Exhibit No.:	
Issue(s):	*Pensions and OPEB; Non-Labor Operations Maintenance Expense; Software Maintenance Expense; Capitalized Depreciation*
Witness:	*Ashley Sarver*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*GR-2021-0320*
Date Testimony Prepared:	*January 24, 2022*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

DIRECT TESTIMONY

OF

ASHLEY SARVER

THE EMPIRE DISTRICT GAS COMPANY, d/b/a Liberty

CASE NO. GR-2021-0320

Jefferson City, Missouri
January 2022

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OF

DIRECT TESTIMONY OF

ASHLEY SARVER

THE EMPIRE DISTRICT GAS COMPANY,
d/b/a Liberty

CASE NO. GR-2021-0320

DIRECT TESTIMONY

OF

ASHLEY SARVER

THE EMPIRE DISTRICT GAS COMPANY,
d/b/a Liberty

CASE NO. GR-2021-0320

Q. Please state your name and business address.

A. My name is Ashley Sarver, 200 Madison Street, Jefferson City, Missouri 65101.

Q. By whom are you employed?

A. I am a Lead Senior Utility Regulatory Auditor employed by the Missouri Public Service Commission ("Commission").

Q. Please describe your educational background and work experience.

A. I graduated from Missouri State University in July 2009 with a Bachelor of Science degree in Accounting. I commenced employment with the Commission Staff in July 2013.

Q. Have you previously filed testimony before this Commission?

A. Yes. A listing of the cases in which I have previously filed testimony before this Commission is provided in Schedule AS-d1, attached to this direct testimony.

Q. What knowledge, skills, experience, training, and education do you have in the areas of which you are testifying as an expert witness?

A. I have received continuous training at in-house and outside seminars on technical ratemaking matters since I began my employment at the Commission. I have been employed by this Commission as an auditor for almost nine years, and have submitted testimony on ratemaking matter numerous times before the Commission, as listed on Schedule AS-d1. I have also been the lead auditor on several small water/sewer rate cases.

Q. With respect to Case No. GR-2021-0320, have you made an examination of the books and records of The Empire District Gas Company ("Empire")?

A. Yes, with the assistance of other members of the Commission Staff ("Staff").

EXECUTIVE SUMMARY

Q. Please summarize your direct testimony in this proceeding.

A. The purpose of my direct testimony is to present Staff's recommendations concerning pension and other post-employment benefits, non-labor operation and maintenance expense, software maintenance expense, capitalized depreciation (depreciation clearing), and affiliate transactions.

PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

Q. Are there prior stipulations regarding pensions and other post-employment benefits ("OPEBs") for Empire?

A. Yes. In the Partial Stipulation and Agreement from the prior Empire gas rate case, Case No. GR-2009-0434, the parties supported the treatment of FAS 87 and FAS 106 as described in Appendix D of the agreement. The parties also agreed on an amount for pensions and OPEB expense to be recovered in rates and amortization of the supporting trackers.

Q. What are the components of pensions cost and post-retirement benefit costs?

A. Defined benefits pension costs and postretirement benefit costs consist of several components, referred to as service costs and non-service costs. Service costs represent the present value of pension benefits earned during the year, whereas non-service costs are mostly related to prior service of employees.

Q. Has the Financial Accounting Standards Board ("FASB") and Federal Energy Regulatory Commission ("FERC") updated the standards/accounting guidance since the last Empire rate case?

A. Yes. FASB issued ASU-2017-07, an accounting standard update ("ASU") in March 2017 regarding topic 715, Compensation-Retirement Benefits. The update was released to improve the presentation in the financial statements of net periodic pension cost and net periodic postretirement benefit cost in order to improve the consistency, transparency, and usefulness of financial information. Further, the FERC Office of Enforcement issued an accounting guidance order on December 28, 2017, to the industry on how to apply the accounting and reporting requirements when adopting ASU-2017-07.

PENSION EXPENSE AND RATE BASE

Q. Did the Empire Gas retirement plan merge with the Liberty Utilities retirement plan?

A. Yes. The Empire District Gas Company Employee's Retirement Plan ("Empire Plan") was merged into the Liberty Utilities Defined Benefit Pension Plan ("LUDB Plan") on December 31, 2019. As part of the merger, a portion of the Empire Plan that consisted of the benefits for participants hired on or after January 1, 2014, was spun-off and merged into the Liberty Utilities Cash Balance Pension Plan ("LUCB Plan") as of December 31, 2019. As a result of this merger, the Empire Plan's assets, liabilities and unrecognized gain/loss were combined with the LUCB Plan.

