

Exhibit No.:
Issue: Policy/Case Overview
Witness: David Swain
Type of Exhibit: Direct Testimony
Sponsoring Party: Liberty Utilities
(Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Case No.: GR-2018-0013
Date Testimony Prepared: September 20, 2017

**Before the Public Service Commission
of the State of Missouri**

Direct Testimony

of

David Swain

September 2017



**DIRECT TESTIMONY
OF
DAVID SWAIN
LIBERTY UTILITIES
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. GR-2018-0013**

1 **INTRODUCTION AND QUALIFICATIONS**

2 **Q: PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A: My name is David Swain. My business address is 602 S. Joplin Avenue, Joplin Missouri
4 64802.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Liberty Utilities Services Corp. as the President for Liberty Utilities
7 Central Region, which includes Liberty Utilities (Midstates Natural Gas) Corp. d/b/a
8 Liberty Utilities, The Empire District Electric Company (“Empire”), and Liberty Utilities
9 (Missouri Water) LLC.

10 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

11 A. I am testifying on behalf of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty
12 Utilities (“Liberty Utilities” or the “Company”).

13 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND AND**
14 **EXPERIENCE.**

15 A. I have worked in the utility industry for the past 36 years. Prior to assuming my current
16 role on February 1, 2017, I was President of Liberty Utilities - New Hampshire, where I
17 led Energy North and Granite State Electric. I previously served as the President for
18 Liberty Utilities operations in Missouri, Illinois and Iowa from approximately 2012 to
19 2015. Before joining Liberty Utilities in 2012, I was the Division Operations Manager at

1 Atmos Energy for 22 years where I provided direction and oversight of 12 operations in
2 Kentucky, Tennessee, Illinois and Missouri. I have been involved in many facets of the
3 industry and have a passion for improving and enhancing the safety and reliability of
4 natural gas distribution systems. I have assisted with the development of pipeline safety
5 and compliance programs that have been used across the country. I hold a certification
6 from the National Association of Corrosion Engineers as a Cathodic Protection
7 Specialist.

8 **Q. WHAT ARE YOUR PRINCIPAL RESPONSIBILITIES AS PRESIDENT OF THE**
9 **COMPANY?**

10 A. As President, I have overall responsibility for the regulatory, financial, operations and
11 customer care aspects of our business. Specifically, I insure that we comply with all
12 regulations and rules that concern safety, reliability and rates while being financially
13 responsible. I must ensure that our business is able to perform these tasks strategically
14 and responsibly.

15 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN A PROCEEDING BEFORE THE**
16 **MISSOURI PUBLIC SERVICE COMMISSION (“MPSC” OR “COMMISSION”)**
17 **OR BEFORE ANY OTHER UTILITY REGULATORY AGENCY?**

18 A. Yes. I have previously testified before this Commission and other regulatory
19 commissions.

20 **PURPOSE OF TESTIMONY**

21 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

22 A. The purpose of my testimony is to give a brief description of the Company and to discuss
23 the reasons for filing a rate case and introduce the additional witnesses providing prefiled

1 testimony. First, I will provide a background on the Company's natural gas operations.
2 Second, I will discuss the reasons the Company is filing a rate case and describe the
3 Company's request. Finally, I will introduce the additional witnesses that will also
4 provide prefiled direct testimony in this case.

5 **BACKGROUND AND RECENT REGULATORY ACTIVITY**

6 **Q. PLEASE PROVIDE A BRIEF BACKGROUND ON THE COMPANY'S**
7 **NATURAL GAS OPERATIONS IN MISSOURI AND ITS CORPORATE**
8 **STRUCTURE.**

9 A. Liberty Utilities is a corporation duly organized and existing under the laws of the State
10 of Missouri. It is a "gas corporation" and "public utility" as those terms are defined in
11 Missouri statutes and, as such, it is subject to the jurisdiction of the Commission as
12 provided by law. The Company is engaged in the business of distributing and selling
13 natural gas in the States of Missouri, Illinois and Iowa, serving approximately 80,000
14 customers. The majority of those customers, approximately 55,000, are located in West,
15 Northeast and Southeast Missouri.

16 Liberty Utilities' ultimate corporate parent, Algonquin Power and Utilities Corp.
17 ("Algonquin"), is a Canadian corporation whose stock is traded on the Toronto and New
18 York Stock Exchanges. Algonquin has two business units: (a) a power generation unit
19 that owns or has interests in renewable energy facilities and thermal energy facilities
20 representing more than 1100 MW of installed capacity, and (b) a utility services unit that
21 owns and provides retail water, sewer, electric and natural gas service to nearly 800,000
22 combined customers across 13 states. The Company's corporate structure was

1 thoroughly set forth and discussed in Case No. GM-2012-0037 and the Company's last
2 rate case, Case No. GR-2014-0152.

