Exhibit No.:
Issue: Revenue Requirement
Witness: Jill Schwartz
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 21, 2017

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Jill Schwartz

On behalf of

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

September 2017

DIRECT TESTIMONY OF JILL SCHWARTZ LIBERTY UTILITIES BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION CASE NO. GR-2018-0013

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jill Schwartz. My business address is 602 South Joplin Avenue, Joplin, MO 64802.

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

A. I am employed by Liberty Utilities Services Corp. as the Senior Manager of Rates and Regulatory Affairs for Liberty Utilities Central Region, which includes Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities, The Empire District Electric Company ("Empire"), and Liberty Utilities (Missouri Water) LLC.

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

A. I am testifying on behalf of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities ("Liberty Utilities" or "Company").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. In 2001, I completed my Bachelor of Science in Accounting from the John E. Simon School of Business at Maryville University in St. Louis, Missouri and I am currently pursuing a Masters of Accountancy. Before working for Liberty Utilities, I was employed by The Boeing Company for approximately fourteen years in a variety of accounting capacities, ensuring compliance with the Federal Acquisition Regulation

Mandatory Disclosure rule and developing and delivering labor compliance training for all Boeing employees.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION OR ANY OTHER REGULATORY AGENCY?

A. While I have not testified before the Missouri Public Service Commission, I have testified on behalf of the Company before the Illinois Commerce Commission and the Iowa Utilities Board.

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

A. The purpose of my Direct Testimony is to address the Company's overall revenue requirement, rate base and rate base adjustments that should be used to establish rates for Liberty Utilities. In addition, my testimony addresses how the Company has satisfied the Commission's minimum filing requirements and various filing requirements pursuant to prior stipulations and agreements.

Q. ARE YOU SPONSORING ANY SCHEDULES WITH YOUR TESTIMONY?

A. Yes. I am sponsoring the following schedules:

- WP-1 Revenue Requirement Model
- WP 7-1 Plant in Service
- WP 7-3 Accumulated Depreciation
- WP 7-4 Customer Advances and Deposits
- WP 7-5 Underground Storage
- WP 7-6 Prepayments
- WP 7-8 Rate Base Offset
- WP 7-9 Energy Efficiency

- WP ADJ 2 Rate Base Offset
- WP ADJ 3 AMR Plant Addition
- WP ADJ 4 Vehicles Plant Addition
- WP ADJ 5 Main Replacement Plant Addition
- WP ADJ 6 Hannibal Shop Plant Addition

Q. WAS THE INFORMATION CONTAINED IN THE SCHEDULES OBTAINED OR DERIVED FROM THE BOOKS AND RECORDS OF THE COMPANY?

A. Yes, the information contained in the schedules I am sponsoring was obtained or derived from the books and records of Liberty Utilities for the twelve months ended June 30, 2017.

MINIMUM FILING REQUIREMENTS

Q. WHAT IS THE PURPOSE OF THIS PART OF YOUR TESTIMONY?

A. This portion of my testimony details how the Company met the Commission MFR's outlined in 4 CSR 240-3.030 and 4 CSR 240-3.235. 4 CSR 240-3.030 sets forth the following requirements which were met and are located behind the transmittal cover letter labeled "MFR Exhibit No. 2."

A. Letter of Transmittal

B. General information, including:

1. the amount of dollars of the aggregate annual increase and percentage of increase over current revenues;
2. names of counties and communities affected;
3. the number of customers to be affected;
4. the average change requested in dollars and percentage change from current rates;

5. the proposed annual aggregate change by general categories of service and by rate classifications;
6. any press releases relative to the filing; and
7. a summary of the reasons for the proposed changes.

Q. ARE YOU SPONSORING THIS INFORMATION?

A. Yes.

Q. WAS THIS INFORMATION PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?

A. Yes.

Q. WHAT ARE THE OTHER MINIMUM FILING REQUIREMENTS?

A. Commission Rule 4 CSR 240-3.235 details the requirement of a gas utility to submit a depreciation study as part of a general rate case.