Q. What documentation did Staff use to normalize pension expense?

A. CBIZ Retirement Plan Services provides Empire with a report every year, with the results of the actuarial valuation performed titled “Liberty Utilities Cash Balance Pension Plan and Liberty Defined Balance Pension Plan”. Staff used the expense development report from the actuarial report to determine the allocation valuation for Empire’s portion of total expense (income). The purpose of the expense development report is to determine the plan’s expense under ASC-715 as of December 31, 2021. This report was submitted to Staff on September 23, 2021.

Q. What does the Partial Stipulation and Agreement state regarding the pension expense and rate base?

A. The Partial Stipulation and Agreement from Case No. GR-2009-0434 provides Empire to generally have its pension rate allowance set equal to its most current annual level of pension expense as calculated under FAS 87. Furthermore, this agreement established a tracker mechanism for Empire’s pension expense, in which any excess or deficit in Empire’s pension rate allowance, as compared to its ongoing levels of FAS 87 expense, is to be treated as a regulatory asset or liability. The resulting pension tracker regulatory asset or pension tracker regulatory liability is then to be included in Empire’s rate base, and amortized as an addition or reduction to pension expense over a five-year period. Pension cost under FAS 87 has been reflected in Staff’s income statement for this case in a manner consistent with the ratemaking treatment agreed upon by the signatories of the Partial Stipulation and Agreement approved by the Commission in Case No. GR-2009-0434. Empire’s rate base, as determined by Staff, includes the FAS 87 Regulatory Asset, which represents the cumulative difference between

FAS 87 pension costs recovered in rates and FAS 87 pension costs recognized in the financial statements between rate cases.

Q. What is the amount of ongoing FAS 87 expense that Staff is proposing in this case?

A. $544,047.

Q. Has Empire under- or over-recovered its FAS 87 expense in rates compared to its actual level of expense since Empire's last rate case?

A. Empire has under-recovered its FAS 87 expense. The balance in the Regulatory Asset account as September 30, 2021 was $8,107,167, which is to be amortized over five years as an expense in the amount of $1,621,434.

Q. Does the Partial Stipulation and Agreement from the prior rate case discuss treatment of special events for pension and OPEBs, for example FAS 88?

A. Yes. FAS 88 deals with the current recognition of gains and losses related to settlements and curtailments of pension plans. A company's employees have the option at retirement to accept annuity payments or a lump sum distribution. A lump sum distribution, for purposes of FAS 88, is a settlement requiring the recognition of a gain or a loss. According to Case No. GR-2009-0434, Appendix D of the Partial Stipulation and Agreement regarding treatment of special events for pensions and OPEB states this regulatory asset or liability will not be added to rate base (since it is not a cash item), and it will be amortized over five years, beginning when new rates are implemented in Empire's next general electric rate increase or decrease proceeding before the Commission.

Q. What amount did Staff include in rates for FAS 88?

A. The FAS 88 settlement adjustment in the amount of $1,177,464 is to be amortized over five years as an expense in the amount of $235,493.

Q. What is Staff's ongoing rate base and expense for FAS 88?

A. Staff will not include rate base treatment or ongoing expense for FAS 88 because Staff included only expenses that are known and measurable in rates for these costs and the last expenses booked by Empire were in 2017 and 2018. As of the end of the update period, Empire also has not recorded any FAS 88 expense.

Q. What is a prepaid pension asset?

A. The prepaid pension asset (PPA) represents the cumulative amount of pension contributions in excess of actual costs as of September 30, 2021. These contributions were made to prevent the pension plan from becoming "at-risk" as defined under the Pension Protection Act, and to meet the obligations of the Pension Benefit Guarantee Corporation. Staff is including a PPA in rate base.

Q. What is the prepaid pension asset balance as of September 30, 2021?

A. $841,624.

Q. What is the amount to be included in rate base for Empire's ongoing pension expense tracker mechanisms, accounted for as regulatory asset?

