discussion of the Company's process for allocating or charging costs to its Missouri operations for various corporate support services provided by affiliated companies. The consultant engaged by the Staff to address to this subject, Mr. James Dittmer, raises a number of concerns regarding the sufficiency of the information provided by the Company to support these allocations. He also proposes a disallowance of certain costs allocated or charged to the Company's Missouri operations by the Company's affiliates, including most of the allocated compensation costs for the four top executives of Algonquin Power and Utilities Corp, the Company's parent corporation. Mr. Dittmer also proposes to capture what he estimates to be a higher level of future synergies from the growth activities of the Company's affiliates by "annualizing" several months of costs savings that have recently been experienced. Finally, he recommends various measures that he believes should be implemented on a going forward basis to better quantify and assess such allocation issues in the future.

Q. DO YOU AGREE WITH MR. DITTMER'S CHARACTERIZATIONS OF THE COMPANY'S ALLOCATION PROCESSES?

A. Because no process is perfect, I believe Mr. Dittmer has made some valid points regarding how the allocation process used by the Company and its affiliates could be further enhanced. As a general matter, however, I believe his characterizations regarding the Company's allocation process and the sufficiency of the information provided by the Company to support it are unduly harsh.

Q. WHY DO YOU SAY THAT?

A. First, I know how seriously Liberty Utilities and its affiliates take their obligation to allocate costs between each business unit in a transparent, fair and cost justified manner. Because it operates in multiple regulatory jurisdictions and has unregulated businesses as well, the Company is acutely aware of how important it is to consistently achieve these goals as it is accountable for doing so not only to this Commission but many others as well. Proper cost allocation is also essential to managing these business units in an effective manner. Given these considerations, the Company maintains extensive records to support how it allocates costs between affiliated businesses and has provided that information to the Commission Staff. In the end, I recognize that such information may not be in the exact format that Mr. Dittmer might prefer, but that is a different issue than whether the Company has informational support for its allocations.

Q. IS THE SERIOUSNESS WITH WHICH THE COMPANY AND ITS AFFILIATES TAKE THESE OBLIGATIONS TO ALLOCATE COSTS PROPERLY REFLECTED IN THE STAFF'S OWN COS REPORT?

A. Yes. At pages 32 to 34 of the its COS Report, the Staff replicates portions of the Cost Allocation Manual and associated training materials used by the Company and its affiliates to ensure that the costs of being properly allocated. In my view, these materials demonstrate the value that the Company and its affiliates place on proper cost allocation by not only documenting it as a goal but also by embedding in our employee training the concrete measures that should be taken to achieve that goal.

Q. HOW DO YOU RESPOND TO MR. DITTMER'S ASSERTION THAT THE GOAL OF PROPER COST ALLOCATION IS BEING FRUSTRATED BECAUSE APUC'S TOP MANAGEMENT PERSONNEL ARE NOT MAINTAINING TIMESHEETS SHOWING WHAT TIME THEY DEVOTED TO SPECIFIC BUSINESS UNITS?

A. Contrary to Mr. Dittmer's comments, I do not think there is any inconsistency between how the costs of APUC's top management are being allocated between affiliate companies and the Company's emphasis on charging costs directly, where possible, through time sheets or proper coding of their time through our information management system. The reality is that these executives have broad responsibilities to set the strategic direction of APUC and the companies within its corporate family and ensure that financial, regulatory, legal, investor and other matters central to the effective and appropriate operation of a modern corporation in an increasingly complex world. Given these broad obligations, the time, duties and services provided these executives are broadly applicable and beneficial to all business units and are not the kind of activities that can be isolated to one business unit or another through time sheets, coding or otherwise. Accordingly, such costs need to be allocated based on allocation principles that are fair and appropriate for all business units.

Q. SHOULD THOSE PRINCIPLES BE ESTABLISHED IN THIS RATE CASE PROCEEDING?

A. While I recognize there is a need for the parties and the Commission to determine a reasonable cost for the corporate support services that have been provided to the Company's Missouri gas operations during the test year and update period, I do not believe this case should be used as the vehicle for establishing such allocation principles or implementing the other allocation-related measures recommended by Mr. Dittmer. Instead, the Company believes it would be most appropriate to take these matters up and resolve them in the proceeding that has been established by the Commission to consider the adoption of a Cost Allocation Manual for the gas electric and water operations of the Company and its utility affiliates in Missouri. (File No. AO-2017-0360).

