

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of Rate Increase)
Request for Liberty Utilities (Missouri Water) LLC) **Case No. WR-2018-0170**
d/b/a Liberty Utilities)

NON-UNANIMOUS STIPULATION AND AGREEMENT

COMES NOW Liberty Utilities (Missouri Water), LLC (“Liberty” or the “Company”), and the Staff of the Missouri Public Service Commission (Staff), collectively, the Signatories, by and through their respective counsel, and, for this Non-Unanimous Stipulation and Agreement, respectfully state as follows to the Commission:

Cost of Service/Revenue Requirement

1. As a result of the agreements memorialized in this Stipulation and Agreement (sometimes hereafter, the “Agreement”), the Signatories agree and recommend, exclusive of rate case expense, that the total overall annual revenue requirement for Liberty’s water system operations is \$1,690,117. The Signatories further agree that, exclusive of rate case expense, the total overall annual revenue requirement for Liberty’s sewer system operations is \$455,163.

A. Increase: The water system operations revenue requirement of \$1,690,117 represents an increase of \$818,800 (a 92.4% increase) over present rate revenues authorized by the current tariffs. The sewer system operations revenue requirement of \$455,163 represents an increase of \$196,782 (a 75.8% increase) over present rate revenues authorized by the current tariffs. The Signatories agree that these revenue increases and totals are designed to cover the Company’s cost of service and are just and reasonable.

B. Rate Base: The agreed upon net rate base for water is \$3,525,804, and the net rate base for sewer is \$1,145,341.

C. Return on Equity: For purposes of calculating the revenue requirements, the Signatories agree to a return on equity (ROE) of 9.75%.

D. Taxes: The Signatories agree that the revenue requirements should and does reflect the full impact of the reduction in corporate tax rates from 35% to 21% resulting from the Tax Cuts and Job Acts of 2017 (Tax Act). It does not include any allowance for the return of excess accumulated deferred taxes, which issue will be evaluated in the Company's next rate case. Liberty shall establish a regulatory liability to account for the tax savings associated with excess Accumulated Deferred Income Taxes (ADIT).

E. ADIT Treatment: Liberty will record a regulatory liability for the difference between the excess ADIT balances included in current rates, which was calculated using the 35% federal corporate income taxes, versus the now lower federal corporate income tax rate of 21%.

Liberty is in the early stages of evaluating the cost and ability to use the Average Rate Assumption Method (ARAM) as a method for computing and normalizing excess ADIT. If Liberty determines that it is unable to use the ARAM, Liberty shall notify the Signatories within thirty (30) days of such determination. Liberty shall provide testimony and support in its next general rate case of its proposed methodology in dealing with the balances.

The calculation of the Regulatory Liability of excess ADIT will begin as of January 1, 2018.

The Signatories intend to appropriately reflect excess ADIT in future customer rates using a methodology consistent with the tax normalization requirements specified by IRS normalization principles. The Signatories agree that, in the event the IRS asserts that the terms of this Stipulation and Agreement create a violation of normalization requirements, this Stipulation and Agreement shall be amended to cure and prevent any normalization violation.

F. Depreciation Rates: The Signatories agree to the depreciation rates previously agreed to in the previously filed Partial Disposition Agreement.

G. Billing Determinants: The Signatories used Staff's billing determinants for establishing customer rates, and are included as **Attachment A** to this Stipulation.

Class Cost of Service/Rate Design

2. **Attachment A** to this Agreement illustrates the agreed-to method of allocation of the revenue requirement set forth in paragraph 1 of this Agreement, including rates and charges, for rate design purposes. In addition to allocating the overall revenue requirement recommended by the Signatories, **Attachment A** reflects the following terms:

A. Adoption of class cost of service allocations that are generally consistent with those recommended by Staff.

B. Adoption of rate consolidation for the "KMB Water Systems" service areas under which base rates and charges are being adjusted to make them the same for all residential customer classes.

C. Adoption of rate consolidation for the "KMB Sewer System" single family and multifamily residential rates into a single residential rate.

Accounting Practices and Subsequent Rate Cases

3. Liberty agrees to adopt and implement the following accounting practices:

A. Liberty agrees to keep separate books and records with regard to its water and sewer systems until subsequently authorized or directed to do otherwise, except for its KMB Properties¹ which records already have been consolidated.

B. Liberty will agree to convert its books of accounts for its water and sewer systems to bring them into compliance with Commission rules 4 CSR 240-50.030 and 4 CSR 240-61.020, respectively, no later than January 1, 2019.

C. Liberty agrees to book cost of removal and salvage for its water and sewer operations going forward in the same way Liberty Utilities (Midstates Natural Gas) Corp., books cost of removal and salvage.

4. The Signatories agree that, should the Commission approve this Stipulation, no later than twenty four months after the effective date of any approved compliance tariffs, Liberty shall file another general rate case.

5. The Signatories agree that Liberty will include in any future rate case filing the pending Ozark International systems (Case No. WM-2018-0023), as well as any other of its fully completed acquisitions that occur in the interim period.

Incorporation of the Partial Disposition Agreement

6. The Signatories agree that this Stipulation is made in addition to, and fully incorporating the terms of, the Partial Disposition Agreement filed on May 24, 2018 in this case,

¹ “KMB Properties” refers are the KMB Water Systems and Sewer System service areas, specifically: Cedar Hill, City of Scotsdale, Crest View Acres, High Ridge, Hillshine, Lakewood Hills, Warren Woods, and (sewer) Cape Rock Village.

and hereto attached as **Attachment B**. Where the Partial Disposition Agreement is silent as to any terms, this Stipulation controls.