Q. HAS THE COMPANY PERFORMED A DEPRECIATION STUDY?

A. Yes, the Company is presenting its full and complete detailed depreciation study in this proceeding, which is sponsored by Company Witness Dane Watson. Accordingly, Liberty Utilities has met that requirement in 4 CSR 240-3.235.

<u>REVENUE REQUIREMENT</u>

Q. WHAT IS MEANT BY THE TERM "REVENUE REQUIREMENT"?

A. A utility's "revenue requirement" is the sum of its operations and maintenance ("O&M") expenses, depreciation expense, income and other taxes and a fair return on the utility's rate base. The revenue requirement is determined based on utility revenue and expenses in a "test year." When the revenue requirement exceeds the utility's test year revenues, a revenue deficiency exists, and a rate increase is required.

Q. WHAT TEST YEAR IS LIBERTY UTILITIES PROPOSING IN THIS CASE?

A. Liberty Utilities is proposing use of the twelve months ended June 30, 2017 as the historic test year.

Q. WILL LIBERTY UTILITIES BE REQUESTING THAT THE TEST YEAR BE UPDATED?

A. Yes. Liberty Utilities is requesting an update through December 31, 2017. It is the Company's belief, based on past experience, that this should provide sufficient time for Staff to prepare its direct case using December 2017 data. It will of course be appropriate to replace these projections with actual information as the case progresses.

Q. IS LIBERTY UTILITIES REQUESTING A "TRUE-UP" PROCESS?

A. Yes. Liberty Utilities is proposing a true-up for known and measurable changes through March 31, 2018. The impact of the true up process has been included in the Company's revenue requirement.

Q. BASED ON LIBERTY'S TEST YEAR REVENUES, IS THE COMPANY ABLE TO EARN A FAIR RETURN ON ITS INVESTMENTS?

A. No. Based on the Company's test year rate base, revenues and expenses, the Company's current rate of return is 3.0%.

Q. WHAT IS THE REVENUE REQUIREMENT FOR LIBERTY UTILITIES' MISSOURI GAS OPERATIONS?

A. Liberty Utilities has an overall revenue requirement for its Missouri natural gas operations of $33,315,800 and a current revenue deficiency of $7,467,858.

Q. PLEASE DESCRIBE WP-1 REVENUE REQUIREMENT MODEL.

A. WP-1 Revenue Requirement presents the Company's proposed revenue requirement and the overall revenue requirement calculation. WP-1 Rate Base reflects the

Company's test year rate base, including pro forma adjustments and the resulting pro forma rate base. WP-1 Operating Income provides the test year statement of operating income with pro forma adjustments and the resulting pro forma operating income. WP-1 Rate Base Adjustments and WP-1 Operating Income Adjustments summarize the known and measurable adjustments to rate base and operating income that the Company reasonably expects through the true-up period. WP-1 Income Taxes calculates income taxes based on state and federal effective tax rates. WP-1 Interest Synchronization calculates the synchronized interest expense based on the Company's rate base and weighted cost of debt. WP-1 Rate of Return presents the overall cost of capital used in the calculation of the revenue requirement, which will be addressed in detail by Company witness Keith Magee.

RATE BASE

Q. WHAT IS THE COMPANY'S PRO FORMA RATE BASE?

A. As shown on WP-1 Rate Base, the Company's pro forma rate base is $99,166,650. It is comprised of the test year rate base of $90,044,339, with pro forma adjustments totaling $9,122,312.

Q. PLEASE SUMMARIZE THE COMPONENTS OF THE RATE BASE CALCULATION SHOWN ON WP-1 RATE BASE.

A. Rate base is comprised of the following components:

(i) Gas Plant in Service, less the Accumulated Depreciation;

(ii) Allowance for Cash Working Capital;

(iii) Gas Storage;

(iv) Energy Efficiency Regulatory Asset; and,

(v) Prepaid Expenses.

