Exhibit No.: _____
Issues: Revenue Requirement, Rate Base, Rate Base Adjustments, Income Statement and Income Statement Adjustments
Witness: Charlotte T. Emery
Type of Exhibit: Direct Testimony
Sponsoring Party: Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty
Case No.: GR-2024-0106
Date Testimony Prepared: February 2024

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Charlotte T. Emery

on behalf of

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

February 9, 2024

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LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP. D/B/A LIBERTY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Charlotte T. Emery. My business address is 602 South Joplin Avenue, Joplin, Missouri.

Q. By whom are you employed and in what capacity?

A. I am employed by Liberty Utilities Service Corp. ("LUSC"), as the Senior Director of Rates and Regulatory Affairs for the Liberty Central Region, which includes the natural gas operations of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty ("Liberty" or the "Company").

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of Liberty.

Q. Please describe your educational and professional background.

A. I graduated from College of the Ozarks, Point Lookout, Missouri in 2000 with a Bachelor of Science degree with a major in Accounting. I have been a Certified Public Accountant ("CPA") in the State of Missouri since 2006. I was hired by The Empire District Electric Company ("Empire") in July 2016 as a Rates Analyst and promoted to my current position as a Senior Director in the Rates and Regulatory Affairs Department in 2022.

In my current role, I am responsible for all regulatory matters involving electric, natural gas, water and wastewater utilities in the Central Region (Arkansas, Illinois, Iowa, Kansas, Missouri, and Oklahoma) and FERC. In addition to managing the

Central Region Rates and Regulatory Affairs Department, I am responsible for the development of regulatory strategy, interacting with regulators and other parties on behalf of all the utilities within the Central Region footprint, reviewing and preparing other aspects of regulatory filings, and internal approval of rate changes among other duties.

Prior to joining LUSC, I worked for six years in the regulated insurance industry in Springfield, Missouri as a Director of Accounting. In addition, I have nine years of public accounting experience working for both national and "Big Four" accounting firms. My primary roles at these organizations include serving as a supervisor for financial statement audits and a tax consultant.

Q. Have you previously testified before the Missouri Public Service Commission ("Commission") or any other regulatory agency?

A. Yes. For a complete listing of the cases I have participated in as a witness, please refer to **<u>Direct Schedule CTE-15</u>**.

Q. What is the purpose of your Direct Testimony in this proceeding?

A. The purpose of my Direct Testimony is multifaceted. First, I provide and explain the bases for the Company's overall revenue requirements and cost to serve its retail gas customers in Missouri. In addition, I support several of the rate base and income statement pro-forma adjustments. Lastly, I provide support for the allocation factors utilized in allocating costs between Liberty's gas retail jurisdictions.

Q. Are you sponsoring any schedules with your testimony?

A. Yes. I am sponsoring the following schedules:

Schedule	Description
Direct Schedule CTE-1	Revenue Requirement Summary
Direct Schedule CTE-2	Rate Base Summary
Direct Schedule CTE-3	Rate Base Adjustment Summary
Direct Schedule CTE-3.1	Plant in Service
Direct Schedule CTE-3.2	Accumulated Depreciation/Amortization
Direct Schedule CTE-3.3	Cash Working Capital
Direct Schedule CTE-3.4	Prepayments
Direct Schedule CTE-3.5	Materials, Supplies & Inventory
Direct Schedule CTE-3.6	Customer Deposits
Direct Schedule CTE-3.7	Customer Advances
Direct Schedule CTE-3.8	Regulatory Assets
Direct Schedule CTE-3.9	Regulatory Liabilities
Direct Schedule CTE-3.10	Accumulated Deferred Income Taxes
Direct Schedule CTE-4	Explanation of Rate Base Adjustments
Direct Schedule CTE-5	Income Statement Summary
Direct Schedule CTE-6	Income Statement Adjustment Summary
Direct Schedule CTE-6.1	Revenues
Direct Schedule CTE-6.2	Operation and Maintenance Expenses
Direct Schedule CTE-6.3	Depreciation Expense
Direct Schedule CTE-6.4	Amortization Expense
Direct Schedule CTE-6.5	Taxes Other Than Income Taxes
Direct Schedule CTE-6.6	Interest on Customer Deposits

