

*Exhibit No.:*  
*Issue:* Allocation of  
Test Year Expenses  
*Witness:* James R. Dittmer  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Surrebuttal Testimony  
*Case No.:* GR-2018-0013  
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**MISSOURI PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF DIVISION**

**SURREBUTTAL TESTIMONY**

**OF**

**JAMES R. DITTMER**

**LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP.,  
d/b/a LIBERTY UTILITIES**

**CASE NO. GR-2018-0013**

*Jefferson City, Missouri  
May 2018*

1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **JAMES R. DITTMER**

4 **LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP.,**

5 **d/b/a LIBERTY UTILITIES**

6 **CASE NO. GR-2018-0013**

7 Q. Please state your name and address.

8 A. My name is James R. Dittmer. My business address is P.O. Box 481934,  
9 Kansas City, Missouri 64148.

10 Q. Have you previously filed testimony within this proceeding?

11 A. Yes. I filed rebuttal testimony on behalf of the Missouri Public Service  
12 Commission (“PSC” or “Commission”) Staff in this proceeding on April 13, 2018.  
13 Additionally, I assisted in drafting elements of the Staff Report filed in this proceeding on  
14 March 2, 2018. Included within the noted Staff Report were my qualifications and  
15 experience.

16 Q. On whose behalf are you filing this surrebuttal testimony?

17 A. This surrebuttal testimony is also being filed on behalf of the PSC  
18 Staff (“Staff”).

19 Q. What is the purpose of your surrebuttal testimony?

20 A. Appearing on behalf of Liberty Midstates – MO operations, Ms. Jill Schwartz  
21 filed testimony rebutting Section VIII of the Staff Report which was entitled *Allocations:*  
22 *Upstream Service Affiliates’ Ownership, Governance and Corporate/Business Services Costs.*  
23 The purpose of this testimony is to address numerous statements and arguments included

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1 within Ms. Schwartz' rebuttal testimony as it pertains to the noted Section VIII of the  
2 Staff Report.

3 Q. Please summarize the major arguments included within Ms. Schwartz' rebuttal  
4 testimony that addressed Section VIII of the Staff Report.

5 A. First, I would summarize the major positions and arguments included within  
6 Section VIII of the Staff Reports as follows:

- 7 • Staff is always concerned about proper assignment and allocation of  
8 "common" or "joint" costs between benefiting utilities which are owned by a  
9 single parent company. However, those concerns are heightened when a  
10 company such as Algonquin Power and Utilities Corp ("APUC") own both  
11 regulated and unregulated utility operations.
- 12 • The Company has been slow in responding to discovery surrounding charges  
13 from the various upstream service affiliates, and in many instances, the  
14 information eventually received was disjointed and insufficient.
- 15 • The personnel at the highest level of APUC management have not be properly  
16 and accurately directly assigning their time to benefitting APUC holdings – in  
17 violation of instructions included within the APUC Cost Allocation Manual  
18 ("APUC CAM" or "CAM").
- 19 • Staff has been unable to determine if the cost of APUC acquisition efforts are  
20 being fully tracked and retained at the various upstream service affiliates.
- 21 • APUC's accounting records, as they pertain to costs being pushed down from  
22 upstream service affiliates, are voluminous and disjointed, and therefore cannot  
23 be reasonably analyzed within the time constraints of a rate case procedural  
24 schedule.
- 25 • It is unclear to Staff how, and to what extent, the various upstream service  
26 affiliates are monitoring and controlling costs.
- 27 • As a result of problems experienced in receiving timely and adequate  
28 responses to discovery addressing upstream service affiliates' cost in this rate  
29 case, Staff made a number of recommendations that the Company be required  
30 to prospectively 1) enhance its accounting systems to facilitate more robust  
31 report writing capabilities, 2) fully implement positive timesheet reporting, 3)  
32 create and retain timesheets electronically in formats that will permit faster  
33 identification and retrieval of efforts spent on specific activities and/or  
34 undertaken directly for a given APUC utility holding, and 4) track all mergers  
35 and acquisitions for all costs incurred with such activities – including the costs

1 of the Company's internal labor. Additionally, the Staff recommends that the  
2 Company periodically undertake audits of the timesheet reporting of its  
3 officers/employees working in positions that provide service to both regulated  
4 and unregulated utility operations.