A. $8,906,065.

OPEB EXPENSE AND RATE BASE

Q. What approach does Staff recommend be used to reflect Other Post-Employment Benefits in rates?

A. Staff recommends a ratemaking approach based on the Financial Accounting Standards Board's Accounting Standards Codification subtopic 715-60, formerly known as Financial Accounting Standard No. 106 (FAS 106).

Q. What documentation did Staff use to determine an appropriate OPEB expense?

A. CBIZ Retirement Plan Services provides Empire with the Liberty Utilities (Empire District) OPEB plan report every year. Staff used the results from the expense development as of December 31, 2021. This report was submitted to Staff on September 23, 2021. The purpose of the expense development report is to determine the plan's expense under ASC-715.

Q. What is the Company's ongoing FAS 106 cost recognized in rates in this case?

A. $331,614.

Q. Has Empire has over- or under-recovered its FAS 106 expense in rates compared to its actual level of expense since Case No. GR-2009-0434?

A. Empire has over-recovered the expense level since the last rate case. The balance in the regulatory liability account as of September 30, 2021, was negative $2,793,360, which is to be amortized over five years as a reduction to expense in the amount of negative $558,672.

Q. What is Empire's rate base for the ongoing OPEB tracker?

A. Rate base is reduced by the level of regulatory liability associated with Empire's ongoing OPEBs tracker mechanism, currently $2,793,360.

NON-LABOR OPERATIONS AND MAINTENANCE

Q. What accounts did Staff review and analyze for operations and maintenance ("O&M")?

A. Staff reviewed distribution and maintenance accounts. Each account was reviewed and analyzed separately.

Q. Did Staff include labor for O&M expense?

A. No. Staff removed Empire's labor cost for transmission and distribution maintenance. Staff proposed O&M normalization adjustment pertain to Empire's non-labor maintenance costs only; labor maintenance costs are handled as part of Staff's overall payroll adjustment.

Q. How did Staff determine normalized O&M expense for the update period ending September 30, 2021?

A. Staff reviewed data for the five years (60 months) ending September 30, 2021. Staff reviewed the totals of twenty-one accounts for O&M expense. Out of twenty-one accounts, thirteen accounts were at their five-year high during the 12 months ending September 30, 2021. Empire provided explanations for the highest expenses in its response to Staff Data Request No. 0127.3. Some of the explanations included: added communication due to installation of supervisory control and data acquisition system, new measurement group added to workgroup and focus on repair of outstanding active leaks. Staff determined a two-year average would be appropriate to capture the new installations/groups.

Q. What is Staff's recommended normalized expense for O&M?

A. $1,019,194.

<u>SOFTWARE MAINTENANCE EXPENSE</u>

Q. Does Empire have contracts for software maintenance expense?

A. Yes. Empire has contracts, operating licenses, and agreements with vendors that provide maintenance, upgrades to software, and support for its computer software.

Q. How did Staff annualize software maintenance expense?

A. Staff annualized the expense based on the September 2021 entry from the general ledger multiplied by 12 months.

A. What is Staff's adjustment for this account?

Q. Staff made an adjustment of negative $6,662 in account 921, Office Supplies, to decrease the software maintenance expense to reflect the annualized amount of $61,910 as of September 2021.

CAPITALIZED DEPRECIATION (DEPRECIATION CLEARING)

Q. What construction-related costs does Empire obtain through the clearing account?

A. Empire has vehicles and power-operated equipment in its fleets to maintain existing operations as well as to be used in construction related activities.

Q. What happens to the depreciation for transportation equipment during the test year?

A. During the test year, Empire incurred depreciation for its transportation equipment, which was charged to expense through a clearing account. The depreciation expense associated with Empire's assets is recorded in clearing accounts. The clearing accounts are then allocated to the various construction projects and other operations and maintenance expense accounts.

Q. What did Staff adjust for the capitalization depreciation?

A. Staff made an adjustment to remove the depreciation amount booked to the clearing account for construction activities. The removed costs are charged to construction projects that will eventually be plant in service, in which the costs will be recovered through depreciation over the life of the assets. Capitalized amounts include depreciation expense that is associated with assets used in construction, such as power-operated equipment and transportation equipment. Capitalized depreciation must be subtracted from annualized depreciation expense calculated using Empire's total plant in service balances to prevent double recovery in rates.