Direct Schedule CTE-7	Explanation of Income Statement Adjustments
Direct Schedule CTE-8	Weighted Average Cost of Capital
Direct Schedule CTE-9	Weighted Average Cost of Debt
Direct Schedule CTE-10	Income Taxes
Direct Schedule CTE-11	Pro Forma Income Taxes
Direct Schedule CTE-12	Interest Synchronization
Direct Schedule CTE-13	Gross Revenue Conversion Factor
Direct Schedule CTE-14	Composite Tax Rate
Direct Schedule CTE-15	Case Reference Listing

Q. Was the information contained in the schedules obtained or derived from the books and records of the Company?

A. Yes.

Q. Did Liberty provide the Commission timely notice of the Company's intent to file a general rate case?

A. Yes. Pursuant to Commission Rule 20 CSR 4240-4.017, a utility is required to provide at least 60 days' notice to the Commission of its intent to file a case. On September 26, 2023, Liberty filed its Notice of Intended Case Filing, which was assigned Case No. GR-2024-0106, satisfying the requirements of Commission Rule 20 CSR 4240-4.017.

II. GENERAL RATE CHANGE BACKGROUND

Q. Please describe the Company's recent history of general rate case filings.

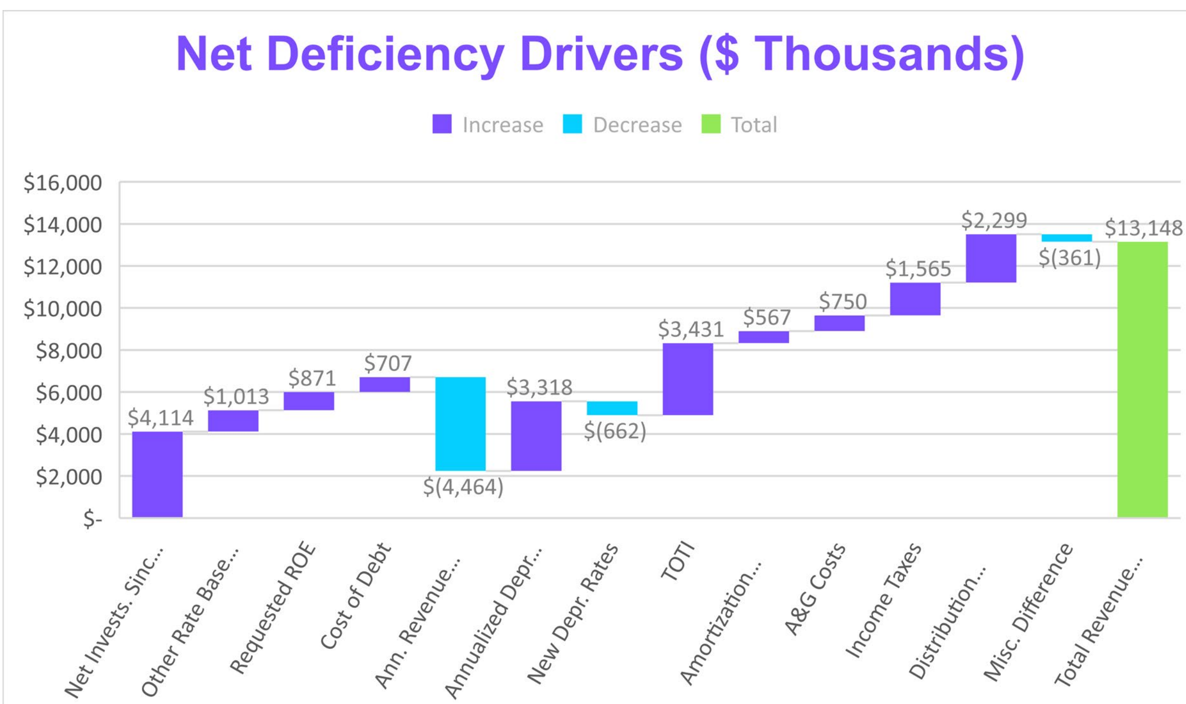
A. The Company filed its last general rate case in Missouri in File No. GR-2018-0013 on September 29, 2017. The Commission issued its Order approving the Stipulation and

Agreement with an effective date of June 16, 2018, and approved compliance tariffs with an effective date of July 1, 2018. The Stipulation and Agreement allowed the Company to increase its annual revenues by $4,600,000.