5 Q. How do you respond to Ms. Schwartz' rebuttal in that the Company maintains  
6 and has provided within this case, extensive records that support how it allocates upstream  
7 service affiliates' costs to Liberty Midstates – MO?

8 A. I have no problem agreeing with Ms. Schwartz' characterization that the  
9 Company maintains extensive records that support how it allocates upstream service  
10 affiliates' costs to Liberty Midstates – MO. I also have no problem stating that the Company  
11 *eventually* provided these extensive records that supported, in some fashion, how it allocates  
12 and direct-assigns upstream service affiliates' costs to Liberty Midstates – MO. However, my  
13 most significant criticism of the Company's accounting records for upstream service affiliates  
14 is that they are extremely disjointed. Further, from a review of the disjointed cost support  
15 eventually received, as well as numerous discussions with Company rate and accounting  
16 personnel held during the discovery phase of this proceeding, it appears that the Company is  
17 simply not capable of providing timely and comprehensive responses to requests for data  
18 supporting costs being pushed down to Liberty Midstates – MO from the five upstream  
19 service affiliates within the confines of a statutorily-imposed rate case procedural schedule.

20 Q. Please explain more fully what affiliate cost support was requested.

21 A. Basically, *each* of the five upstream service affiliates charging costs to Liberty  
22 Midstates – MO were requested to provide the following data for *each month* of the test year  
23 and for months subsequent to the test year that were available during the discovery phase of  
24 this proceeding:

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- 1 • Total direct and indirect labor costs incurred at each upstream service affiliate  
2 before direct assignment/allocation to any benefiting APUC holding
- 3 • Total direct and indirect non-labor costs incurred at each upstream service  
4 affiliate before direct assignment/allocation to any benefiting APUC holding
- 5 • Total labor cost incurred at each upstream service affiliate that was direct-  
6 assigned to Liberty Midstates – MO operations.
- 7 • Total non-labor costs incurred at each upstream service affiliate that was  
8 direct-assigned to Liberty Midstates – MO operations.
- 9 • Total indirect labor cost incurred at each upstream service affiliate that was  
10 allocated to Liberty Midstates – MO operations.
- 11 • Total indirect non-labor costs incurred at each upstream service affiliate that  
12 was allocated to Liberty Midstates – MO operations.

13 In other words, Staff sought both labor and non-labor costs, from each of the five service  
14 affiliates before assignment/allocation to any benefiting APUC holding, as well as total labor  
15 and non-labor costs directly assigned/allocated to Liberty Midstates – MO operations. Stated  
16 more succinctly, Staff sought very basic upstream service affiliates’ cost support for each  
17 month of the test year and all post-test year months for which cost support data was available  
18 in the categories of labor, non-labor, direct-assigned and indirect-allocated.

19 Q. Please describe how the basic test year and post-test year cost support data was  
20 eventually provided by the Company.

21 A. A spreadsheet report was provided for *each upstream service affiliate* for *each*  
22 *month* of the test year and for the post-test year months of July through November 2017.  
23 Thus, in total some 85 separate Excel files were eventually provided as cost support for  
24 upstream service affiliates’ costs being assigned and allocated to Liberty’s “total Midstates  
25 operations” (five upstream service affiliates times 17 months of test year and post-test year  
26 data equals 85). Most of the 85 individual spreadsheets contained multiple “worksheets”

1 showing the development of various subcomponents of costs being provided. Many of those  
2 individual worksheets, in turn, contained hundreds of lines of cost support data.

3 However, from the noted 85 files that were provided it was not possible to observe  
4 costs being allocated to the Liberty Midstates – MO operations’ level. Specifically, inasmuch  
5 as the 85 individual months of cost support only provided costs being direct-assigned and  
6 allocated to “total Midstates Gas” operations, the Company was required to create another  
7 series of spreadsheets for each upstream service affiliates that showed the allocation of “total  
8 Midstates gas” operations to Liberty Midstates – MO operations, which could, in turn, be  
9 reconciled with amounts reflected within the general ledgers of NEMO, SEMO and WEMO.