Q. What annualized amount did Staff use to eliminate depreciation cleared to other O&M accounts?

A. A negative $358,989.

AFFILIATE TRANSACTIONS

Commission's Affiliate Transactions Rule (ATR)

Q. Is there a Commission rule Empire is required to follow for affiliate transactions?

A. Yes. The Commission's Affiliate Transactions Rule (ATR) is applicable to gas utilities. Commission Rule 20 CSR 4240-40.015, is intended to prevent regulated utilities from subsidizing their non-regulated operations. In order to accomplish this objective, the rule sets forth financial standards, evidentiary standards, and recordkeeping requirements applicable to any Missouri Public Service Commission regulated gas corporation whenever such corporation participates in transactions with any affiliated entity. See the "Purpose Statement" of Commission Rule 20 CSR 4240-40.015.

Q. Does the ATR require regulated gas corporations to meet certain "standards" when transacting with affiliates?

A. Yes. The primary standard is that a regulated gas corporation shall not provide a "financial advantage" to an affiliated entity. For purposes of the rule, a regulated gas corporation shall be deemed to provide a financial advantage to an affiliated entity if:

1. It compensates an affiliated entity for goods or services above or lesser of –

A. The fair market price; or

B. The fully distributed cost to the regulated gas corporation to provide the goods and services for itself; or

2. It transfers information assets, goods or services of any kind to an affiliated entity below the greater of –

A. The fair market price; or

B. The fully distributed cost to the regulated gas corporation.

See Commission Rule 20 CSR 4240-40.015(2) (A).

Q. Are there any exceptions to the rule?

A. Yes. However, aside from permitted variances and waivers, the only exception is to provide corporate support functions, and the regulated gas corporation shall conduct its business in such a way as not to provide any preferential service, information or treatment to an affiliated entity over another party at any time. See Commission Rule 20 CSR 4240-40.015(2) (B).

Q. Please define corporate support functions.

A. Defined as "joint corporate oversight, governance, support systems and personnel, involving payroll, shareholder services, financial reporting, human resources, employee records, pension management, legal services, and research and development activities." See Commission Rule 20 CSR 4240-40.015(1) (D).

Q. Are there any other standards a company has to submit to comply with the rule?

A. Yes. In addition to the standards outlined above, a regulated gas corporation shall include in its annual Cost Allocation Manual (CAM), the criteria, guidelines, and procedures it will follow to be in compliance with this rule. See Commission Rule 20 CSR 4240-40.015(2) (E).

Q. Does Empire have to meet "evidentiary standards" for affiliated transactions?

A. Yes. For each affiliate transaction a regulated gas corporation engages in, it must also meet certain "Evidentiary Standards." When a regulated gas corporation purchases information, assets, goods or services from an affiliated entity, the regulated gas corporation shall either obtain competitive bids for such information, assets, goods or services or demonstrate why competitive bids were neither necessary nor appropriate. In transactions that involve either the purchase or receipt of information, assets, goods or services by a regulated gas corporation from an affiliated entity, the regulated gas corporation shall document both the fair market price of such information, assets, goods or services and the fully distributed cost (FDC) to the regulated gas corporation to produce the information, assets, good or services for itself. Finally, regulated gas corporations are to use a "commission-approved" CAM, which sets forth cost allocation, market valuation and internal cost methods, when transacting with affiliates. See Commission Rule 20 CSR 4240-20.015(3).

Q. What are the requirements for record keeping?

A. To ensure its transactions with affiliates are auditable, regulated gas corporations are also required to meet certain "Record Keeping Requirements." Regulated gas corporations are required to maintain books, accounts, and records separate from those of its affiliates. The rule further requires regulated gas corporations to maintain certain information relating to its affiliate transactions in a mutually agreed-to electronic format on a calendar year basis, and to provide that information to Staff and OPC on, or before, March 15 of the succeeding year. The information required to be provided includes: a full and complete list of all goods and services provided to or received from affiliate entities, all contracts with affiliated entities, all affiliate transactions undertaken with affiliated entities without a written contact together with a brief explanation of why there was no contract, the amount of affiliated transactions by affiliated entity and account charged, and the basis used to record each type of affiliated transactions. See Commission Rule 20 CSR 4240-40.015(4).