Q. What is the amount of the annual revenue deficiency requested in this case?

A. The Company is seeking to recover an annual base rate revenue deficiency of $13,148,445 based on a rate base of $167,110,965. This represents a 38.22% increase in total base rate operating revenue. However, $1,944,044 of the base rate revenue deficiency is currently authorized to be recovered through the Company's Infrastructure System Replacement Surcharge ("ISRS") tariff schedule, which the Company proposes to be set to zero after this proceeding. As such, the net revenue increase is approximately $11,204,401. Chart CTE-1 reflects the major drivers of the Company's proposed rate increase:

Chart CTE-1[1]



[1] Based on comparison utilizing MPSC Staff's EMS True-Up calculations.

The remaining portion of my Direct Testimony will address the revenue requirement drivers in the above chart.

Q. How did Liberty determine its annual revenue deficiency and its need for a general rate change?

A. This request is based on a test year ending December 31, 2022. Adjustments have been proposed for known and measurable changes to the test year to normalize operating results. The direct schedules, as presented, contain all expense items, and Table CTE-2 below shows a calculation of the annual revenue deficiency.

<u>Table CTE-2</u>

Line No.	Revenue Requirement Component	Reference Schedule	Dollar Amount
1	Total Rate Base	Direct Schedule CTE-1	$167,110,965
2	Required Rate of Return	Direct Schedule CTE-1	8.35%
3	Required Net Operating Income	Direct Schedule CTE-1	$13,951,793
4	Operating Income Deficiency	Direct Schedule CTE-1	$10,013,842
5	Gross Revenue Conversion Factor	Direct Schedule CTE-1	1.3130
6	Total Revenue Deficiency	Direct Schedule CTE-1	$13,148,445

Q. Is the Company's proposed annual revenue deficiency based on a consolidated cost of service/revenue requirement for its tariff rate schedules?

A. Yes. The Company is proposing to consolidate the cost of service/revenue requirements of the Northeast/West ("NEMO/WEMO") and Southeast ("SEMO") districts. For further discussion on the Company's proposed consolidation, please refer to the Direct Testimony of Company witness Timothy S. Lyons.

III. REVENUE REQUIREMENT

Q. What is meant by the term "revenue requirement"?

A. A utility's "revenue requirement" is the sum of its Operation and Maintenance ("O&M") expenses, depreciation expense, income and other taxes, and a fair return on the utility's rate base. The revenue requirement is often determined based on a historical test year with pro-forma adjustments reflecting reasonably known and measurable changes to revenues, expenses and rate base items. When the revenue requirement exceeds the utility's normalized test year revenues, a revenue deficiency exists, which is the case here, and a rate increase is required. The calculation presented in this case is made specific to the Company's Missouri retail jurisdiction.

Q. What are the general categories of pro-forma adjustments proposed by the Company?

A. Pro-forma adjustments generally fall into one of the following categories:

1) Normalization Adjustments – which are made to rate base and expense balances to offset unusual levels of operational activity that were recorded during the test year. An example of such an adjustment would be the use of a 13-month average for materials and supplies to address the variability of the balances.

2) Annualization Adjustments – which are made to recognize an increased or a decrease to a cost which occurred during the test year that will be ongoing and must be captured on a prospective basis. An example of such an adjustment would be the adjustment to payroll and payroll expenses to account for salary increases which occurred during the pro-forma period. This annualization is necessary to adjust payroll costs to a known and measurable level which would be reflective of the pro-forma salary for the entire year.

3) Out of Period Adjustments – which are made to consider known and measurable changes that occur outside the end of the test year. An example of such an adjustment would be increases to Plant in Service based on construction work that is expected to be complete, used and useful by the end of the pro-forma Update period.