10 Q. Why is it important to receive the cost support requested in so much detail?

11 A. It is necessary to first observe costs in the categories of “labor” and “non-  
12 labor,” as well as “direct” and “indirect” costs *before assignment/allocation to benefiting*  
13 *entities* to observe potential abnormalities in test year recorded numbers that might require  
14 “normalizing” adjustments, as well as to observe upward or downward trends in overall costs  
15 that might signal a need to “annualize” cost levels based upon the trends that may have been  
16 identified on a total upstream service affiliate basis (i.e., before assignment/allocation to any  
17 benefiting APUC holding). After analyzing labor/non-labor and direct/indirect costs on a  
18 “total entity” basis, it is then necessary to analyze such cost categories on an “as direct  
19 assigned” and “as allocated” basis to the regulated utility for which base rates are being  
20 developed. The review of these same categories of upstream service costs on an “as direct  
21 assigned” and “as allocated” basis to a given APUC regulated utility holding permits the same  
22 identification of aberrations and trends of costs being charged to an *individual* regulated  
23 utility holding. In my opinion, to comprehensively analyze the reasonableness of test year

1 charges from upstream service affiliates, including the identification of aberrations and  
2 trends in service costs, it is necessary to obtain all the data described above in the various  
3 categories delineated.

4 Q. Given that the Company eventually provided upstream service affiliates' cost  
5 in the categories you requested, why do you still have concerns with what the Company has  
6 provided?

7 A. First, I am critical of the length of time it took for the Company to provide this  
8 very basic test year and post-test year cost support. Given the length of time it took to provide  
9 such basic cost support data, very little time remained within the discovery phase of this  
10 proceeding to drill down and actually audit, to some degree, the charges hitting Liberty  
11 Midstates – MO operation's books and records.

12 Second, as previously noted, the information eventually provided is very disjointed  
13 and virtually impossible to review in the time confines of a rate case procedural schedule.

14 To be clear, my criticism is not directed to personnel at the local Midstates Gas level  
15 who I believe were working very diligently to try to get the information requested in the  
16 categories requested. My criticism is directed to what I understand to be APUC's current  
17 accounting system limitations. Specifically, my understanding is that APUC's current  
18 accounting system simply will not permit timely extraction of data in specific homogenous  
19 cost "buckets" over multi-month and multi-year periods that would, in turn, facilitate analyses  
20 for normalcy and trends. Further, the APUC accounting system does not permit easy  
21 extraction of specific elements of each upstream service affiliates' costs that the Staff or this  
22 Commission might find objectionable for base rate development.

1 Q. Please summarize your surrebuttal testimony as it pertains to the argument  
2 contained in Ms. Schwartz' rebuttal that APUC maintains, and has provided to Staff, support  
3 for upstream service affiliates costs charged to Liberty Midstates – MO operations.

4 A. The Company was quite slow in providing requested data – again, not because  
5 of any lack of efforts at the local Missouri rate case team level that I could observe, but  
6 because of current limitations of APUC's accounting system. Further, even the information  
7 eventually provided is so detailed and disjointed that it cannot be reasonably analyzed in the  
8 current rate case procedural schedule. It is the significant limitations of APUC's current  
9 accounting system that underlie my recommendation that the Company should enhance its  
10 report writing capabilities.

11 Q. How do you respond to Ms. Schwartz' assertion that the Company is very  
12 serious about properly allocating the cost of upstream service affiliates to the various APUC  
13 utility holdings – such as Liberty Midstates – MO?

14 A. The Company's actions in this proceeding do not fully support such assertion.

15 Q. Please explain.

16 A. Ms. Schwartz' complete assertion on this matter stated:

17 First, I know how seriously Liberty Utilities and its affiliates take their obligation to  
18 allocate costs between each business unit in *a transparent, fair and cost justified manner*.  
19 Because it operates in multiple regulatory jurisdictions and has unregulated businesses as  
20 well, the Company is acutely aware of how important it is to consistently achieve these goals  
21 as it is accountable for doing so not only to this Commission but many others as well. *Proper*  
22 *cost allocation is also essential to managing these businesses in an effective manner*. Given  
23 these considerations, the Company maintains extensive records to support how it allocates



1 costs between affiliated businesses and has provided that information to the Commission  
2 Staff. (Ms. Jill Schwartz rebuttal, page 26, *emphasis added*)

3 Ms. Schwartz also states in her rebuttal at pages 32 to 34 of the its [SIC] COS Report,  
4 the Staff replicates portions of the Cost Allocation Manual and associated training materials  
5 used by the Company and its affiliates to ensure that the costs of being properly allocated  
6 [SIC]. In my view, these materials demonstrate that the value that the Company and its  
7 affiliates place on proper cost allocation by not only documenting it as a goal but also by  
8 embedding in our employee training the concrete measures that should be taken to achieve  
9 that goal. (Ms. Jill Schwartz rebuttal, page 27)

