

Exhibit No.:
Issue: Capital Cost Recovery Mechanism
for Safety Replacement Costs
Witness: Michael D. Beatty
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

Michael D. Beatty

On behalf of

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

May 2018



SURREBUTTAL TESTIMONY
OF
MICHAEL D. BEATTY
LIBERTY UTILITIES
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. GR-2018-0013

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1

I. WITNESS IDENTIFICATION

2

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3

A. My name is Michael D. Beatty. My business address is 602 South Joplin Avenue,
4 Joplin, Missouri.

5

**Q. ARE YOU THE SAME MICHAEL D. BEATTY WHO PREVIOUSLY
6 FILED DIRECT TESTIMONY IN THIS PROCEEDING ON BEHALF OF
7 LIBERTY UTILITIES?**

8

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

10

II. PURPOSE OF TESTIMONY

11

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

13

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of
14 Staff witness Mark Oligschlaeger as it relates to the Capital Reliability or "CR"
15 tracker proposed by the Company in this case.

16

**Q. ARE THERE OTHER COMPANY WITNESSES ADDRESSING THIS
17 ISSUE?**

18

A. Yes. Company witness Tim Lyons also addresses the CR Tracker in his
19 surrebuttal testimony.

1 **III. CR TRACKER/REPLACEMENT OF PVC PIPE**

2 **Q. HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF STAFF**
3 **WITNESS MARK OLIGSCHLAEGER AS IT RELATES TO THE**
4 **COMPANY’S PROPOSED CR TRACKER?**

5 A. Yes, I have. As I understand it from Mr. Oligschlaeger’s testimony, Staff
6 opposes the CR tracker because, among other things: (a) it is broad enough to
7 encompass virtually all non-ISRS capital investments made by the Company
8 between rate cases; (b) it does not adequately take into account offsetting cost
9 reductions in the form of accumulated deferred income taxes and depreciation;
10 and (c) it is unclear how the tracker would work in tandem with the ISRS
11 mechanism.

12 **Q. DO YOU BELIEVE THE CR TRACKER IS TOO BROAD IN WHAT**
13 **CAPITAL INVESTMENTS IT COVERS?**

14 A. No, for reasons addressed by Company’s witness Tim Lyons, I think covering all
15 new capital investments under the tracker – other than those being recovered
16 through the ISRS – is a reasonable starting point for such a mechanism since the
17 vast majority of these investments are designed to enhance the reliability of
18 service provided by the Company. In deference to Staff’s concerns, however, the
19 Company is willing to limit the CR tracker solely to those new capital
20 investments made for safety-related reasons.

21 **Q. WHAT SAFETY-RELATED CAPITAL INVESTMENTS ARE YOU**
22 **REFERRING TO?**

1 A. As I mentioned in my direct testimony, the Company is particularly concerned
2 about the capital investments necessary to replace polyvinyl chloride or “PVC”
3 mains on an accelerated basis.

4 **Q. WHEN WERE THESE PVC MAINS INITIALLY INSTALLED?**

5 A. Most PVC mains were installed in the 1960’s, so much of it has been in the
6 ground for nearly half a century or more.

7 **Q. WHY IS THE COMPANY PARTICULARLY CONCERNED ABOUT THE**
8 **PVC PIPE THAT REMAINS IN ITS SYSTEM?**

9 A. For two main reasons. First, because of its chemical composition, PVC pipe
10 becomes increasingly brittle over time and as a result is more subject to cracking
11 when an outside force acts upon it. This, in turn, creates a higher exposure to the
12 kind of leaks can result in a natural gas incident.

13 **Q. HAS THIS CHARACTERISTIC AND ITS SAFETY IMPLICATIONS**
14 **BEEN NOTED BY OTHERS?**

15 A. Yes, the natural gas industry for years has been phasing out the installation and
16 use of PVC piping for this very reason. The Pipeline and Hazardous Material
17 Safety Administration or “PHMSA” has no standard within the Code for new
18 PVC installations.

19 **Q. WHAT IS THE SECOND REASON THAT SUPPORTS REPLACING PVC**
20 **MAINS?**

21 A. One of the most important safety requirements for any underground facilities is
22 the ability to locate it when excavation work is being performed in or around such
23 facilities. This is essential, in part, to avoid third-party damage to such facilities

1 which continues to be the most significant cause of natural gas incidents. The
2 tracer wire that was installed with most PVC mains to permit their location
3 however, has largely disintegrated over the years. This is another reason why
4 these mains should be replaced with plastic pipe that has effective tracer features
5 that will permit them to be more easily and definitively located when excavations
6 occur or when there is a natural gas emergency.

7 **Q. WHAT ABOUT STAFF'S POINT ABOUT THERE BEING OFFSETS IN**
8 **THE FORM OF ACCUMULATED DEFERRED TAXES OR**
9 **DEPRECIATION BALANCES THAT SHOULD BE USED TO REDUCE**
10 **THE EXPENDITURES BEING RECOGNIZED FOR SUCH**
11 **INVESTMENTS?**

12 A. I'm not an accountant, so I do not believe it would be appropriate for me to offer
13 an opinion on that issue. I have been advised by Company personnel who do
14 have that expertise, however, that handling accumulated deferred taxes and
15 depreciation offsets in the same manner they are handled when calculating
16 charges for ISRS investments would address this concern.

17 **Q. GIVEN THE NARROWING OF THE COMPANY'S REQUEST DO YOU**
18 **BELIEVE THIS IS ANY CONFLICT BETWEEN HOW SAFETY**
19 **RELATED INVESTMENTS ARE HANDLED UNDER THE ISRS AND**
20 **HOW QUALIYING PVC INVESTMENTS WOULD BE HANDLED**
21 **UNDER THE CR RIDER?**

22 A. No. In fact, I think they would be treated in identical ways, other than the means
23 used to reflect the associated costs in rates. Given the safety justification for

MICHAEL D. BEATTY
SURREBUTTAL TESTIMONY

1 replacing PVC mains, the Company is also open to recovering these costs through
2 its ISRS should the Commission determine that is the most appropriate approach.
3 In one form or another, however, there should be a mechanism available that
4 permits an accelerated replacement of this item.

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

6 A. Yes, it does.

AFFIDAVIT OF MIKE BEATTY

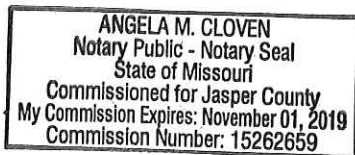
STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 8th day of May, 2018, before me appeared Mike Beatty, to me personally known, who, being by me first duly sworn, states that he is the Vice President of Gas of The Empire District Gas Company and acknowledges that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.



Mike Beatty

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





Notary Public

My commission expires: 11/01/19.