Q. WHY DOES CASE NO. AO-2017-0360 PROVIDE A MORE SUITABLE VEHICLE FOR ADDRESSING THESE MATTERS?

A. For a number of reasons. First, the entire purpose of this proceeding is designed to address and reach closure on these very issues. Given that primary focus, I believe it is much better structured to address such issues in a focused and informed manner than a rate case that must also deal with a large variety of other issues, many of which are unrelated. Second, it is incredibly important to take a coordinated approach toward establishing the allocation principles, processes and associated reporting requirements that will govern our gas, electric and water operations in Missouri. In addition to ensuring that common allocation issues will be addressed in a consistent way, it is important to keep in mind that allocation and reporting requirements can have an impact on the Company's information management and accounting systems that may be significant. It is therefore very important to achieve as much consistency as possible, so that the resources required to effectuate any required changes are not needlessly duplicated or increased. Finally, there are stakeholders beyond those participating in this case who have an interest in these issues and I believe it would be premature to effectively pre-determine important allocation issues in a case where not all of those stakeholders are present.

Q. DOES THIS MEAN THAT THE ANALYSIS PERFORMED AND RECOMMENDATIONS MADE BY THE STAFF IN THIS PROCEEINGS HAVE NO VALUE?

A. No, not at all. The Company would have no objection to using the analysis done and recommendations made by Staff on these issues in this case as another resource that the parties can refer to in File No. AO-2017-0360. While the Company disagrees with various aspects of what Staff has recommended or stated on this issue, it believes that more information is better than less, and that Staff's work in this case could be added to the work product being amassed in File No. AO-2017-0360.

Q. DO YOU AGREE WITH MR. DITTMER'S ASSERTIONS AT PAGES 34 TO 36 OF THE STAFF COS REPORT THAT THE COMPANY WAS

EXTEMELY SLOW IN RESPONDING TO A STAFF DATA REQUEST RELATING TO TIME SHEETS?

A. No. I do not know when Mr. Dittmer was retained by the Staff to work on this case, but his first data request on this issue was not submitted until December 8, 2017, or more than two months after the case was filed. Another data request relating to incentive compensation was submitted a few days before Christmas. Despite the intervening holidays, the Company provided its response to the first data request within a few days of the mid-January date it had estimated for a probable response date for a significant number of data Staff requests. And when the Company's response was deemed inadequate by Mr. Dittmer, additional information was provided within several weeks. While it has taken somewhat longer to obtain information responsive to the second data request, I believe that overall the Company has worked very diligently to respond to data requests from Mr. Dittmer and multiple Staff members, as well as other parties, on a timely and forthcoming basis. In addition to answering numerous data requests, I think it is important to note that the Company also supplemented its efforts to be as responsive as possible by participating in multiple phone calls and meetings with Mr. Dittmer to determine how his information needs could best be met. The Company provided hundreds of documents in support of Mr. Dittmer's requests, as well as created additional ad hoc reports in an attempt to be fully responsive.

Q. DO YOU AGREE WITH MR. DITTMER'S ASSERTION AT PAGES 40 TO 41 OF THE STAFF COS REPORT THAT THE COMPANY AND ITS AFFILIATES HAVE NOT ADEQUATELY TRACKED THE

ACQUISTION ACTIVITIES UNDERTAKEN BY PERSONNEL FROM ITS AFFILIATES AND EXLUDED SUCH COSTS FROM THE AMOUNTS ALLOCATED TO MISSOURI OPERATIONS.