10 It is ironic that Ms. Schwartz points to that portion of the Staff Report wherein  
11 elements of the Company's training manual were quoted as partial support for her assertion  
12 that the Company takes very seriously its obligation to fairly and transparently allocate  
13 upstream service affiliates' costs to APUC holdings that are purportedly benefiting from  
14 services being provided. The very purpose of including quotations from the Company's  
15 CAM training materials was to demonstrate that *APUC management had failed to follow*  
16 *instructions* included in the CAM and *reinforced through training materials*.

17 Regarding the claims of "transparency," I submit there was nothing "transparent" in  
18 the way the Company eventually revealed that - what had been consistently portrayed as a  
19 "direct assignment" of APUC executives' time throughout the discovery phase of this  
20 proceeding - was in fact, a new allocation process. Further, as more fully discussed within  
21 ensuing testimony, this newly-declared "allocation process" is not mentioned, much less  
22 described and documented anywhere within the existing APUC CAM. Finally, now that for  
23 the first time I understand the APUC executives were "allocating" their time in a new manner

1 rather than direct-assigning such time as every document previously provided by the  
2 Company would indicate, I would note another inconsistency in what is stated to be occurring  
3 within the APUC CAM versus what the Company is actually doing on its books and records.  
4 Specifically, rather than fully and properly “loading” the APUC executives’ straight-time  
5 labor hours being “allocated” to benefiting APUC holdings with payroll taxes, employee  
6 benefits and incentive compensation as delineated within the APUC CAM, the Company has  
7 “loaded” the APUC’s executives’ straight-time hourly rates with only a portion of the  
8 executives’ total payroll taxes, employee benefits and incentive compensation. The portion of  
9 payroll taxes, employee benefits and incentive compensation *not* loaded on to the straight-  
10 time rate of APUC executives was allocated to APUC holdings utilizing a combination of  
11 three-factor and four-factor allocators delineated at pages 6 through 11 of the APUC CAM.  
12 The Company has not explained why a portion of the APUC executives’ compensation costs  
13 has been allocated utilizing a newly-declared but yet-to-be-explained allocation methodology  
14 while the remainder of the APUC executives’ compensation costs are allocated utilizing a  
15 combination of three-factor and four-factor methodologies discussed in the APUC CAM.  
16 How and why the Company employs different allocation methodologies for the same  
17 categories of cost is not “transparent.”

18 Q. Do you have any response to Ms. Schwartz’ assertion that “[p]roper cost  
19 allocation is also essential to managing these businesses in an effective manner?”

20 A. I am not sure how Ms. Schwartz concludes that the Company is “managing” its  
21 businesses effectively as a result of purportedly “proper cost allocation.” As discussed at  
22 some length at pages 43 and 44 of the Staff Report, I have been unable to observe to what  
23 extent, if any, the Company regularly prepares financial statements or budget variances

1 reports of any kind for any of the five upstream service affiliates that would permit the  
2 Company to “effectively manage” any of the upstream service affiliates. Notwithstanding  
3 highlighting Staff’s concern on this topic in the Staff Report, the Company still has not  
4 supplemented its responses to any data requests that sought budget variance reports and  
5 regularly-prepared financial reports for any of the five upstream service affiliates.

6 Q. How do you respond to Ms. Schwartz’ claim that APUC’s top management  
7 have been properly recording and allocating their time to benefiting holdings?

8 A. For reasons discussed at length in the Staff Report I concluded that APUC’s  
9 top management had not been properly recording and directly assigning their time to  
10 benefiting entities. Ms. Schwartz’ first-time admission that APUC’s top management have  
11 been “allocating” their time completely contradicts every response to discovery, and every  
12 discussion I have held with Company personnel on this topic throughout the discovery phase  
13 of this proceeding wherein the Company steadfastly relayed that the APUC executives were  
14 direct assigning their time to purportedly benefiting APUC holdings. Finally, as mentioned in  
15 a previous answer, the newly-declared APUC “allocation” scheme is not discussed, much less  
16 described, in the APUC CAM.