Q. Does the Commission have authority to review the documents?

A. Yes. The rule also requires certain records be kept by a regulated gas utility's affiliates, and that the regulated gas corporations make those records available to the Commission when required by each regulated gas corporation for a period of not less than six (6) years. See Commission Rule 20 CSR 4240-40.015(5), (6), (7), (8).

Q. Did the Commission open a docket to assist Staff in a review and consideration of the new and existing rule regarding the treatment of affiliate transactions?

A. Yes. On July 11, 2018, the Commission opened Case No. AW-2018-0394, to assist Staff in its consideration of new and existing rules regarding the treatment of affiliate transactions and HVAC affiliate transactions by and among electrical corporations, gas corporations, heating companies, water corporations with more than 8,000 customers, and sewer corporations with more than 8,000 customers. While Staff has submitted multiple versions of draft ATRs and HVAC Affiliate Service Rules in the working case, no subsequent rulemaking has yet resulted.

Empire's Cost Allocation Manual

Q. Why does a Cost Allocation Manual (CAM) have to be completed?

A. A CAM has to be completed in accordance and conformance with the NARUC Guidelines for Cost Allocations and Affiliate Transactions, and the Commission's ATRs.

Q. Please briefly summarize Empire Gas' corporate structure?

A. Empire is part of a multi-layered corporate structure. It is directly owned by Liberty Utilities Co., which is owned by a string of affiliated companies, and ultimately owned by Algonquin Power and Utilities Corp. ("APUC").

Q. Where can the current CAM be reviewed?

A. The allocation of costs and methods used to allocate costs from APUC to its subsidiaries are outlined in Liberty's annual CAM, which was provided via email to OPC and Staff on March 15, 2021, as part of its 2020 Affiliate Transaction Report. It was then submitted to the Commission on August 16, 2021 under Tracking No. BAFT-2022-0072 in the Commission's Electronic Filing Information System (EFIS). Liberty's CAM covers each of its Missouri subsidiaries, including Empire Gas.

Q. Has the CAM been approved by the Commission?

A. No. While Liberty submits its CAM to the Commission annually, the CAM has not been formally approved by the Commission. On June 30, 2017, The Empire District Electric Company, The Empire District Gas Company, Liberty Utilities (Midstates Natural Gas) Corp., and Liberty Utilities (Missouri Water), LLC, filed an application for approval of their CAM by the Commission in Case No. AO-2017-0360. However, the proceeding has been stayed since January 10, 2020, primarily due to the potential for revisions to the Commission's ATR through Case No. AW-2018-0394. That being said, the CAM provides a detailed explanation of services provided by APUC and its affiliates to other entities within the APUC business and describes the direct and indirect charging methodologies used for those services.

Q. Who provides corporate shared services to EDG?

A. APUC, Liberty Utilities Canada Corp. ("LUCC"), and Liberty Utilities Service Corp. ("LUSC") provide shared corporate services to the operating utilities.

Q. What support services does Empire received from LUSC?

A. Empire receives a variety of corporate, administrative, and support services from a number of upstream affiliate entities. In addition, Empire also receives support services from LUSC. Almost all of Empire's affiliated transactions involve receipt of corporate support services from its affiliates, including LUSC. APUC provides financing, financial control, legal, executive and strategic management and related services to Liberty Utilities, Liberty Power, and its international utilities in Chile and Bermuda. APUC labor costs are directly (in the context of this testimony, direct charged costs are those incurred on behalf of a specific business unit, or that can be identified with a specific product or service) charged to the extent possible to the affiliated entity on whose behalf APUC is incurring the costs. Direct labor charges are based upon APUC employee timesheets. If APUC labor is used to benefit all subsidiaries in general, then indirect (In the context of this testimony, an indirect cost is one that is incurred on behalf of more than one business unit or for all business units within a corporate structure. These costs cannot be identified with a particular service or product) allocation methods are used to allocate the costs.