A. No. Any direct costs incurred in connection with APUC's acquisition activities or those of any other affiliate for that matter, including transaction and premium costs, are never allocated out to the Company's Missouri operations. The same thing is true of the costs of APUC's corporate development team that works exclusively on these kinds of activities. I don't know if Mr. Dittmer believes the Company should go beyond this rigorous exclusion of merger and acquisition-related costs, but his comments seem to suggest that anytime a corporate executive mentions or even thinks about any activities that may be related to growth, there should be a detailed accounting and exclusion of any costs associated with such incidental activities. I do not believe such a requirement is either necessary or appropriate. Nor do I think Mr. Dittmer has good policy grounds for proposing it given that one of his primary adjustments is designed to appropriate for Missouri utility customers a greater (and, in our view, inappropriate) share of the synergies or economies of scale created as a result of these activities.

Q. WHAT ADJUSTMENT IS MR. DITTMER PROPOSING TO MAKE IN THE REGARD?

A. At page 30 of the Staff COS Report, Mr. Dittmer expresses the concern that the full benefit of the synergies and economies of scale achieved by APUC as a result of its growth activities have not yet been fully reflected in the few months of data available since the update period. He therefore proposes to annualize these several months of data and build into rates a significantly larger level of synergies that he presumably believes will occur in the future.

Q. DO YOU AGREE WITH THIS ADJUSTMENT?

A. No. I believe this adjustment is an inappropriate attempt to go beyond the true-up period and capture estimated future savings that may or may not be realized. There are already synergies that are reflected or will be reflected in the update and true-up accounting schedules, and I believe that this actual data should be used for purposes of setting rates.

Q. DO YOU AGREE WITH THE OTHER DISALLOWANCES PROPOSED BY STAFF IN CONNECTION WITH THE COMPANY'S ALLOCATION OF CORPORATE COSTS?

A. No. Mr. Dittmer's proposal to disallow such costs is not, in my view, reasonable or appropriate. Part of his disallowance relates to his proposal to disallow 75 percent of the compensation costs paid to APUC's top four executives, primarily on the grounds that such compensation is incentive in nature and based on financial performance or earnings metrics. For the reasons discussed in that part of my testimony that addresses incentive compensation, I do not believe these arguments are persuasive. The remaining adjustment is based on Mr. Dittmer's generalized concern over whether acquisition-related costs are being adequately tracked and excluded from rates. For the reasons discussed above, I do not believe this is true and therefore I do not believe any adjustment is warranted.

D. Surveillance Reporting

Q. AT PAGE 4 OF ITS COS REPORT, THE STAFF MAKES A NUMBER OF RECOMMENDATIONS REGARDING ENCHANCED SURVEILLANCE REPORTING BY THE COMPANY. WHAT IS YOUR RESPONSE TO THESE RECOMMENDATIONS?

A. Staff is requesting that the Company provide it with general ledger and sub-ledger details, including various corporate allocation information, on an ongoing basis. The Staff has also proposed that the Company provide quarterly surveillance reports similar to those submitted by electric utilities in connection with the administration of their fuel adjustment clauses. The Company only recently received from Staff an electronic version of the template for the quarterly surveillance report that the Staff would like the Company to provide to Staff on an ongoing basis. Accordingly, it will need additional time to fully understand and evaluate how it can most effectively and efficiently meet Staff's need for additional information. The Company also wants to examine the surveillance reporting requirements, including those relating to the provision of general ledger information, that were recently agreed upon by the Staff, OPC and Spire in the latter's recent rate cases to determine if that approach will work for Liberty Utilities.

Q. DOES THE COMPANY ALSO BELIEVE IT IS IMPORTANT TO CONSIDER SURVEILLANCE REPORTING RECOMMENDATIONS IN THE CONTEXT OF OTHER RECOMMENDATIONS BEING MADE BY THE STAFF?

A. Yes. I think it is fair to say that the Commission Staff is seeking multiple commitments from the Company to provide information in multiple ways. There are ongoing, information-related recommendations that Staff has made in the context of the corporate allocations/CAM/affiliate transactions issues, recommendations that it has made in the context of providing additional surveillance information, and recommendations that it has made in the proceeding to consider a Cost Allocation Manual for utility operations in Missouri. Quite frankly, for the reasons I discussed above, I think additional focus needs to be placed by all the parties on sorting out all of these information requests and making sure what information is truly needed for appropriate regulatory purposes and how it can be provided in an efficient, coordinated way. The Company is hopeful that a mutually agreeable and sensible framework can be reached in the near future for determining how, where and when these informational requests will be addressed. Pending the completion of such agreement, however, the Company reserves the right to address this issue in its surrebuttal testimony, in the event that should prove necessary.