17 Q. Please expand upon your claim that Ms. Schwartz’ first-time admission that  
18 APUC’s top management have been allocating their time contradicts all previous discovery  
19 responses and discussions held on this topic with Company rate and accounting personnel in  
20 this proceeding.

21 A. The significant problems Staff encountered in obtaining timesheets of APUC’s  
22 top management are discussed in detail at pages 32 through 36 of the Staff Report. I was  
23 particularly interested in receiving the timesheets of APUC’s top management for at least

1 three significant reasons. First, clearly at this management level it could be expected that  
2 these individuals would be expending efforts managing APUC's regulated as well as  
3 unregulated utility operations. Second, from various public documents reviewed it was  
4 obvious that APUC was very much in the business of acquiring other businesses. Receipt of  
5 APUC executives' timesheets would reveal whether, and how much, time was being direct-  
6 assigned to non-regulated operations as well as acquisition activities. Failure to observe  
7 amounts being direct-assigned to unregulated operations and/or acquisition activities would  
8 be an indication that APUC executives' costs may, by default, be being improperly charged to  
9 Liberty Midstates – MO operations (as well as all other APUC regulated utility holdings).  
10 Third, and most importantly, I observed from spread sheeting efforts that the exact same  
11 percentage of total direct-assigned APUC labor was being direct charged, for many months in  
12 a row, to each APUC regulated and unregulated utility holding. The observation that the four  
13 top APUC executives were "direct assigning" their time in identical percentages to various  
14 APUC holdings was a fairly obvious red flag that these executives were not following the  
15 direct-assignment process so clearly set forth in the APUC CAM and emphasized within  
16 training material to be of critical importance to ensure fair and auditable cost assignment  
17 processes. Thus, it became important to obtain these executives' timesheets that could further  
18 corroborate my observation that these APUC executives were not adhering to the direct-  
19 assignment process set forth in the CAM.

20 When specimen copies of the four APUC executives' timesheets were finally  
21 received, such timesheet revealed – as expected – that *each of the four executives* were  
22 directly assigning the *precise amount of time to each APUC holding day after day*. Never  
23 once when responding to the request for timesheets of the APUC executives did the data

1 provided reveal that these four executives were *not* directly assigning their time to purportedly  
2 benefiting entities, or that they were actually allocating their time to APUC holdings – as Ms.  
3 Schwartz suggests for the first time in rebuttal testimony. Further, not once in the numerous  
4 oral and email communications held with the Company rate and accounting personnel on this  
5 topic was it ever stated, suggested or implied that the APUC costs that were clearly and  
6 consistently designated as “direct assigned” were, in fact, being recorded utilizing an  
7 undisclosed allocation process. It is disingenuous for Ms. Schwartz to suggest that I am  
8 taking exception to an “equitable” allocation process of APUC shared services– when  
9 throughout the discovery phase of this proceeding the APUC shared services costs charged to  
10 Liberty Midstates were consistently relayed to have been as the result of the APUC executives  
11 directly assigning their time. I do not understand how Ms. Schwartz could ever characterize  
12 my position as objecting to an “equitable” allocation process when, prior to rebuttal  
13 testimony, the Company had never revealed that an “allocation” process was being employed  
14 to charge APUC shared services costs to APUC holdings.

15 Q. Do you contend that these four APUC executives should have been more  
16 rigidly directly assigning their time to benefiting APUC holdings rather than following the  
17 allocation process that Ms. Schwartz first identifies in rebuttal testimony?

18 A. Not necessarily. First, as just described, prior to Ms. Schwartz’ rebuttal, the  
19 Company never claimed or even suggested that what had been clearly reported in the  
20 Company’s detailed accounting records as “direct assignments” were, in fact, the recording  
21 results of an undisclosed allocation process. Second, Ms. Schwartz characterizes the newly-  
22 revealed allocation process as appropriate, stating in relevant part that “such costs need to be  
23 allocated based on allocation principles that are fair and appropriate for all business units.”

1 However, there is no support for, or even a discussion of, the newly-declared allocation  
2 scheme in the APUC CAM, or within any discovery responses provided within this  
3 proceeding.