3 **Q. TO PROVIDE ADDITIONAL BACKGROUND ON REGULATORY ACTIVITY,**
4 **WOULD YOU PLEASE ADDRESS LIBERTY UTILITIES' LAST GENERAL**
5 **RATE PROCEEDING BEFORE THIS COMMISSION?**

6 A. Yes. The last general rate increase was filed on February 6, 2014, for natural gas
7 service provided in its Missouri service area, Case No. GR-2014-0152. On December 3,
8 2014, the Commission issued its *Report And Order* which authorized an increase of \$4.87
9 million effective for service on and after January 4, 2015, for Liberty Utilities' three rate
10 districts in Missouri. Following the last case, the Company's previous Infrastructure
11 System Replacement Surcharge ("ISRS") was zeroed out (rebased). The Company's
12 existing ISRS rate was established in Case Nos. GO-2015-0350 (October 17, 2015) and
13 GO-2016-0206 (June 10, 2016).

14 **REASONS FOR FILING A RATE CASE**

15 **Q. PLEASE DESCRIBE THE COMPANY'S OVERALL REQUEST FOR AN**
16 **INCREASE IN GENERAL RATES?**

17 A. In this case, the Company is seeking an increase of approximately \$7.5 million. A
18 portion of this request includes the rebasing of approximately \$470,000 in current ISRS
19 annual revenues which is currently being recovered through a monthly surcharge. Once
20 the existing ISRS charges already being collected are excluded, the increase will be
21 around \$7.0 million, on an incremental basis.

22 The Company's schedules support a rate base of \$99.2 million and a Net
23 Operating Income of \$7.6 million premised upon a 7.64 percent rate of return on

1 investment. The rate of return is based upon a capital structure which consists of
2 approximately 53.00 percent equity and 47.00 percent debt with a return on equity of
3 10.25 percent and weighted cost of debt of 4.70 percent.

4 **Q. WHAT TEST YEAR HAS THE COMPANY USED FOR THE DEVELOPMENT**
5 **OF THIS RATE CASE?**

6 A. The Company has used a 12 month test year ending June 30, 2017, with a proposed
7 update period through December 31, 2017 and a true-up to generally reflect known and
8 measurable changes through March 31, 2018. In addition, the Company's union
9 employees will receive a wage increase in June 2018 pursuant to the currently existing
10 labor contract, and as such, the Company has included a known and measurable change
11 to reflect union wages through June 30, 2018.

12 **Q. IS THE COMPANY PROPOSING ANY CHANGES IN ITS DEPRECIATION**
13 **RATES?**

14 A. Yes. In accordance with Commission Rule 4 CSR 240-3.275, the Company submitted
15 copies of its depreciation studies to the Staff and Office of the Public Counsel in June
16 2016. Furthermore, the *Revised Second Partial Stipulation And Agreement As To Certain*
17 *Issues* ("Second Partial Stipulation") filed on September 10, 2014, in Case No. GR-2014-
18 0252, provides that the Company will prepare and present in its next general rate increase
19 case a depreciation study. Accordingly, Company Witness Dane A. Watson, Alliance
20 Consulting Group, is sponsoring and presenting the Company's depreciation study.
21 Based upon this study, the Company is proposing changes to its depreciation rates as
22 detailed by Mr. Watson. Approximately \$1.3 million in revenue requirement is
23 associated with the increased depreciation rates.

1 **Q. ARE THERE ADDITIONAL FACTORS THAT ARE DRIVING THE PROPOSED**
2 **RATE INCREASE?**

3 A. Yes. Since the Company's last general rate case (GR-2014-0152), the Company's rate
4 base has increased by approximately \$12 million. As outlined in the direct testimony of
5 Charlotte North, Supervisor of Rates and Regulatory Affairs, the Operating expenses
6 have increased by approximately \$2.3 million over the prior rate case, including property
7 taxes which have increased over the prior rate case levels by approximately \$0.3 million
8 related to the recent property tax assessment on software and the addition of the Jackson,
9 Missouri office building, as well as other increased property taxes on plant investments.
10 In addition to the increased depreciation expense as a result of the depreciation study, the
11 Company has experienced increased depreciation expense as a direct result of the
12 approximately \$16 million of net plant additions. Discussion of the net plant additions
13 made since the last rate case is further outlined in the direct testimony of Michael Beatty,
14 Vice President of Gas Operations.