E. <u>Excess Flow Values</u>

Q. HAS THE STAFF SUGGESTED THAT A NEED TO UPDATE THE COMPANY'S TARIFF PROVISIONS RELATING TO THE INSTALLATION OF EXCESS FLOW VALUES?

A. Yes, in light of changes in federal requirements relating to the installation of excess flow values, the Staff has expressed the need for updated language on this issue.

Q. DOES THE COMPANY AGREE?

A. Yes, and as a starting point we are currently reviewing the tariff language that Staff recently endorsed on this issue in the Spire cases. We are working on similar tariff language and fully expect that we will be accommodate Staff's concerns and the requirements of federal law in the tariffs approved in this proceeding.

F. MEDA Dues

Q. DOES THE COMPANY AGREE WITH STAFF's ADJUSTMENT TO REMOVE PREPAYMENT AMOUNTS RELATED TO THE MISSOURI ENERGY DEVELOPMENT ASSOCATION ("MEDA")?

A. No. The Staff made an adjustment to remove all prepayment amounts related to MEDA on the basis that payments to this organization represent lobbying costs and should not be charged to ratepayers. When the Company receives the MEDA bill, the entire amount is booked to FERC Account 1650, prepayments. When expensed, however, the percentage related to lobbying by MEDA is booked below the line.

Q. DOES THE COMPANY BELIEVE THAT IT IS REASONABLE TO DISALLOW THE DUES PAYMENTS MADE TO MEDA THAT DO NOT RELATE TO LOBBYING?

A. No, the Company believes that the portion of MEDA cost that does not relate to lobbying should be allowed in rates and that only the percent related to lobbying should be disallowed from rate base.

Q. WHY IS IT APPROPRIATE TO INCLUDE THESE NON-LOBBYING MEDA EXPENSES IN RATES?

A. Because they are a reasonable and prudent business expense incurred to benefit the Company's customers. It is important to understand that MEDA undertakes a variety of activities that directly benefit utility customers. Among other things it monitors, evaluates and, where appropriate, advises policy makers on legislative or administrative actions that could increase costs for utility customers, through changes in tax laws, imposition of unnecessary or counterproductive operational requirements, or other similar initiatives. MEDA has also been active over the years in pursuing statewide policies that can directly benefit customers, such as its ongoing support of state Utilicare funding that can assist our most vulnerable customers to maintain or restore utility service. MEDA has also played an active and useful role in activities initiated by the Commission, such as the Commission's outreach efforts on supplier diversity. Given these positive and customer-centric activities, there is no justification for Staff's complete elimination of these MEDA expenditures.

G. <u>Hannibal Shop</u>

Q. HAS THE COMPANY COMPLETED CONSTRUCTION OF ITS NEW SHOP IN HANNIBAL?

A. Yes. The new Hannibal Shop is fully completed and operational and has been reflected on the Company's books and records as of March 31, 2018. Consistent with its proposal in its direct case, the Company accordingly seeks to have its investment in the Hannibal shop included in rate base and will reflect the actual investment cost in its true-up schedules to be filed on April 20, 2018.

Q. HAS THE STAFF RAISED CONCERNS REGARDING INCLUSION OF THE HANNIBAL SHOP INVESTMENT IN THE COMPANY'S RATE BASE?

A. To my knowledge the Staff has no issue with either the cost or prudence of the Company's investment. In fact, at page 24 of its COS Report, the Staff describes the efforts it has already undertaken, including a tour of the facility in February, to confirm that the shop is ready to provide service. Instead, the Staff's concerns regarding rate base inclusion appears to be centered on the fact that the land underlying the shop is owned by an affiliate and leased to Liberty Utilities.

