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Missouri Public
Service Commission

Exhibit No.:

Issue: *Money pool*

Witness: *Kimberly K. Bolin*

Sponsoring Party: *MoPSC Staff*

Type of Exhibit: *Surrebuttal Testimony*

Case No.: *AO-2018-0179*

Date Testimony Prepared: *March 6, 2019*

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING

SURREBUTTAL TESTIMONY

OF

KIMBERLY K. BOLIN

**THE EMPIRE DISTRICT ELECTRIC COMPANY,
THE EMPIRE DISTRICT GAS COMPANY,
LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP., and
LIBERTY UTILITIES (MISSOURI WATER) LLC**

CASE NO. AO-2018-0179

*Jefferson City, Missouri
March 2019*

Staff
~~Applicant~~ Exhibit No. 5
Date 6/27/19 Reporter SM
File No. AO-2018-0179

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Kimberly K. Bolin

1 A. Yes. Per Empire Electric's response to Staff Data Request No. 0009,
2 Liberty Utilities Co. ("LUCo") made the decision to terminate Empire Electric's credit facility
3 in early 2018 because 1) Empire Electric was the only LUCo subsidiary with its own credit
4 facility; 2) the credit facility was no longer needed to support Empire Electric's commercial
5 paper program; and 3) LUCo sought to increase the amount of its credit facility and Empire
6 Electric had excess capacity in its credit facility.

7 Q. Will Empire Electric's ** _____
8 _____ ? **

9 A. No. Per its response to OPC Data Request No. 1025, ** _____
10 _____
11 _____ . **

12 Q. Will Empire Electric's current Money Pool operations end when Empire
13 Electric and Empire Gas begin participating in the LUCo Money Pool?

14 A. No. Empire Electric and Empire Gas will continue their existing cash
15 management arrangement. Empire Electric and Empire Gas use a shared lockbox/bank
16 account for collection of customer payments and Empire Electric funds the cash needs of
17 Empire Gas, with interest paid for any exchange of funds between the two companies.

18 Q. On page 9 of witness Schallenberg's Rebuttal Testimony, he states ** ____
19 _____ . ** Is this true?

20 A. Yes. However, LUCo is ** _____
21 _____ . **

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1 Q. Does Staff agree with Mr. Schallenberg's contention that ** _____

2 _____

3 _____ ** (Schallenberg Rebuttal, page 13, lines 13-14)?

4 A. No. The argument presented in Mr. Schallenberg's Rebuttal Testimony seems
5 to be entirely based on the fact that LUCo ** _____

6 _____ . ** As noted above, LUCo ** _____

7 _____ **

8 Staff's agreement to support the Applicant Utilities' requested variance is based upon an
9 expectation that ** _____ ** during the pendency
10 of the LUCo Money Pool.

11 Q. Does the Stipulation address what happens if ** _____

12 _____ ? **

13 A. Yes. Paragraph 6.(e) states:

14 Staff supports a variance of the competitive bidding
15 requirement with respect to borrowing rates so long as Liberty Utilities
16 funds the Money Pool ** _____
17 _____ ** (without any mark-up in the interest rate). If Liberty
18 Utilities' ** _____,**
19 then the waivers of the Commission's Affiliate Transactions Rules are
20 rescinded, and the requirements of those Rules immediately are in full
21 force and effect.

22 The above Paragraph 6.(e) means that if LUCo ** _____

23 _____ **, then the Missouri Applicants must competitively bid for borrowing and lending
24 activities under the Affiliate Transactions Rules, or demonstrate why competitive bids are
25 neither necessary nor appropriate for each transaction.

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1 Q. On pages 4 and 5 of OPC witness Schallenberg's Rebuttal Testimony,
2 he discusses the annual fees associated with Empire's and LUCo's lines of credit. Will the
3 LUCo line of credit fees be less than Empire's current line of credit fees?

4 A. Yes. Based upon the following analysis, the fees associated with LUCo's line
5 of credit will be cheaper for the Applicant Utilities:

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19 **

20 Q. Does the annual commitment fee for both Money Pools change based upon
21 usage of the credit facility?

22 A. The annual commitment fee for the LUCo Money Pool is based only upon the
23 unused balance of the credit facility. **

24

¹ Per Staff Data Request No. 0045 this percentage includes Empire Electric and Empire Gas.

