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Witness: Jill Schwartz
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Sponsoring Party: The Empire District Electric Company
Case No.: ER-2019-0374
Date Testimony Prepared: August 2019

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Jill Schwartz

on behalf of

The Empire District Electric Company
A Liberty Utilities Company

August 2019

Liberty Utilities
EMPIRE DISTRICT

DIRECT TESTIMONY
OF
JILL SCHWARTZ
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2019-0374

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jill Schwartz. My business address is 602 South Joplin Avenue, Joplin, MO 64802.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Liberty Utilities Service Corp. as the Senior Manager of Rates and Regulatory Affairs for Liberty Utilities Centralized Operations.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying on behalf of The Empire District Electric Company, a Liberty Utilities company ("Liberty-Empire" or the "Company").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. In 2001, I completed my Bachelor of Science in Accounting from the John E. Simon School of Business at Maryville University in St. Louis, Missouri. From May 2001 to February 2015, I was employed by The Boeing Company in a variety of accounting capacities, ensuring compliance with the Federal Acquisition Regulation Mandatory Disclosure rule and developing and delivering labor compliance training for all Boeing employees. I joined Liberty Utilities in February 2015 as the Manager of Rates and Regulatory Affairs for Liberty Utilities (Midstates Natural Gas) Corp. ("Midstates"). In February 2017, I was promoted to Senior Manager of Rates and

Regulatory Affairs for Liberty Utilities Central Region, where I was responsible for the regulatory matters involving the electric, natural gas and water utilities in Missouri, Arkansas, Illinois, Iowa, Kansas and Oklahoma. In August 2019, I assumed my current position.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION ("COMMISSION") OR ANY OTHER REGULATORY AGENCY?

A. Yes. I have testified before the Commission on behalf of Liberty Utilities (Midstates Natural Gas) Corp. and Liberty Utilities (Missouri Water) LLC in their most recent rate case proceedings. I have also provided testimony before the Illinois Commerce Commission, Iowa Utilities Board, Arkansas Public Service Commission, and Kansas Corporation Commission.

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

A. The purpose of my direct testimony is to address the Company's corporate allocations and compliance with stipulations and agreements from Docket No. EM-2016-0213.

Q. PLEASE DESCRIBE THE PROCESS LIBERTY UTILITIES USES TO ALLOCATE COSTS.

A. Algonquin Power & Utilities Corp. ("APUC") is a publicly traded utility holding company and is the ultimate corporate parent of Liberty Utilities Co. ("Liberty Utilities"). APUC owns a widely diversified portfolio of independent power/electricity production facilities and regulated utilities consisting of electric, natural gas, water distribution, and wastewater treatment utilities. APUC has two major operating units, Liberty Power and Liberty Utilities. Liberty Power, through

Algonquin Power Co., is an unregulated entity that provides renewable power generation from facilities owned throughout the United States and Canada. Liberty Utilities owns and operates regulated water, wastewater, gas and electric utilities in twelve states divided into three operating regions (East, Central and West). Liberty Utilities uses a decentralized approach to operating its regulated utility business, which emphasizes the importance of local management and local control of day-to-day business operations. This approach is premised on a belief that utility services are best delivered locally, and this is especially true for customer service, employee and regulatory functions and community outreach activities.

However, Liberty Utilities, through Liberty Utilities Service Corp. ("LUSC") and Liberty Utilities (Canada) Corp. ("LUC"), provides some services on a shared basis where there is an opportunity to realize economies of scale or other efficiencies. Pursuant to this shared services model, certain services are provided to Liberty-Empire from affiliates and charged based on a direct charge or a defined cost allocation methodology set forth in APUC's Cost Allocation Manual ("CAM").

A Missouri-specific Appendix is attached to APUC's CAM which contains additional terms and conditions applicable to Liberty-Empire, The Empire District Gas Company ("Empire Gas"), Liberty Utilities (Midstates Natural Gas) Corp. ("Liberty Midstates"), and Liberty Utilities (Missouri Water) LLC ("Missouri Water") (collectively, the "Missouri Regulated Utilities"). When I use "CAM" throughout this testimony, I am referring to the APUC CAM, including the Missouri-specific Appendix.