Q. HAS THE COMPANY TAKEN ANY ACTIONS TO ADDRESS THE STAFF'S CONCERN?

A. Yes. The Company negotiated a new lease agreement with the affiliate that owns the land that provided additional protections in the event there was ever an expiration of that lease. Based on feedback received from the Staff, however, it appears that Staff does not view this to be sufficient enough to address its concerns. In light of Staff's remaining concerns, the Company and its affiliate are agreeable to effectuating an actual transfer of the land underlying the shop to Liberty Utilities within 6 months. This would also include the granting of a permanent easement to the Company so it can have full and unencumbered access to the shop at all times. The Company is hopeful that this accommodation will satisfy the Staff's concerns. However, until a final agreement is reached between the Company and Staff to reflect such a resolution, the Company reserves its right to further address this issue in surrebuttal testimony.

H. Other Rate Base Adjustments

Q. ARE THERE OTHER RATE BASE ADJUSTMENTS PROPOSED BY THE STAFF THAT YOU OR OTHER COMPANY WITNESSES WILL BE ADDRESSING?

A. Yes. Company witnesses Tim Lyons, Charlie Evans, and James Fallert will address the propriety of a number of adjustments made by Staff in various rate base-related areas, including the calculation of Cash Working Capital, accumulated depreciation reserve and capitalized transition costs.

Q. DOES THE COMPANY AGREE WITH STAFF'S ADJUSTMENT TO PLANT TO REFLECT CUSTOMER ADVANCES CONTRACTS?

A. No. In communications between the Staff and the Company, it was discovered that an adjustment of $226,474 was made to reduce plant to reflect customer advances contracts. Staff witness Ms. Ferguson stated that Staff was attempting to adopt the Company's adjustments to plant to reflect customer advances contracts. The Company made pro-forma adjustments to plant in their initial filing to reflect customer advances contracts. However, during the update period, those adjustments were actually booked. Therefore, updated plant as of December 31, 2017, already reflected those adjustments.

Q. DID THE STAFF INCLUDE IN ITS COST OF SERVICE ANY ALLOWANCE FOR THE COMPANY'S RECENTLY INSTALLED AUTOMATED METER READING ("AMR")?

A. No. The Company's new AMR system will become fully operational in April 2018, which is after the update period used by the Staff in its Direct Case. We expect that this rate base addition will be reflected in both the Staff's true-up schedules and in the Company's true-up schedules on an actual rather than pro-forma basis. Accordingly, the Company reserves the right to address this item in surrebuttal testimony.

Q. DOES THE COMPANY INTEND TO INCLUDE A RATE BASE ADJUSTMENT IN ITS TRUE-UP TESTIMONY SCHEDULES TO REFLECT A REGULATORY ASSET FOR PENSION AND OPEB EXPENSES?

A. Yes. In response to Staff's request, the Company has quantified the regulatory asset resulting from the authorized deferral of the difference between the allowances that were provided in rates for pension and other post-employment benefit expenses and the Company's actual expenses for these items since the last rate case. The Company has also provided supporting documentation for this quantification. The Company will include the resulting pension and OPEB regulatory asset as part of its true-up accounting schedules.

Q. PLEASE RESPOND TO STAFF'S ADJUSTMENTS TO PREPAYMENTS FOR SEMO.

A. Staff removed $13,839.21 that was included in the Company's test year revenue requirement for SEMO but as of December 31, 2017. The prepayment account balance for SEMO was zero, however, so the amount removed by Staff was not included in the Company's revenue requirement as of December 31, 2017. Staff's adjustment should accordingly be eliminated.

Q. **DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

A. Yes, it does.

AFFIDAVIT OF JILL SCHWARTZ

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 13th day of April 2018, before me appeared Jill Schwartz, to me personally known, who, being by me first duly sworn, states that she is Senior Manager of Rates and Regulatory Affairs of Liberty Utilities – Central Region and acknowledges that she has read the above and foregoing document and believes that the statements therein are true and correct to the best of her information, knowledge and belief.

Jill Schwartz

Jill Schwartz

Subscribed and sworn to before me this 13th day of April, 2018.

ANGELA M. CLOVEN
Notary Public - Notary Seal
State of Missouri
Commissioned for Jasper County
My Commission Expires: November 01, 2019
Commission Number: 15262659

Angela M. Cloven

Notary Public

My commission expires: 11/01/19.