Q. How does APUC pass cost to Empire Gas?

A. APUC incurs three types of costs that are passed to its regulated and unregulated subsidiaries. First, there are direct costs that benefit an unregulated company, which are direct assigned to that company. Second, there are APUC's costs that directly benefit a specific regulated company, which are directly assigned to that specific regulated company. If a good or service cost benefits more than one regulated company, the cost is allocated using a Utility-Four Factor Methodology. The Utility-Four Factor Methodology factors are based on the following: customer count, utility net plant, non-labor expenses, and labor expenses. Lastly, there are the remaining costs that benefit the entire multi-layered structure (both regulated and unregulated companies). All costs in the last category have to be allocated between regulated and nonregulated parts of the business. This allocation is based on the function or cost type based on various weighted factors. The factors can be a combination of the following: net plant, number of employees, revenues, or O&M. In Liberty's CAM there are tables provided to show which particular allocation factors to use based on the underlying type of cost subject to allocation.

Q. What does LUCC do for Empire Gas?

A. LUCC is based in Canada and provides various services to Liberty Utilities, specific services to Liberty Power, and shared services to the entire organization. There are three types of corporate costs that are allocated to Liberty Power and regulated utilities. As with APUC, the direct cost for unregulated companies are directly assigned to the utility. Second, indirect costs that benefit all regulated operations are allocated using the Utility Four-Factor Methodology. Lastly, direct charges that are directly assigned to a utility are allocated at 100% to that utility; however, if the cost includes more than one regulated company it is allocated using the Utility Four-Factor Methodology.

Q. How does Liberty Algonquin Business Services ("LABS") charge costs to regulated and unregulated subsidiaries?

A. LABS, a business unit within LUCC and LUSC, charges costs to regulated and unregulated subsidiaries. For example, the services include: budgeting, forecasting and issuing consolidated and stand-alone financial statements, treasury functions, development of human resources policies and procedures, information systems and equipment for account. LABS incurs three types of costs that are passed to regulated and unregulated entities. First, as with APUC, direct costs tied to unregulated subsidiaries are directly assigned to the specific unregulated subsidiary. A direct cost traceable to a regulated subsidiary is directly assigned to that specific subsidiary utility; however, if one or more regulated company is involved then the cost is allocated using the Utility Four-Factor Method. Indirect costs that benefit both unregulated and regulated subsidiaries are allocated based on a combination of the following: number of employees, O&M expense, capital expenditures, and revenue or net plant. For example, allocation of costs associated with business services for utility planning is based on the following factors: revenue, O&M expense, and net plant. If LABS costs need to be broken down between regulated operating utilities it is based on the Utility Four-Factor Methodology

Q. How are charges from LUSC applied?

A. The majority of costs charged by LUSC relate to salaries for employees that perform functions for the various regulated and non-regulated entities under the APUC umbrella; these costs include benefits and insurance. When possible LUSC will directly charge the applicable utility; however, when that is not possible and the costs are indirect they are allocated using the regional four-factor allocation. Each factor (customer count, utility net plant, non-labor expense, and total expense) has a 25% weight. Empire evaluates and updates the allocation factors annually.

Q. How often are these factors audited?

A. These factors are based on the most recent audited financial statements and other actual year-end information. These factors come into effect April 1st of each year. The allocation factors are listed in the CAM. Caroline Newkirk explains the allocation procedures more in detail in Section VI.A. Corporate Allocations.

Empire Gas' Affiliate Transactions

Q. What reports/documents does Liberty or Empire file in EFIS for Affiliate Transactions?

A. On March 16, 2021, Liberty filed the 2020 Affiliate Transaction Report, the current CAM, and The Empire District Electric Company and Liberty Utilities organizational charts.

Q. Did Staff review Empire's Affiliate Transaction Report?

A. Yes. Staff reviewed Empire's 2020 Affiliate Transaction Report.

Q. What affiliated services are provided to Empire Gas?

A. The services provided to Empire Gas by various affiliates include the following: customer billing services, phone services, purchasing services, computer technical, miscellaneous A&G and interest on cash held. In the Affiliate Transaction Report a cost amount is provided for each category.