Rate Base is reduced by the following components:

(vi) Accumulated Deferred Income Taxes ("ADIT");

(vii) Customer Advances for Construction;

(viii) Customer Deposits; and,

(ix) Rate Base Offset.

The detail underlying each component of the rate base calculation is contained in the work papers filed in this case.

Q. HOW HAS THE COMPANY DEVELOPED ITS PROPOSED GAS PLANT IN SERVICE BALANCE FOR ITS RATE CASE FILING?

A. The proposed gas plant in service balance uses actual data through June 30, 2017. The proposed adjustments are for the forecasted plant additions and retirements that the Company reasonably expects to occur, based on the approved budget and corporate model, during the update period of July 1, 2017 through December 31, 2017 and the true up period of January 1, 2018 through March 31, 2018.

Q. WHAT PLANT INVESTMENT COSTS ARE INCLUDED IN RATE BASE?

A. The majority of plant investment included in the Company's rate base is classified as Distribution Plant, Transmission Plant, and General and Intangible Plant. In addition to providing natural gas utility service in Missouri, the Company also provides natural gas utility service in Illinois and Iowa and as such the jurisdictional rate base includes an allocation of shared services.

Q. WHAT ASSETS ARE INCLUDED IN THE SHARED SERVICES ALLOCATION THAT IS INCLUDED IN THE JURISDICTIONAL RATE BASE?

A. The shared services allocation is found in WP 7-2 SS Plant. In general, the Company consider an asset to be a shared services asset if it provides benefit to all of the jurisdictions within Liberty Utilities. Specifically, these assets include the building and land located in Jackson, Missouri, computing hardware and software, and shared vehicles and equipment. It is allocated among the three states based on four factors: utility plant in service, customer counts, labor costs, and operating expenses.

Q. WHAT AMOUNT OF GAS PLANT IN SERVICE HAS THE COMPANY INCLUDED IN ITS TEST YEAR RATE BASE?

A. As shown on WP-1 Rate Base, Gas Plant in Service included in the rate base is $154,867,739 based on plant balances as of June 30, 2017**.** This includes all Missouri direct plant, as well as Missouri's allocated portion of shared services plant. There are pro forma adjustments totaling $10,243,546 to recover known and measurable changes to plant in service through the true up period.

Q. WHAT PRO FORMA ADJUSTMENTS WERE MADE TO GAS PLANT IN SERVICE?

A. The Company proposes several pro forma adjustments to gas plant in service as follows: the addition of automated meter reading ("AMR"), PVC and steel main replacements, the construction of a new shop in Hannibal, vehicle additions, and adjustments resulting from an updated cost allocation manual ("CAM"), merit increases and vacant positions.

Q. PLEASE DESCRIBE THE AMR PROJECT.

A. The Company proposes an addition of $7,295,000 for the implementation of AMR. As addressed by Company witness, Mike Beatty, AMR is the technology of automatically collecting consumption, diagnostic and status data from metering devices and transferring that data to a central database for billing, troubleshooting and analysis. An advantage to AMR is that billing can be based on near real-time consumption rather than on estimates based on past or predicted consumption which can help both the Company and customers better control the use and prediction of gas usage.

Q. DOES THE COMPANY BELIEVE AMR WILL BE IN SERVICE AND USED AND USEFUL WITHIN THE TRUE-UP PERIOD?

A. Yes. Liberty Utilities reasonably expects the implementation of AMR will be complete, in service, and used and useful by March 31, 2018.

Q. WHAT IS THE RATE BASE IMPACT FOR THE ADDITION OF AMR?

A. As reflected on WP ADJ 3, the Company proposes an addition to gas plant in service of $7,295,000, which results in offsetting rate base adjustments for accumulated depreciation and accumulated deferred income taxes ("ADIT"). The Company calculates accumulated depreciation associated with the addition of AMR to be $365,480, and ADIT of $1,297,867. As a result, the net impact for the addition of AMR is an increase to rate base of $5,631,654.