Q. CAN YOU PLEASE GENERALLY DESCRIBE THE CAM?

A. The CAM outlines the services provided by various entities within the APUC family of businesses and the methods used to distribute the costs for those services. Costs allocated include both direct charges to specific entities and the allocation of indirect costs for services that benefit the entire organization. Specifically, the CAM outlines the methods of direct charge and cost allocations between (1) APUC and its unregulated businesses ("Liberty Power") and the regulated businesses ("Liberty Utilities"); (2) LUC and Liberty Power/Liberty Utilities; (3) LUC and the regulated utility subsidiaries of Liberty Utilities Co. ("LUCo"); (4) LUSC and Liberty Power/Liberty Utilities; (5) LUSC and its the regulated utility subsidiaries of LUCo; and (6) regional allocations. The CAM is based on the National Association of Regulatory Utility Commissions ("NARUC") Guidelines for Cost Allocations and Affiliate Transactions. The fundamental premise of those guidelines and the CAM is to direct charge costs as much as possible and to use reasonable allocation factors where allocation of indirect costs is necessary and direct charging is not possible.

The Missouri-specific portion of the APUC CAM must be read and followed in conjunction with the entire APUC CAM. The APUC CAM applies to subsidiaries of APUC, including the Missouri Regulated Utilities, while the Missouri-specific Appendix applies to APUC and its affiliates other than the Missouri Regulated Utilities only to the extent required by the Commission's affiliate transaction rules or as specifically stated in the Appendix.

Q. PLEASE DISCUSS THE SHARED SERVICES PROVIDED BY APUC.

A. As the ultimate corporate parent, APUC provides financial, strategic management, corporate governance, administrative and support services to Liberty Utilities and Liberty Power. As a publicly traded holding company, APUC also provides financial access to capital markets. APUC incurs the following types of costs: (i) strategic management costs (board of director, third-party legal services, accounting services, tax planning and filings, insurance, and required auditing); (ii) capital access costs (communications, investor relations, trustee fees, escrow and transfer agent fees); (iii) financial control costs (audit and tax expenses); and (iv) administrative (rent, depreciation, general office costs). These APUC costs are pooled and allocated to Liberty Utilities and Liberty Power using the "multi-factor" method summarized in the CAM. Without question, the services provided by APUC are necessary for Liberty Utilities and its regulated subsidiaries to have access to capital markets for capital projects and operations.

Q. PLEASE DISCUSS THE SHARED SERVICES PROVIDED BY LUC.

A. Generally, LUC provides administrative and support services to Liberty Utilities and Liberty Power through the Liberty Algonquin Business Services ("LABS") shared services business unit. Services found within the following departments are charged to the regulated utilities: executive, regulatory strategy, energy procurement, operations, utility planning, administration, and customer experience. Other LUC administrative and support services are shared throughout the Company (regulated and non-regulated). These include the following departments: information technology, human resources, training, environment, health, safety and security, procurement, executive and strategic management, technical services, utility planning, risk management, financial reporting, planning and administration, treasury, internal audit, external communications, legal, and compliance. Costs incurred for the benefit of all of its regulated assets (*i.e.,* indirect costs) are allocated using a four-factor methodology based on customer counts, utility plant, non-labor expenses and labor expenses.

Q. HOW DOES LUSC FIT INTO THE SHARED SERVICES MODEL?

A. LUSC, a wholly owned subsidiary of Liberty Utilities Co., is where most regulated utility employees in the U.S. are employed. This streamlines administration of payroll across the United States-based companies. Employee costs, such as salaries, benefits, insurance, etc. are paid by LUSC and direct charged to the extent possible to the regulated utility for which the employee performs dedicated work. As per the principles of the CAM, the LUSC shared services employees direct charge their services when they are directly attributable to a specific utility. In the case of Liberty-Empire, this would include employees such as line workers who are solely dedicated to providing services to Liberty-Empire. There are other LUSC employees who provide shared services such as those found in the following departments: accounting, information technology, procurement, customer care and billing. Costs incurred for the benefit of all of Liberty Utilities Co. regulated assets (*i.e.*, indirect costs) are allocated using a four-factor methodology based on customer counts, utility plant, non-labor expenses and labor expenses.