Q. Are competitive bids necessary for every transaction?

A. No. Under the Affiliate Transaction Rule, (Commission Rule 20 CSR 4240-40.015(3)) when a regulated gas corporation purchases information, assets, goods or services from an affiliate entity, the regulated gas corporation shall either obtain competitive bids for such information, assets, goods or services or demonstrate why competitive bids were neither necessary nor appropriate. The transactions that involve either the purchase or receipt of information, assets, goods or services by a regulated gas corporation from an affiliated entity, the regulated gas corporation shall document both the fair market price of such information, assets, goods, and services and the FDC to the regulated electrical corporation to produce the information, assets, goods, or services for itself. Application of the "higher of/lower of" pricing standard to regulated – nonregulated affiliate transactions is an effective means to protect regulated customers from higher rates due to potential cross subsidy. However, as stated above, Empire is directly owned by LUCO, which in turn is owned by a string of affiliated companies, and ultimately by APUC. Utilities operating under holding company structures typically involve the centralized provision of service by a "service company" to regulated and unregulated holding company affiliates. Use of service companies to obtain necessary corporate support service for multiple entities under a holding company structure is common practice for utilities, as it is believed to be an economical approach for provision of these services. The specific item services included in the definition of "corporate support" in the ATRs are joint corporate oversight, governance, support systems and personnel involving payroll, shareholder services, financial reporting, human resources, employee records, pension management, legal services, and research and development activities. There are apparent economies of scale benefits when such services are offered on a centralized basis to affiliated entities. All of the above listed services are currently provided to Empire, at cost, by its affiliates.

Q. Does FERC prohibit centralized service companies from charging a profit?

A. Yes. The FERC currently prohibits centralized service companies under its jurisdiction from charging a profit for corporate support services to affiliated entities. Elimination of profit from service company affiliated transactions tend to make receipt of goods or services from a service company more economical to utilities than obtaining the same good or service from an unaffiliated profit-seeking entity, all other things being equal. While FERC does not require the use of service companies for holding company structures, FERC Order 667, one of several rulemaking orders amending FERC's regulations to implement the repeal of the Public Utility Holding Company Act of 1935 and enact the Public Utility Holding Company Act of 2005, provides that transactions with centralized service companies must be made at cost. LUSC, LUCC and APUC are centralized service companies, and their services to Empire Electric are valued at cost. Staff generally agrees with FERC that it not necessary to obtain market values for services obtained from service companies at cost.

Q. Is the amount of cost to and from Empire Gas from affiliates during the test year reasonable?

A. Yes. As of the filing of its direct testimony, Staff has reviewed the transactions listed in the Affiliate Transactions Report and found the costs charged to Empire by affiliates during the test year appear to be reasonable, consistent with the intent of, and substantially in compliance with the Commission's ATR. Staff will continue to investigate affiliate transactions throughout the case.

Q. Does this conclude your direct testimony?

A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of The Empire District Gas Company's d/b/a Liberty Request to File Tariffs to Change its Rates for Natural Gas Service	)))	Case No. GR-2021-0320

AFFIDAVIT OF ASHLEY SARVER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW ASHLEY SARVER and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct Testimony of Ashley Sarver*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Ashley Sarver
ASHLEY SARVER

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 24th day of January 2022.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070

D Suzie Mankin
Notary Public

Ashley Sarver

Educational, Employment Background and Credentials

I am currently a Lead Senior Utility Regulatory Auditor (former title Senior Utility Regulatory Auditor and Utility Regulatory Auditor IV) in the Auditing Department, Financial and Business Analysis Division for the Missouri Public Service Commission (Commission). I transferred to the position January 2017. I promoted to a Utility Regulatory Auditor IV in August 2016 in the Energy Resources Department, Commission Staff Division for the Commission. I accepted the position of the Utility Regulatory Auditor I/II/III in July 2013 with the Auditing Department.

I earned a Bachelor of Science degree in Accounting from Missouri State University in Springfield, MO in July 2009. In earning this degree I completed numerous core Accounting and business classes. Prior to joining the Commission, I was employed by the State of Missouri - Department of Corrections from 2009 to 2013 as an Auditor.

Case Participation

Company Name	Case Number(s)	Testimony/Issues
The Empire District Electric Company d/b/a Liberty	ER-2021-0312	Affiliate Transactions, Non-Labor Operations and Maintenance, Pensions and OPEBs, Software Maintenance, Wind Project Operation and Maintenance, Non-FAC Wind Project Expense, Riverton 12 Operation and Maintenance Tracker, Fuel and Purchase Power (contract), Software Maintenance Expense, Capitalized Depreciation (Depreciation Clearing)
The Empire District Gas Company's d/b/a Liberty	GR-2021-0320	Affiliate Transactions, Non-Labor Operations and Maintenance, Pensions and OPEBs, Software Maintenance Expense and Capitalized Depreciation (Depreciation Clearing)
Carl Richard Mills	WR-2021-0177	Revenue and Expenses
Liberty Utilities (Missouri Water) LLC d/b/a Liberty Utilities to acquire Bolivar	WA-2020-0397 SA-2020-0398	Certificate of Convenience and Necessity
Missouri-American Water Company	WR-2020-0344	Revenues, Chemical Expense, Power Expense, Purchased Water Expense, Water Loss Adjustment