4) Elimination Adjustments – which are adjustments to costs that are not necessary to provide natural gas service to Liberty's Missouri retail customers. An example of such an adjustment would be to remove balances that relate to providing service to other Midstates gas utility jurisdictions.

5) Non-base rate Adjustments – which are adjustments to reflect any cost recovery that occurs outside of base rates. An example of such an adjustment would be to remove the Purchase Gas Adjustment revenues and expenses. This adjustment is necessary to ensure that Liberty customers are not double charged for the costs recovered or passed through a separate mechanism or tariff condition.

Q. What test year did the Company use for this general rate case filing?

A. The Company is proposing a historical test year based on twelve months ended December 31, 2022.

Q. Is Liberty requesting the test year be updated?

A. Yes. The Company is proposing the test year be updated through December 31, 2023. The impact of the update process has been included in the Company's revenue requirement presented in my Direct Testimony.

Q. Is Liberty requesting a "true-up" process at this time?

A. No.

Q. What is Liberty's calculated overall rate of return?

A. The Company's calculated overall rate of return at current rates is 2.36%. This rate of return earned under the current rates is calculated by dividing adjusted test year operating income by the adjusted test year rate base. This rate of return is not fair nor reasonable. For further discussion on the rate of return the Company is proposing in this case, please refer to Company witness John Cochrane's Direct Testimony.

Q. Please summarize the rate relief the Company is seeking in this proceeding?

A. As stated above, the Company is seeking to recover an annual revenue deficiency of approximately $13.1 million based on a rate base of $167,110,965.

Q. What is the revenue requirement model?

A. A revenue requirement model is the analysis that calculates the various components of the revenue requirement described previously in my testimony and provides a determination if a utility is earning its authorized rate of return.

Q. Please describe the direct schedules of the revenue requirement model.

A. **Direct Schedule CTE-1**, Revenue Requirement Summary, presents the Company's proposed revenue requirement and the overall revenue requirement calculation. **Direct Schedule CTE-2**, Rate Base Summary, reflects the Company's test year rate base, including pro-forma adjustments and the resulting pro-forma rate base. Rate base is the value of property on which a public utility is permitted to earn a specified rate of return. **Direct Schedule CTE-5**, Income Statement Summary, provides the test year statement of operating income with pro-forma adjustments and the resulting pro-forma operating income. **Direct Schedule CTE-3**, Rate Base Adjustment Summary, and **Direct Schedule CTE-6,** Income Statement Adjustment Summary, provides the known and measurable adjustments to rate base and operating income that the Company reasonably expects through the update period. **Direct Schedule CTE-11**, Pro-Forma Income Taxes, calculates income taxes based on state and federal effective tax rates. **Direct Schedule CTE-12**, Interest Synchronization, calculates the synchronized interest expense based on the Company's rate base and weighted cost of debt. The Interest Synchronization calculation is necessary to properly calculate the amount of income taxes to be recovered through rates as the Company receives a tax deduction for interest expense which reduces the Company's taxable income. **Direct Schedule CTE-8**, Weighted Average Cost of Capital, presents the overall cost of capital used in the calculation of the revenue requirement which will be addressed in detail by Company witness John Cochrane.

Q. Does Liberty operate across multiple retail jurisdictions?

A. Yes. Liberty provides natural gas services in the states of Missouri, Illinois, and Iowa.

Q. How are costs allocated among the different retail jurisdictions?

A. Where possible, all costs and revenues are directly assigned to the relevant regulated business jurisdiction, and when a cost or revenue is unable to be directly assigned, an indirect allocation method is used. Liberty utilizes the Four Factor allocation method which uses the following inputs Utility Plant, Customer Count, Labor Costs, and Operating Expenses. The Four Factor allocator is updated annually.

Q. Does the revenue requirement that is being proposed in this case only reflect the costs associated with providing services to Liberty's Missouri retail customers?