4 Thus, such a new allocation principle should have been identified and explained well  
5 before the rebuttal testimony phase of this proceeding. If the Company had revealed that it  
6 was employing a previously-undisclosed allocation principle, rather than undertaking direct-  
7 assignment of time as had been relayed in every document previously provided in this  
8 proceeding, additional discovery exploring such new allocation principle could have been  
9 undertaken. Further, the Company's non-responsiveness to the timesheet reporting requests  
10 in this proceeding adds to concerns regarding proper timekeeping throughout the APUC  
11 organization. In short, once again, the Company has not been "transparent" in explaining and  
12 revealing how APUC executives' shared services costs have been pushed down to APUC  
13 regulated utility holdings – such as Liberty Midstates – MO.

14 Q. How do you respond to Ms. Schwartz' assertion that the Company has not  
15 assigned or allocated any costs directly incurred with APUC's acquisition activities to Liberty  
16 Midstates – MO or any other APUC holdings?

17 A. I would strongly disagree.

18 Q. Please explain.

19 A. First, in Staff Data Request No. 0146 Liberty Midstates - MO was asked to list  
20 each utility that APUC had acquired since 2015, and among other items surrounding each  
21 acquisition, provide the "[t]otal costs incurred in researching, negotiating and closing the  
22 purchase – delineating total internal loaded labor costs versus external costs incurred."  
23 Additionally, the Company was requested to provide a "breakout of total internal loaded labor

1 costs by officer/employee, noting the name, title and Algonquin Power & Utilities Corp  
2 subsidiary or business unit where each officer/employee is employed.” When responding, the  
3 Company did not identify or provide *any* internal labor costs that were assigned to *any*  
4 acquisition throughout the three-year period referenced.

5 Second, in response Staff Data Request No. 0310 the Company admitted that the only  
6 cost at the APUC shared services level that was retained during the historic test year (i.e., not  
7 charged down to benefiting APUC holdings) were certain “Travel Costs.” Thus, this noted  
8 response also clearly demonstrates that no APUC management time and related costs  
9 associated with any aspect of any utility acquisition occurring during or around the historic  
10 test year was “retained” by APUC. In other words, other than certain “Travel Costs,” all  
11 APUC shared services costs were pushed down to APUC utility holdings – either through  
12 direct assignment of costs or through the allocation of indirect costs. Stated more succinctly,  
13 all acquisition related efforts incurred by APUC management during the historic test year  
14 would have been pushed down – either through direct assignment or indirect allocations – to  
15 APUC regulated utility holdings.

16 Third, during 2016 APUC negotiated and consummated the acquisition of Empire  
17 District Electric Company (“Empire”). The Empire acquisition was a very significant  
18 addition to APUC’s utility holdings – increasing its customer base by close to 40%. APUC’s  
19 incentive compensation is targeted, in part, to promote growth through acquisitions.  
20 Notwithstanding the emphasis of growth through acquisitions included within the Company’s  
21 incentive compensation plans, and notwithstanding the very significant acquisition of Empire  
22 during 2016 (half of which fell within the current test year ending June 30, 2017), APUC  
23 executive management did not direct charge a single hour to the Empire acquisition that

1 would have been retained at the APUC shared services level. In other words, notwithstanding  
2 Ms. Schwartz' claims to the contrary, it is clear that APUC is not making an effort to direct-  
3 assign its internal labor cost to acquisition efforts.

4 Q. At one point within her rebuttal testimony Ms. Schwartz indicates, based upon  
5 comments you inserted within the Staff Report, that you would "suggest that anytime a  
6 corporate executive mentions or even thinks about activities that maybe related to growth, that  
7 there should be a detailed accounting and exclusion of any costs associated with such  
8 incidental activities." Do you have any response to this assertion included within  
9 Ms. Schwartz' rebuttal testimony?

10 A. I recommend that any significant time spent by APUC executives on specific  
11 acquisition targets should be recorded, and properly charged to, an identifiable account or  
12 activity code for accurate quantification and accumulation of such costs. I would argue that  
13 such direct-assigned internal work efforts should be retained by APUC – or not charged down  
14 to APUC holdings, just as APUC alleges to be occurring for costs *other than* the cost of its  
15 own internal labor. I suppose Ms. Schwartz' mention of a requirement to record "anytime a  
16 corporate executive mentions or even thinks about activities that maybe related to growth" is  
17 offered in an attempt to paint the picture that the recommended timesheet recording for  
18 acquisitions is somehow absurd. I would not argue that anytime an APUC executive "even  
19 mentions" activities related to growth needs to be charged to some type of "acquisition" work  
20 order or activity code. But I would argue that time spent undertaking feasibility studies  
21 surrounding a potential acquisition, any time spent in meetings discussing and negotiating an  
22 acquisition, as well as any time spent studying the impact of such acquisition on APUC's  
23 operations, should properly be charged to an "acquisition" work order or activity code. As



1 briefly mentioned in the Staff Report, the position that internal labor costs incurred in  
2 acquisition activities should *not* be passed on to captive retail customer is consistent with  
3 this Commission’s treatment of acquisition costs established with UtiliCorp United Case No.  
4 ER-97-394.