Cont'd **Ashley Sarver**

Company Name	Case Number(s)	Testimony/Issues
Empire District Electric Company	ER-2019-0374	FAS 106 OPEBs, FAS 87 & 88 Costs, SERP, Fuel and Purchased Power, Operation and Maintenance (non-labor) Normalization, Riverton 12 O&M Tracker, Software Maintenance Expense
Elm Hills Utility Operating Company, Inc.	WR-2020-0275 SR-2020-0274	Lead Staff
Confluence Rivers Utility Operating Company, Inc.	WR-2020-0053 SR-2020-0054	Lead Staff
Carl Richard Mills (Water)	WA-2018-0370	Certificate of Convenience and Necessity
Branson Cedars Resort Utility Company LLC-(Sewer & Water)	WR-2018-0356	Lead Staff
Elm Hills Utility Operating Company, Inc., to Acquire Rainbow Acres and Twin Oakes or The Preserve	SA-2018-0313	Certificate of Convenience and Necessity
Missouri-American Water Company	WR-2017-0285 SR-2017-0286	Uncollectible Expense, Chemical Expense, Fuel and Power Expense, Purchased Water Expense, Tank Painting Expense/Tracker, Water Loss, Revenues
Environmental Utilities, LLC	WR-2018-0001	Lead Staff
Indian Hills Utility Operating Company, Inc.	WR-2017-0259	Revenue and Expenses
Elm Hills Utility Operating Company, Inc. to Acquire Missouri Utilities Company	SM-2017-0150 WM-2017-0151	Certificate of Convenience and Necessity
KCP&L Greater Missouri Operations Company	ER-2017-0189	Semi-Annual Fuel Adjustment Clause True-up
Empire District Electric Company	EO-2017-0065	Sixth Prudence Review of Fuel Adjustment Clause
Kansas City Power & Light Company	ER-2016-0285	Fuel Adjustment Clause Base Factor
KCP&L Greater Missouri Operations Company	ER-2016-0156	Miscellaneous Revenues and Customer Growth
Hillcrest Utility Operating Company, Inc.	WR-2016-0064 SR-2016-0065	Revenue, Expenses, and Rate Base
The Empire District Electric Company	ER-2016-0023	Property Tax Expense, Rate Case Expense, Injuries and Damages, Workman's Compensation, Bad Debt Expense, Amortization of Stock Issuance Expense Amortization, Lease Expense, DSM/PRE-MEEIA, Solar Rebate, Revenue, Customer Growth

Company Name	Case Number(s)	Testimony/Issues
Indian Hills Utility Operating Company, Inc. to Acquire I.H. Utilities, Inc.	WO-2016-0045	Acquisition Case: Rate Base determination
The Empire District Electric Company	ER-2014-0351	Revenue, Customer Growth, Common Stock Issuance Expense Amortization, Uncollectible Accounts, Cash Working Capital, Injuries and Damages, Workman's Compensation, Insurance Expense, Lease Expense, Property Tax Expense, Regulatory Commission Expense
Summit Natural Gas of Missouri, Inc.	GR-2014-0086	Plant in Service, Depreciation Reserve, Gas Stored Inventory, Prepayments and Materials and Supplies Inventory, Customer Advances, Customer Deposits, Payroll, Payroll Taxes, 401(k), and Other Employee Benefit Costs, Incentive Compensation and Bonuses, Customer Deposit Interest Expense, Maintenance Normalization Adjustments, Advertising Expense, Regulatory Expenses, Dues, Rent Expense
Lake Region Water and Sewer	WR-2013-0461 SR-2013-0459	Plant in Service, Depreciation Reserve, Materials and Supplies Inventory, Customer Advances, Contributions in Aid of Construction, Purchase Power, Chemicals, Testing Expense, Supplies and Materials, Tools and Shop Supplies, Insurance, Office Supplies, Telephone, License and Permits, Property Tax