Tariff Modifications

7. As part of this Stipulation and Agreement, the Signatories agree that Liberty will file by a date ordered by the Commission, proposed compliance tariffs that comport with the terms of this Stipulation the rate design reflected in **Attachment A**.

Customer Service

8. The Company agrees to record all customer inquiries received by Company personnel, as well as all contractors, in the customers' account records in the customer information system. Pursuant to Commission Rule 4 CSR 240-13.040, the information recorded will include the nature of the customer inquiry, date of the occurrence, as well as an explanation of how the Company addressed the customer issue. While the Company prefers, and is committed to, providing service to customers with Liberty employees, for service territories where contractors are necessary, the Company will require all contractors to report all customer inquiries to Company personnel as soon as practicable, but not later than monthly.

9. The Company agrees to take the following actions within thirty (30) days of Commission approval of this Agreement to ensure that customers are directed to the new unified customer service number:

A. All Company employees whose responsibilities include routine interaction with customers will be trained to direct customers to the customer service number so that calls can be routed to appropriate Company staff for response.

B. The new customer service number will be included on all signs, notices, door hangers, etc., such as those associated with boil advisories.

C. A letter, separate from the monthly bills, will be sent to all current customers notifying them of the new customer service number.

D. The new customer service number will be included on voicemails of Company employees who have previously received direct calls from customers.

10. By January 30, 2019, the Company agrees to file in this docket a 5-year capital improvements plan. This plan shall include all planned projects including water or sewer line replacements, hydrant replacements, pumps, treatment facilities, etc. This Plan shall be updated annually no later than January 30th of each year, beginning on January 30, 2020.

11. The Company agrees to inform the City of Noel of planned capital investment projects within the City of Noel right-of-ways so that other utility or street work can be coordinated, to the extent practicable.

Remaining Issues for Determination

12. The Signatories agree that rate case expense, as a part of the revenue requirement, is not resolved between the Signatories. The Signatories agree to present their respective cases regarding rate case expense to the Commission for determination, and in any subsequent order by the Commission determining the appropriate amount of rate case expense will be in addition to the agreed to revenue requirement amount identified in paragraphs 1 and 1.A. above.

Other Provisions

13. Except as otherwise expressly specified herein, none of the Signatories to this Stipulation and Agreement shall be deemed to have approved or acquiesced in any ratemaking or procedural principle, including, without limitation, any method of cost determination or cost allocation, depreciation, or revenue-related method, or any service or payment standard; and none of the Signatories shall be prejudiced or bound in any manner by the terms of this

Stipulation and Agreement in this or any other Commission or judicial review or other proceeding, except as otherwise expressly specified herein. Nothing in this Stipulation and Agreement shall preclude the Staff in future proceedings from providing recommendations as requested by the Commission nor limit Staff's access to information in any other proceedings. Nothing in this Stipulation and Agreement shall be deemed a waiver of any statute or Commission regulation.

14. This Stipulation and Agreement has resulted from extensive negotiations among the Signatories and the terms hereof are interdependent and non-severable. In the event that the Commission does not approve this Stipulation and Agreement, or approves this Stipulation and Agreement with modifications or conditions to which a Party to this proceeding objects, this Stipulation and Agreement shall be void and no Signatory shall be bound by any of the agreements or provisions hereof.

15. In the event the Commission accepts the specific terms of this Stipulation and Agreement, the Signatories waive, with respect to the issues resolved herein: their respective rights to the reading of the transcript by the Commission pursuant to Section 536.070, RSMo.; and their respective rights to judicial review of the Commission's Report and Order in this case pursuant to Section 386.510, RSMo. These waivers do not apply to any issues explicitly not addressed by this Agreement. The Signatories agree that, except for the previously filed Partial Disposition Agreement and its attachments, any and all discussions, suggestions, or memoranda reviewed or discussed, related to this Stipulation shall be privileged and shall not be subject to discovery, admissible in evidence, or in any way used, described or discussed.

16. The Staff shall have the right to provide, at any agenda meeting at which this Stipulation and Agreement is noticed to be considered by the Commission, whatever oral

explanation the Commission requests. Staff shall, to the extent reasonably practicable, provide the other Signatories with advanced notice of the agenda in which Staff will respond to the Commission's request for information. Staff's oral explanation shall be subject to public disclosure, except to the extent it refers to matters that are privileged, highly confidential, or proprietary.

17. If the Commission so requests, the Staff shall file suggestions or a memorandum in support of this Stipulation and Agreement. Each of the other Signatories shall be served with a copy of any such suggestions or memorandum and shall be entitled to submit to the Commission, within five (5) days of receipt of Staff's suggestions or memorandum, responsive suggestions or a responsive memorandum which shall also be served on all parties to the case. The contents of any memorandum provided by any party are its own and are not acquiesced in or otherwise adopted by the other Signatories in this case unless specifically stated by the Signatory, whether or not the Commission issues an Order approving this Stipulation and Agreement.

18. To assist the Commission in its review of this Stipulation and Agreement, the Signatories also request that the Commission advise them of any additional information the Commission may desire from the Signatories relating to the matters addressed in this Stipulation and Agreement, including any procedures for furnishing such information to the Commission.

WHEREFORE, for the foregoing reasons, the undersigned Signatories respectfully request that the Commission issue its Order approving all of the specific terms and conditions of this Stipulation and Agreement.

Respectfully submitted,

**Attorneys for Liberty Utilities
(Missouri Water) LLC**

/s/ Paul A. Boudreau

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