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_____ **

Q. Under the above scenario, would Empire Electric pay the full annual commitment fee for the LUCo Money Pool?

A. No. Under the LUCo Money Pool, Empire would be allocated
** _____

_____ **

For this reason, the calculations depicted above likely under-estimate the expected cost savings to the Applicant Utilities based on participation in the LUCo Money Pool.

Q. On page 6 of OPC witness Schallenberg's Rebuttal Testimony, he asserts that LUCo should pay the annual commitment fees for the unused part of the credit facility since LUCo has access to borrow unused balances at any time. Does Staff agree with this argument?

A. No. Under a non-affiliate transaction with an outside third party for money pool activities, Staff's understanding is that the utility would be expected to pay fixed commitment fees to enable access to these funds when needed. For example, Empire paid an outside third party fixed commitment fees for its line of credit. Payment of annual commitment fees by the Applicant Utilities to LUCo under the proposed Money Pool agreement would serve the same purpose, and do not represent a subsidy of affiliated non-regulated operations by the Applicant Utilities as such.

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1 Q. On page 20 of OPC witness Schallenberg's Rebuttal Testimony, he cites
2 Applicant Utilities witness Mark Timpe's Deposition in claiming the Applicant Utilities
3 would lose their ability to borrow or lend to other entities once they joined the LUCo Money
4 Pool. Is this an accurate characterization of Mr. Timpe's testimony in his Deposition
5 concerning this topic?

6 A. No. Later in the Deposition, Mr. Timpe clarifies his statement that was quoted
7 by Mr. Schallenberg. This can be found on pages 55 and 56 in Mr. Timpe's Deposition:

8 Q. Earlier in response to a question about Empire potentially
9 borrowing from outside of the pool, I think you indicated that they
10 would not be able to. Could you turn—look at the Non-Unanimous
11 Stipulation and Agreement and turn to Page 3, Paragraph 6A? Is it
12 your understanding that that portion – that that term of the stipulation
13 would allow Empire, if able, to borrow from outside of the pool?

14 A. Yeah. And my answer was maybe more technical than the way
15 I interpreted the question, so let me respond to that. Today, Empire has
16 no other credit agreements with any other bank or affiliate or anything
17 that would allow it to borrow outside of going to Liberty.

18 So that doesn't mean that, according to the stip, that if it saw an
19 opportunity to go outside, it had an opportunity to find better loan rates,
20 that it would not do that.

21 Q. So, in other words, the money pool agreement, as modified by
22 the stipulation agreement, does not prevent an applicant utility from
23 seeking funds from outside of the pool?

24 A. Correct. It's just there's no standing agreement with any other
25 lender today.

26 Q. On page 21 of OPC witness Schallenberg's Rebuttal Testimony he claims the
27 Stipulation violates the terms of the Stipulation and Agreement in Case No. EM-2016-0213,
28 which was Liberty's Application to acquire the Empire properties. Is this correct?

29 A. No. To support his argument, OPC witness Schallenberg quotes
30 paragraph A.(6) from the Stipulation and Agreement in Case No. EM-2016-0213 which

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1 states: "The Joint Applicants will not obtain Empire financing services from an affiliate,
2 unless such services comply with Missouri's Affiliate Transactions Rules." However,
3 witness Schallenberg, does not quote paragraph E (1) from the same Stipulation and
4 Agreement which gives the Applicant Utilities the ability to request a variance from
5 Missouri's Affiliate Transactions Rules. Paragraph E(1) of the Stipulation and Agreement in
6 Case No. EM-2016-0213 states, "Empire is to be operated after the purchase in compliance
7 with the affiliate transaction rule, or will obtain any necessary variances form the MoPSC's
8 affiliate transaction rule as defined in 4 CSR 240-20-015(10) and 4 CSR 240-40-015(10)."
9 The Applicant Utilities in this case have requested a variance under these rules in this
10 proceeding, and accordingly are in compliance with the Stipulation and Agreement in Case
11 No. EM-2016-0213.

12 Q. On pages 26 and 27 of witness Schallenberg's Rebuttal Testimony he raises a
13 concern with paragraphs 13 and 14 of the Application filed by The Empire District Electric
14 Company ("Empire Electric"), The Empire District Gas Company ("Empire Gas"), Liberty
15 Utilities ("Midstates Natural Gas") Corp., and Liberty Utilities ("Missouri Water") LLC
16 (collectively, "Applicant Utilities") in this proceeding concerning asymmetrical pricing.
17 Does the Stipulation filed in this case address the Applicant Utilities' requested waiver from
18 the asymmetrical pricing requirements in the Missouri Affiliated Transactions Rules?

