

Exhibit No.:
Issue: Upstream Affiliate Costs,
Incentive Compensation
Witness: Jill Schwartz
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Liberty Utilities
(Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Case No. GR-2018-0013
Date Testimony Prepared: May 9, 2018

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

Surrebuttal Testimony

of

Jill Schwartz

On behalf of

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

May 2018



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

TABLE OF CONTENTS

I. WITNESS IDENTIFICATION..... 1

II. PURPOSE OF TESTIMONY 1

III. RESPONSE TO SPECIFIC ISSUES 2

 A. Budgeted Upstream Affiliate Service Expense 2

 B. Treatment of Incentive Compensation Costs..... 4

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

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19

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 AND REBUTTAL TESTIMONY IN THIS PROCEEDING ON BEHALF OF LIBERTY UTILITIES?

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

II. PURPOSE OF TESTIMONY

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

A. The purpose of my surrebuttal testimony is twofold. First, I will respond to the rebuttal testimony of Staff witness James Dittmer regarding the budgeted upstream affiliate service costs that the Company has proposed to include in its cost of service in this case. Second, I will respond to the rebuttal testimony that has been submitted by Keri Roth on behalf of the Office of the Public Counsel (“OPC”) relating to the treatment of incentive compensation costs.

1 **III. RESPONSE TO SPECIFIC ISSUES**

2 **A. Budgeted Upstream Affiliate Service Expense**

3 **Q. HAVE YOU REVIEWED THE CLAIMS MADE BY STAFF WITNESS**
4 **JAMES DITTMER REGARDING THE COMPANY’S ASSERTED**
5 **FAILURE TO PROVIDE BUDGETED INFORMATION FOR CALENDAR**
6 **YEAR 2018 RELATING TO UPSTREAM AFFILIATE SERVICE**
7 **EXPENSES?**

8 A. Yes, I have. As I understand it, Mr. Dittmer is concerned that the Company has
9 not provided him with the information he deems necessary to verify the budgeted
10 expense levels for these service affiliate costs that have been included in the
11 Company’s proposed cost of service.

12 **Q. DO YOU DISAGREE WITH MR. DITTMER’S COMPLAINT ABOUT**
13 **THE COMPANY’S RESPONSIVENESS TO HIS INFORMATION**
14 **REQUESTS?**

15 A. Yes. As Mr. Dittmer himself acknowledges at page 4 of his rebuttal testimony,
16 the Company provided Staff with variance spreadsheets showing budgeted and
17 actual information expenses for all of the Company’s affiliate service costs for
18 each of the years 2015, 2016 and 2017 because such information was available.
19 Obviously, because 2018 is not yet completed, the same kind of variance
20 spreadsheet cannot be produced for this year. Nevertheless, Mr. Dittmer has
21 requested budgeted support information for 2018 that goes well beyond the
22 affiliate service expenses that have actually been allocated or charged to Missouri

1 operations and basically seeks instead to examine, in great detail, the entire
2 budgets for each affiliate entity.

3 **Q. DO YOU BELIEVE SUCH INFORMATION IS NECESSARY TO**
4 **EVALUATE THE REASONABLENESS OF THE COMPANY'S**
5 **AFFILIATE SERVICE EXPENSES IN THIS CASE?**

6 A. No. Even though he continues to request it, Mr. Dittmer himself states that Staff
7 is generally disinclined to use such budgeted information to set rates. Given this
8 mindset, I question the usefulness of undertaking such a sizeable collection of
9 information, much of which has nothing to do with setting rates in Missouri.

10 **Q. ARE THERE OTHER REASONS THAT YOU BELIEVE MR.**
11 **DITTMER'S REQUEST IS UNREASONABLE?**

12 A. Yes, since the Company's filed its direct case, it has accumulated 9 more months
13 of actual data on affiliate service expenses. As the Company stated in its response
14 to Data Request 0205 in January 2018, it believes the proposed adjustment which
15 was based on the 2018 budget for cost allocations, should be trued-up using nine
16 months of actual data from July 1, 2017 through March 31, 2018 and annualized
17 for twelve months. Comparing such actual data, on a 12-month annualized basis,
18 to the budgeted amount for this item, shows that the budgeted amount is actually
19 approximately \$11,000 or about 0.5% less than actual costs incurred. I believe
20 this further demonstrates the reasonableness of the amount that have been
21 included in the Company's proposed cost of service.