5 Q. How do you respond to Ms. Schwartz’ conclusion that a number of issues  
6 raised in the Staff Report are more suitable for addressing in Case No. AO-2017-360?

7 A. I have not recommended any changes to the allocation processes and  
8 procedures *that are addressed within the APUC CAM*. I did discuss in the Staff Report how  
9 the top APUC executives were not accurately and properly directly assigning their time to  
10 APUC utility holdings. I also discussed why I believed that the APUC executives were not  
11 directly assigning their time and costs to acquisition matters, even though in certain discovery  
12 responses the Company clearly indicated that it was assigning *all* direct costs incurred in  
13 acquisition activities – and retaining *all* such direct costs at the APUC levels. These noted  
14 problems do not address “allocation principles” that should be deferred to Case No. AO-2017-  
15 0360 - as suggested in Ms. Schwartz’ rebuttal. Rather, these are deficiencies and failures *in*  
16 *the recording of costs* as set forth within principles included within the now-existing APUC  
17 CAM that should be addressed within this rate case proceeding.

18 Perhaps Ms. Schwartz is simply suggesting that the issue of APUC shared services  
19 direct-assignment of time versus the just-revealed and yet-to-be-described-or-documented  
20 APUC shared services allocation scheme, that is not even mentioned in the APUC CAM,  
21 should be deferred to the noted Case No. AO-2017-0360. I would have no objection to  
22 reviewing this first-time-revealed allocation scheme in Case No. AO-2017-0360 inasmuch as  
23 I only learned of this allocation methodology when reading Ms. Schwartz’ rebuttal.

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James R. Dittmer

1 Q. Do you believe the various report writing, timesheet reporting, and internal  
2 audit recommendations included within the Staff Report should be deferred to Case No. AO-  
3 2017-360?

4 A. No. These recommendations are a product of limitations observed with  
5 APUC's current accounting system capabilities, as well as observations that APUC executives  
6 failed to properly follow the direct-assignment of their time as specifically set forth  
7 within APUC's existing CAM. As such, these recommendations have nothing to do with  
8 "allocation principles" that may be discussed within, and even modified as a result of, Case  
9 No. AO-2017-360. The recommendations to modify APUC's existing accounting systems to  
10 facilitate timely and detailed report writing capabilities should be adopted immediately to  
11 facilitate more efficient retrieval of upstream service affiliates' costs in homogenous cost and  
12 activity categories that will provide for more meaningful reviews of upstream affiliates costs  
13 in future Missouri rate proceedings. Further, the recommendation to require the Company to  
14 undertake internal audits of the timesheet reporting of certain categories of executives has  
15 nothing to do with "allocation principles" and everything to do with ensuring compliance with  
16 an APUC CAM – whether it be the existing APUC CAM or a modified CAM resulting from  
17 Case No. AO-2017-360.

18 Q. Does this conclude your surrebuttal testimony?

19 A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of Liberty Utilities )  
(Midstates Natural Gas) Corp. d/b/a ) Case No. GR-2018-0013  
Liberty Utilities' Tariff Revisions )  
Designed to Implement a General Rate )  
Increase for Natural Gas Service in the )  
Missouri Service Areas of the Company )

**AFFIDAVIT OF JAMES R. DITTMER**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF JACKSON )

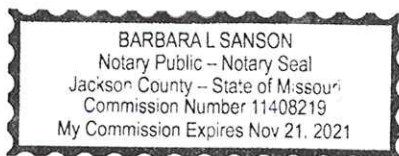
**COMES NOW JAMES R. DITTMER** and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Surrebuttal Testimony and True-Up Direct Testimony, and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

  
\_\_\_\_\_  
**JAMES R. DITTMER**

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Lee's Summit, on this 7 day of May, 2018.



  
\_\_\_\_\_  
Notary Public