19 A. Yes. Paragraph 8 of the Stipulation states:

20 While Applicant Utilities requested a variance from the asymmetrical
21 pricing requirements of 4 CSR 240-20.015 (2)(A) and 4 CSR 240-
22 40.015(2)(A) in their Application, the Signatories agree that such a
23 waiver is now unnecessary for Applicant Utilities to participate in the
24 Money Pool as structured pursuant to the terms of the instant
25 Stipulation.

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1 Q. Is Staff of the opinion that no variance is necessary in regard to asymmetric
2 pricing requirements in this proceeding?

3 A. Yes. Structurally, the Money Pool transactions will not involve two Missouri
4 regulated utilities. A regulated utility needing to borrow money will obtain the funds from the
5 Money Pool, which is administered by LUCo, a non-regulated affiliate of the Applicant
6 Utilities. Also, a regulated utility in an excess cash position will provide the excess money to
7 the LUCo Money Pool. Therefore, all of the transactions will take place between one of the
8 Applicant Utilities and LUCo. LUCo will also guarantee the repayment of all borrowings
9 from the LUCo Money Pool. Under the Stipulation, if a utility can borrow outside of the
10 LUCo Money Pool at cheaper rates than borrowing from the LUCo Money Pool, the utility
11 must use the outside service. If the utility has excess cash and can obtain a better investment
12 rate outside of the LUCo Money Pool, then the utility must invest outside of the LUCo
13 Money Pool. In this situation, the asymmetrical pricing requirements remain in place to
14 assist in ensuring that LUCo Money Pool transactions are economical from the
15 ratepayers' perspective.

16 Q. At page 26, lines 15 through 19 of Mr. Schallenberg's Rebuttal Testimony,
17 he states that he is concerned with the assertion of the Applicant Utilities that asymmetrical
18 pricing requirements are unworkable and arguably do not apply to transactions between
19 Missouri regulated electric and gas utilities. Has the Commission previously addressed
20 this matter?

21 A. Yes. Mr. Schallenberg, as a member of Staff, raised this item in Case No.
22 EM-2007-0374, among other things. That case involved the Application of Great Plains
23 Energy, Inc. to acquire Aquila, Inc.'s Missouri electric and steam operations and its merchant

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1 services operations. In the Commission's July 1, 2008, *Report and Order* in Case No.
2 EM-2007-0374, at pages 186-88 the Commission stated:

3 587. If both parties are public utilities subject to the affiliate
4 transaction rule, the rationale underlying the rules does not apply
5 because the utilities already are subject to Commission regulation. In
6 such a utility-to-utility situation, the asymmetric pricing mechanism is
7 also unworkable. If a public utility is to provide a service to an
8 affiliated public utility, the public utilities are on the opposite sides of
9 the asymmetric pricing requirements. [Footnote omitted.]

10 * * * *

11 595. There is no competent or credible evidence in the record that, if
12 the proposed merger is approved, a limited waiver or grant of a
13 variance in the Commission's affiliate transactions rule allowing KCPL
14 and Aquila to provide services at fully distributed costs, except for
15 wholesale power transactions, would in any way cause a detriment to
16 the public interest.

17 Q. Does this conclude your Surrebuttal Testimony in this proceeding?

18 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of The Empire)
District Electric Company, The Empire District)
Gas Company, Liberty Utilities (Midstates)
Natural Gas) Corp., and Liberty Utilities)
(Missouri Water) LLC for an Affiliate)
Transactions Rule Variance)

Case No. AO-2018-0179

AFFIDAVIT OF KIMBERLY K. BOLIN

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

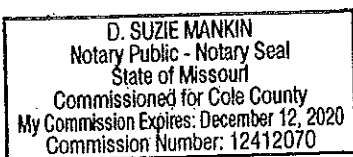
COMES NOW KIMBERLY K. BOLIN and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Surrebuttal Testimony*; and that the same is true and correct according to her best knowledge and belief.


Further the Affiant sayeth not.


KIMBERLY K. BOLIN

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 6th day of March 2019.




Notary Public