Q. PLEASE FURTHER DESCRIBE LABS SHARED SERVICES?

A. As stated above, LABS is a business unit that serves both regulated and unregulated entities. The LABS business unit provides shared services throughout APUC's family of businesses and are outlined in the CAM. Specific examples of these services include: (i) budgeting, forecasting, and issuing consolidated and stand-alone financial statements; (ii) treasury functions including cash management (including electronic fund transfers, cash receipts processing), and managing short-term borrowings and investments with third parties; (iii) development of human resource policies and procedures; (iv) selection of information systems and equipment for accounting, engineering, administration, customer service, emergency restoration and other functions and implementation thereof; (v) development, placement and administration of insurance coverages and employee benefit programs, including group insurance and retirement annuities, property inspections and valuations for insurance; (vi) internal audit providing assurance and advisory services in the areas of governance, risk management and internal control, and (vii) purchasing services including preparation and analysis of product specifications, requests for proposals and similar solicitations, and vendor and vendor-product evaluations.

Q. WHAT METHODOLOGY IS USED TO ALLOCATE LABS' COSTS?

A. To the extent that LABS costs can be directly attributable to a specific utility, they are direct charged or assigned. Those costs include direct labor and direct non-labor costs. LABS also provides certain services that benefit the entire company, *i.e.*, both Liberty Utilities and Liberty Power. Those indirect costs are allocated between Liberty Power and Liberty Utilities. Once those indirect costs are allocated between Liberty Power and Liberty Utilities they are further allocated to the Liberty Utilities entities using the four-factor methodology.

Q. ARE THERE SHARED SERVICES COSTS WHICH ARE ALLOCATED AT THE REGIONAL OR STATE UTILITY LEVEL?

A. Yes. In 2017, Liberty Utilities organized into three operation regions—West, Central and East. The Central region currently consists of electric, natural gas, water and wastewater utilities located in Missouri, Illinois, Iowa, Arkansas, Kansas, and Oklahoma. Within the regions, certain services (e.g., finance, legal, regulatory, government relations) are provided to optimize resources and provide oversight of local/regional functions. For example, the regulatory function for the Central region focuses on providing regulatory support for the operations of all the utilities within that region. The employees in the Central region regulatory group are located in Joplin, Missouri and are classified as regional employees. Services and costs that are not direct assigned are allocated to the utilities within the region or state using the Regional Four-Factor Methodology (25% weighting for the factors of: customer count, utility net plan, non-labor expenses, and labor expenses).

Q. DOES THE CAM SATISFY THE COMMISSIONS AFFILIATE TRANSACTION RULES?

A. Yes. The APUC CAM, which includes the Missouri-specific Appendix, satisfies the Commission's affiliate transaction rules. The Missouri Appendix satisfies the requirements of Commission Rules 4 CSR 240-20.015 and 4 CSR 240-40.015 by providing the criteria, guidelines, and procedures the Missouri Regulated Utilities will follow when engaging in affiliate transactions.

Q. PLEASE FURTHER EXPLAIN THE PURPOSE OF THE MISSOURI-SPECIFIC APPENDIX TO THE APUC CAM AND HOW IT SATISFIES THE REQUIREMENTS OF THE COMMISSION'S AFFILIATE TRANSACTION RULES.

A. As noted above, the Missouri-specific appendix to the APUC CAM provides additional criteria, guidelines and procedures for the Missouri Regulated Utilities when engaging in affiliate transactions and prevents these entities from subsidizing their non-regulated operations. In Liberty-Empire's case, this provision ensures that costs are appropriately allocated between Liberty-Empire and its unregulated fiber subsidiary, Empire District Industries, Inc. In addition, the Missouri-specific appendix proscribes the cost assignment and allocation methodologies for the direct and indirect assignment and allocations of costs to the relevant regulated business functions and non-regulated business functions.