Q. PLEASE DESCRIBE THE PVC AND BARE STEEL MAIN REPLACEMENTS PROJECT.

A. As discussed by Company witness Mike Beatty, the Company plans to invest approximately $1,350,000 to replace bare steel and polyvinyl chloride ("PVC") mains.

Q. DOES THE COMPANY BELIEVE THE MAIN REPLACEMENTS WILL BE IN SERVICE, USED AND USEFUL WITHIN THE TRUE-UP PERIOD?

A. Yes. Liberty Utilities reasonably expects that the bare steel and PVC main replacements will be complete, in service, and used and useful by March 31, 2018.

Q. WHAT IS THE IMPACT TO RATE BASE FOR THE BARE STEEL AND PVC MAIN REPLACEMENTS?

A. Like the adjustment for the addition of AMR, WP ADJ 5 calculates the offsetting rate base adjustments for accumulated depreciation and ADIT associated with the bare steel and PVC main replacements. The Company proposes an adjustment of $223,856 to ADIT and $25,110 to accumulated depreciation associated with the PVC and bare steel main replacement project.

Q. PLEASE DESCRIBE THE COMPANY'S ADJUSTMENT FOR THE HANNIBAL SHOP.

A. WP ADJ 6 presents the Company's adjustment for the construction of a new shop in Hannibal, Missouri as discussed by Company witness Mike Beatty. The Company proposes an addition to gas plant in service for $200,000, and offsetting adjustments to accumulated depreciation of $5,620 and ADIT of $189.

Q. DOES THE COMPANY BELIEVE THE NEW SHOP WILL BE IN SERVICE, USED AND USEFUL WITHIN THE TRUE-UP PERIOD?

A. Yes. The Company reasonably expects the construction of the shop in Hannibal will be complete and in service by March 31, 2018.

Q. PLEASE DESCRIBE THE ADJUSTMENT FOR VEHICLE ADDITIONS.

A. As reflected on WP ADJ 4, and discussed by Company witness Mike Beatty, the Company is replacing its aging service fleet and proposes a net increase to rate base of $907,208 for the addition of vehicles and equipment.

Q. WILL THE VEHICLES AND EQUIPMENT BE IN SERVICE, USED AND USEFUL WITHIN THE TRUE-UP PERIOD?

A. Yes. The Company reasonably expects all vehicles and equipment will be in service, used and useful by March 31, 2018.

Q. HAS THE COMPANY PROPOSED ANY ADDITIONAL ADJUSTMENTS TO GAS PLANT IN SERVICE?

A. Yes. As discussed in Company witness, Charlie Evans' direct testimony, the Company is proposing adjustments for merit increases and vacant positions that will result in an increase to gas plant in service as a result of increased capitalized labor costs. Also, Company witness, Ashley Hiatt presents the adjustment to decrease rate base for changes associated with the revised cost allocation manual.

Q. DOES THE COMPANY INCLUDE ACCUMULATED DEFERRED INCOME TAXES IN ITS RATE BASE?

A. Yes. Company witness John Ostrander presents the Company's accumulated deferred income taxes included in the revenue requirement.

Q. PLEASE EXPLAIN THE CUSTOMER ADVANCES SHOWN ON WP-1 RATE BASE.

A. Customer advances for construction are cash advances paid by customers that are subject to refund to the customer in whole or in part. The payments are received from customers in connection with extensions of facilities used by Missouri gas customers. As reflected on WP 7-4, the thirteen-month average of customer advances for construction applicable results in a $34,741 reduction to rate base.