15 **Q. IS THE COMPANY PROPOSING ANY MODIFICATIONS TO ITS EXISTING**
16 **RATE DESIGN IN THIS CASE?**

17 A. Yes, the Company seeks to consolidate its three rate districts (*i.e.*, WEMO, SEMO and
18 NEMO) into a single district with a uniform charge for delivery.

19 In the previously referenced Second Partial Stipulation approved in the
20 Company's last rate case, the Company agreed to prepare a class cost of service study, as
21 well as a lead/lag study, for this proceeding. Those studies were prepared and are
22 sponsored by Company Witness Timothy Lyons, ScottMadden, Inc. The Company is

1 using this comprehensive and detailed cost of service study to align its requested rates
2 more closely with its cost structure.

3 **Q. WHAT INCREMENTAL IMPACT WOULD THE PROPOSED INCREASE**
4 **HAVE ON THE COMPANY'S CUSTOMERS?**

5 A. Based upon the Company's proposal to consolidate its rate districts, after deducting ISRS
6 charges already being collected, the approximate incremental portion of the increase for
7 an average residential customer in Missouri with average usage would be less than \$10
8 per month. The Company recognizes that the actual impact to residential customers will
9 vary district to district.

10 **INTRODUCTION OF WITNESSES**

11 **Q. PLEASE IDENTIFY THE OTHER COMPANY WITNESSES PRESENTING**
12 **DIRECT TESTIMONY IN SUPPORT OF THIS RATE PROCEEDING.**

13 A. In addition to my testimony, Liberty Utilities will present the direct testimony and
14 schedules of the following witnesses.

15 • Jill Schwartz, Senior Manager, Rates and Regulatory Affairs, is presenting
16 testimony to address the Company's filing and the respective rate bases that
17 should be used to establish rates for Liberty Utility. In addition, Ms. Schwartz
18 will testify regarding how the Company has satisfied the Commission's minimum
19 filing requirements; and finally address various filing requirements pursuant to
20 prior stipulations and agreements.

21 • Charlie Evans, Special Projects Manager, is presenting testimony to address
22 certain Revenue and Expense adjustments that should be included in the revenue
23 requirement for the Company.

- 1 • Charlotte North, Supervisor, Rates and Regulatory Affairs, is presenting
2 testimony to support various Revenue and Expense schedules used to support the
3 revenue requirement for the Company.
- 4 • John Ostrander, Lead Rates Analyst, Rates and Regulatory Affairs, is presenting
5 testimony to support the Accumulated Deferred Income Taxes included in the
6 Company’s pro forma rate base.
- 7 • Michael Beatty, Vice President – Gas Operations, is presenting testimony
8 addressing the Company’s rate base additions, rate base adjustments and gas
9 safety and reliability;
- 10 • Brent Baker, Vice President – Customer Experience, addresses the Company’s
11 customer service operations and experience;
- 12 • Jeffrey P. Lee, Director of Accounting and Administration, addresses Pension and
13 OPEB Expenses;
- 14 • Ashley Hiatt, Senior Financial Forecast Project Accountant, addresses allocations
15 and the Company’s Cost Allocation Manual (“CAM”) and associated pro forma
16 adjustment;
- 17 • Timothy Lyons, ScottMadden, Inc., sponsors and addresses the lead/lag study,
18 class cost of service study and resulting rate design proposals;
- 19 • Keith Magee, ScottMadden, Inc., addresses rate of return and capital structure;
- 20 • Robert Hevert, ScottMadden, Inc. is presenting testimony in support of the
21 Company’s policy proposals relating to the adoption of specific regulatory
22 mechanisms.

- 1 • Dane Watson, Alliance Consulting, is presenting testimony in support of the
2 depreciation study conducted for Liberty Utilities

3 **CONCLUSION**

4 **Q. DO YOU HAVE ANY CLOSING REMARKS?**

5 A. Liberty Utilities is dedicated to providing safe and reliable natural gas distribution
6 service, and we are confident that our operational philosophy of being local and
7 responsive continues to serve our customers and other stakeholders very well. I believe
8 that the rates requested in this filing are just, reasonable and in the public interest, and
9 will allow the company to meet its obligations to provide safe and reliable service and to
10 earn a reasonable return on its investment.

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

12 A. Yes, it does.