Q. HAS THE COST ALLOCATION MANUAL BEEN FILED WITH THE COMMISSION?

A. Yes. On August 23, 2011, The Empire District Electric Company and The Empire District Gas Company requested the Commission's approval of their then-current CAM (Case No. AO-2012-0062) following the approval of a global agreement in the 2011 general rate case (Case No. ER-2011-0004). On October 20, 2016, the Commission granted a request to suspend the procedural schedule in Case No. AO-2012-0062 on the condition that the utilities file a new CAM application within six months of the closing of the merger with Liberty Utilities Sub Corp. In compliance with the Commission's condition, on June 30, 2017, the Missouri Regulated Utilities filed an application seeking approval of their then-current CAM (Case No. AO-2017-0360). The Company's application is pending before the Commission.

Q. WHAT WAS THE AMOUNT OF CORPORATE ALLOCATIONS ASSIGNED TO LIBERTY-EMPIRE DURING THE TEST YEAR FOR THIS GENERAL RATE PROCEEDING?

A. During the test year, Liberty-Empire received approximately $32.9 million in direct and indirect allocations through the cost allocations described above.

Q. WERE THESE COSTS NECESSARY TO THE CONDUCT OF THE BUSINESS?

A. Yes. The shared services model serves an important role in the administration and operation of Liberty-Empire. Through it, Liberty-Empire receives services vital to the day-to-day conduct of the utility. APUC provides benefits to its subsidiaries by providing financing, financial control, legal, executive and strategic management and related services. The services provided by APUC are necessary for all affiliates, including Liberty-Empire, to have access to capital markets for funding of capital projects and operations. In addition, the allocation of shared services from APUC, LUC, LUSC and LABS maximize economies of scale and expertise while minimizing redundancy.

Q. SINCE THE ACQUISITION, HAVE THE CORPORATE ALLOCATIONS IMPACTED THE OVERALL OPERATING EXPENSES OF LIBERTY-EMPIRE?

A. While the Company works diligently to manage operating costs, since Liberty-Empire's last general rate case filed in 2015, operating expenses have increased modestly, averaging approximately 2.9 percent per year over the last four years.

Q. WHAT ARE SOME OF THE COST INCREASES THAT LIBERTY-EMPIRE HAS EXPERIENCED SINCE THE ACQUISITION?

A. In addition to normal inflationary pressures, annual increases in employee compensation, and increased operating and maintenance expenses associated with increased plant in service, the Company has experienced cost increases related to pension expense, which is largely attributable to the number of retirements, as well as an increase related to health claims.

Q. HAS LIBERTY-EMPIRE SEEN REDUCTIONS IN COSTS SINCE THE ACQUSITION?

A. Yes. Perhaps most notably, Liberty-Empire has seen a reduction of approximately $2 million associated with costs that were eliminated due to the Company no longer being publicly traded on a stand-alone basis. In addition, there has been a reduction in costs in certain functions that Liberty-Empire used to provide on a stand-alone basis. For example, prior to its acquisition, in 2016 Liberty-Empire incurred over $400,000 for Treasury services. After the acquisition, the Treasury function became part of the LABS shared services and in 2018 Liberty-Empire incurred less than $200,000 for Treasury services. Another example is Internal Audit. Prior to the acquisition, Liberty-Empire incurred nearly $500,000 for its auditing function. After the acquisition, those employees were transitioned to shared services and in 2018 Liberty-Empire's allocation of Internal Audit shared services was less than $125,000. As a third example, Human Resources functions were transitioned to shared services functions after the acquisition. Prior to the acquisition, in 2016, Liberty-Empire incurred over $700,000 for its Human Resources functions. In 2018, Liberty-Empire incurred approximately $440,000.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

AFFIDAVIT OF JILL SCHWARTZ

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 8 day of August, 2019, 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 The Empire District Electric Company – Liberty Utilities Central 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

Jill Schwartz

Subscribed and sworn to before me this 8 day of August, 2019.

ANGELA M. CLOVEN
Notary Public - Notary Seal
State of Missouri
Commissioned for Jasper County
My Commission Expires: November 01, 2019
Commission Number: 15262659

Angela M. Cloven

Notary Public

My commission expires: 11/01/19.