Q. PLEASE EXPLAIN THE CUSTOMER DEPOSITS SHOWN ON WP-1 RATE BASE.

A. Customer deposits are cash deposits required from customers as a condition of initial or continued service under the rules set forth in the Company's tariffs approved by the Commission. As reflected on WP 7-4, the thirteen-month average of customer deposits results in a $1,967,340 reduction to the Company's test year rate base.

Q. PLEASE EXPLAIN THE AMOUNT OF GAS STORAGE INCLUDED IN RATE BASE.

A. WP 7-5 reflects the amount of gas stored underground for the test year based on the thirteen-month average balance as of June 30, 2017.

Q. HAS THE BALANCE OF GAS STORAGE DECREASED SINCE THE COMPANY'S LAST GENERAL RATE CASE, DOCKET NO. GR-2014-0152?

A. Yes. As reflected on WP 7-5 and WP-1, the Company has included $3,686,813 in its test year rate base, which represents a decrease in comparison to the gas storage rate base amount in the 2014 case. The primary driver of the decrease is the cost of gas. Additionally, the decreased usage during winter results in more gas left in storage causing us to inject less and the gas injected is at a lower cost resulting in lower balances.

Q. DOES THE COMPANY INCLUDE AN ALLOWANCE FOR CASH WORKING CAPITAL IN RATE BASE?

A. Yes. Company witness Tim Lyons presents the lead lag study prepared for Liberty Utilities, as well as the calculation for the allowance for cash working capital.

Q. PLEASE DESCRIBE THE RATE BASE OFFSET INCLUDED IN THE REVENUE REQUIREMENT.

A. Pursuant to the Stipulation and Agreement approved in Case No. GM-2012-0037, the rate base offset is intended to reduce the Company's rate base for rate making purposes in the context of future proceedings, crediting customers with a return on the rate base offset through lower rates and charges in future periods. It is being amortized over a ten year period that began on March 24, 2012.

Q. DOES THE COMPANY PROPOSE AN ADJUSTMENT TO THE RATE BASE OFFSET?

A. Yes. Liberty Utilities proposes an adjustment for the nine additional months of amortization that will occur within the true-up period from July 2017 through March 2018. This adjustment reduces the rate base offset and increases rate base by $1,222,500.

Q. PLEASE EXPLAIN THE PREPAID EXPENSES INCLUDED IN THE COMPANY'S REVENUE REQUIREMENT.

A. WP 7-6 presents the prepaid expenses, which are primarily comprised of insurance, membership dues, the annual assessment of the Commission, and other various items paid in advance by the Company. The average monthly balance of prepaid expenses included in the Company's revenue requirement is $253,077 applicable to Missouri gas operations for the thirteen months ended June 30, 2017.

Q. PLEASE DESCRIBE THE REGULATORY ASSET FOR ENERGY EFFICIENCY INCLUDED IN RATE BASE.

A. The Energy Efficiency program initiated by Atmos Energy Corporation ("Atmos") was adopted by Liberty Utilities as part of the Stipulation and Agreement in Case No. GM-2012-0037. Liberty Utilities agreed to continue certain ratemaking agreements which were previously stipulated to by Atmos in its prior general rate case proceeding, Case No. GR-2010-0192, including the utilization of a regulatory asset account mechanism for additional monies required to fund the program. The beginning balance, per Commission Case No. GR-2014-0152, of $51,911 was to be amortized over 6 years. The amortization expense as of June 30, 2017 is $21,630, resulting in a remaining balance of $30,282 to be amortized.

Additionally, the Company has incurred an additional $185,432 over and above the $150,000 included in base rates, which has been incurred in the test year and recorded in the Regulatory Asset FERC Account 186.2. As reflected on WP-1 Rate Base, the Company has included $215,713 in rate base for the unrecovered Energy Efficiency costs.

Q. DOES THE COMPANY PROPOSE ANY ADJUSTMENTS TO THE ENERGY EFFICIENCY REGULATORY ASSET?

A. Yes. Liberty Utilities proposes an adjustment to capture the additional nine months of amortization that will occur within the true-up period, totaling $37,394. This adjustment reduces the ending balance reflected on WP-1 Rate Base to $178,319.