22

23

1 **B. Treatment of Incentive Compensation Costs**

2 **Q. WHAT IS YOUR UNDERSTANDING OF THE RECOMMENDATIONS**
3 **BEING MADE BY OPC WITNESS KERI ROTH REGARDING THE**
4 **RECOVERY OF THE COMPANY’S INCENTIVE COMPENSATION**
5 **COSTS IN THIS CASE?**

6 A. Yes. At pages 5-6 of her rebuttal testimony, Ms. Roth states that she supports the
7 Staff’s position on excluding from the Company’s cost of service incentive
8 compensation that is based on financial or earnings-based goals, including such
9 costs that have previously been capitalized. Ms. Roth also cites the
10 Commission’s Order in the recent Spire cases to support her position.

11 **Q. DO YOU AGREE WITH MS. ROTH’S RECOMMENDATION?**

12 A. No. I disagree with it for the same reasons I gave in my rebuttal testimony for
13 disagreeing with Staff’s position on this issue. As I explained there, the same
14 factors that drive earnings – namely reducing costs and increasing revenues – also
15 directly benefit customers when those reduced costs and increased revenues are
16 reflected in a rate case. The end result is that utility customers benefit from a cost
17 of service and rates that are lower than they would have otherwise been. Such
18 metrics are also critical to establishing a balanced scorecard for incentive
19 compensation where there is a dual focus on improving operational performance
20 while still controlling costs. This balance helps ensure that operational
21 performance will not be enhanced without regard to the costs required to do so
22 and that costs will not be reduced without regard to the impact of such actions on
23 the quality of service being provided.

1 **Q. DOES MS. ROTH ADDRESS ANY OF THESE CONSIDERATIONS IN**
2 **HER REBUTTAL TESTIMONY?**

3 A. No. She just repeats the standard mantra that earnings-based incentive
4 compensation should not be recovered without any analysis of how such
5 compensation works to create benefits for customers in the real world.

6 **Q. IS MS. ROTH'S RECOMMENDATION CONSISTENT WITH THE**
7 **STAFF POSITION SHE CLAIMS TO SUPPORT?**

8 A. I cannot say for certain. But if Ms. Roth is truly supporting the Staff's position
9 than she should support Staff's withdraw of its adjustments relating to incentive
10 compensation paid to the Company's VVP Program for its Union Employees.
11 This would also require elimination of any proposed disallowance of the
12 capitalized incentive costs associated with the VVP Program.

13 **Q. IS MS. ROTH'S RECOMMENDATION CONSISTENT WITH THE SPIRE**
14 **ORDER SHE CITES?**

15 A. Again, I cannot say for certain. But to the extent she is trying to be consistent
16 with that Order, her recommendation should not seek to exclude any incentive
17 compensation costs for union employees, either in the form of expenses or
18 capitalized incentive costs. In addition, her excluding capitalized incentive costs
19 should be limited to incentive compensation capitalized after the beginning of the
20 test year in this case since that is the demarcation point approved by the
21 Commission in the Spire cases.

22 **Q. DOES THIS MEAN THAT THE COMPANY WOULD AGREE WITH**
23 **ANY OF THESE DISALLOWANCES?**

JILL SCHWARTZ
SURREBUTTAL TESTIMONY

1 A. No. Again, I want to emphasize that the Company believes that all of the
2 incentive compensation costs, whether capitalized or expensed, should be
3 recoverable in rates. My only intention is to clarify what OPC's statement of
4 support for Staff's position on this issue and the treatment given in the Spire cases
5 should mean.


6 Q. **DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

7 A. Yes, it does.

AFFIDAVIT OF JILL SCHWARTZ


STATE OF MISSOURI)
COUNTY OF Cole) ss

On the 8th day of May 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

Subscribed and sworn to before me this 8th day of May, 2018.



Notary Public

My commission expires: 07/17/2019