<u>COMPLIANCE WITH STIPULATION AND AGREEMENTS</u>

Q. HAS THE COMPANY COMPLIED WITH THE STIPULATION AND AGREEMENTS AS ORDERED BY THE COMMISSION IN CASE NOS. GM-2012-0037 AND GR-2014-0152?

A. Yes, the Company is in compliance with the Stipulation and Agreement approved by the Commission in Case No. GM-2012-0037, as well as the Partial Stipulation and Agreement as to Certain Issues dated August 12, 2014 ("Partial Stipulation") and the Revised Second Partial Stipulation and Agreement as to Certain Issues dated September 10, 2014, approved by the Commission is Case No. GR-2014-0152. Among the major areas are the following:

- **<u>Rate Base Offset</u>**

As discussed above, the ultimate impact of this rate base offset is to reduce rate base and ultimately lower the overall revenue requirement requested in any base rate case for a period of ten years. As reflected in the Company's revenue requirement and schedule WP 7-8, the rate base offset included for the test year ending June 30, 2017 is $8,285,833. Additionally, the Company has proposed a pro forma adjustment to reflect the nine additional months of rate base amortization from July 2017 through the true up period ending March 31, 2018.

- **Pensions/OPEBs**

The Company's adjustment for pension and OPEB costs is reflected on WP ADJ 1, which is sponsored by Company witness Jeff Lee.

- **Lead/Lag Study**

The Company's Lead/Lag Study is sponsored by Company Witness Tim Lyons and the results are presented in schedule WP 7-7.

- **Cost Allocation Manual ("CAM")**

The Company has filed an application with the Commission seeking approval of its Cost Allocation Manual and a conditional request for variance (as a Joint Applicant with The Empire District Electric Company, The Empire District Gas Company and Liberty Utilities (Missouri Water) LLC), in File No. AO-2017-0360. On August 17, 2017, the Commission Staff, Office of the Public Counsel, Midwest Energy Consumers Group and the Joint Applicants collectively filed their "Joint Proposed Procedural Schedule" in that docket, wherein the parties explained that "the parties discussed the significant undertaking that is the development of a Commission approved CAM, and determined that the best path forward is to delay the setting of a formal procedural schedule to allow for the parties to conduct a series of informal technical meetings." The parties specifically requested that the Commission issue an order requiring Staff to file a status report on or before December 17, 2017, and, in accordance with the parties' request, the Commission issued its "Order Directing Filing of Status Report" in File No. AO-2017-0360 on August 18, 2017.

Company witness Ashley Hiatt presents the adjustment to decrease rate base for changes associated with the revised cost allocation manual.

- **<u>Depreciation Study</u>**

The Company is presenting its full and complete detailed depreciation study in this proceeding, which is sponsored by Company witness Dane Watson.

- **<u>Rate Design and Related Issues</u>**.

Company Witness Tim Lyons is sponsoring and presenting the Company's Class Cost of Service Study in this proceeding.

- **<u>Infrastructure System Replacement Surcharge ("ISRS")</u>**

After the Company's previous ISRS was zeroed out in its prior general rate case, Case No. GR-2014-0152, the Company's existing ISRS was established in Case Nos. GO-2015-0350 and GO-2016-0206. The Company has reconciled the amount of ISRS revenue it has collected from customers to account for over or under-collection of ISRS revenue and that adjustment is reflected on WP ADJ 19. Also, in accordance with the ISRS Statutes, the Company's ISRS will be zeroed out and rolled into base rates.

CONCLUSION

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

AFFIDAVIT OF JILL SCHWARTZ

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 21 day of September 2017, before me appeared Jill Schwartz, to me personally known, who, being by me first duly sworn, states that she is the 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 21 day of September, 2017.

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: 11/01/2019.