A. Yes.

IV. RATE BASE

Q. What is the Company's proposed rate base in this case?

A. As shown on **Direct Schedule CTE-2**, Rate Base Summary, the Company's pro-forma rate base is $167,110,964. It is comprised of the test year rate base of $133,728,182, with pro-forma adjustment totaling $33,382,782.

Q. Please explain Rate Base (RB) Adjustment (ADJ) 1 for Plant Additions?

A. RB-ADJ 1 increases Plant in Service and Accumulated Depreciation for projects reasonably expected to be placed in service and used and useful by December 31, 2023. This adjustment consists of two different categories of additions: Actual Plant in Service added from January 1, 2023 – September 30, 2023 and an estimated amount of Plant in Service to be placed in service for the months of October – December 2023. The actual increase in Plant in Service from January 1, 2023 – September 30, 2023 is $12,617,360. The estimated amount of additional Plant in Service for the months of October – December 2023 is $19,583,129. In total, this results in an additional amount of Plant in Service of $32,200,489.

The Accumulated Depreciation Adjustment is structured in a similar way as the Plant in Service adjustment. The increase to Accumulated Depreciation for Actual increases in Accumulated Depreciation from January 1, 2023 – September 30, 2023 is $4,840,150 and an estimated amount of Accumulated Deprecation to be added for the months of October – December 2023 is $2,088,509. In total, this results in an additional amount of Accumulated Depreciation of $6,928,659.

Q. Please explain RB ADJ 2 Common Plant Additions?

A. There are certain general plant assets recorded on Empire's books that are shared between Empire and other non-electric affiliated business entities within the Central

Region. Therefore, a portion of these assets must be added to the cost of service to avoid subsidization. In RB ADJ 2, the Company calculated a "mass rate" to add a percentage of common plant utilized by Liberty, which includes certain buildings such as the Joplin Corporate Office, the Joplin Kodiak Operations Office, and the Ozark Call Center. The adjustments result in an increase to Liberty's Plant in Service of $2,237,984 and $1,367,645 for the associated Accumulated Depreciation reserve.

Q. Please explain RB ADJ 3 Shared Services Allocated Plant in Service and Accumulated Depreciation?

A. As mentioned earlier in my testimony, Liberty Utilities (Midstates Natural Gas) Corp. operates in multiple jurisdictions and there are certain assets that are considered shared service assets that it is necessary to allocate among the three jurisdictions. Specifically, these assets include the building and land located in Jackson, Missouri, computing hardware and software, and shared vehicles and equipment. Since these assets are used to provide services to our Missouri customers it is appropriate to include these assets in the Company's rate base. As such, the Company is proposing an adjustment to increase Plant in Service in the amount of $20,088,482. Additionally, the corresponding Accumulated Depreciation reserve for these assets has also been included in the Company's revenue requirement in the amount of $15,426,742.

Q. Please explain RB ADJ 4 Property Tax Tracker?

A. This adjustment reflects the inclusion of the Property Tax Regulatory Asset balance that was established by Senate Bill 745, which was codified in Section 393.400.2, RSMo., and became effective August 28, 2022. Senate Bill 745 specifies that gas corporations:

> ...shall defer to a regulatory asset or liability account any difference in state or local property tax expenses actually incurred, and those on which the revenue requirement used to set rates in the corporation's most recently completed general rate proceeding was based. The regulatory asset or liability account balances shall be included in the revenue requirement used to set rates through an amortization over a reasonable period of time in such corporation's subsequent general rate proceedings. The commission shall also adjust the rate base used to establish the revenue requirement of such corporation to reflect the unamortized regulatory asset or liability account balances in such general rate proceedings... .

Q. Was there an agreed upon revenue requirement to set current rates?

A. No. Current rates were set based on an Order approving a Stipulation and Agreement which did not specifically establish a revenue requirement. However, to develop the Property Tax Regulatory Asset balance, the Company utilized the amount of Property Tax that was included in the Commission Staff's EMS True-up calculation for Property Taxes in the amount of $1,665,744. This amount was within $2 dollars of the Company's True-up calculation for Property Tax. Using Commission Staff's Property Tax amount for the base line amount results in $1,033,418 in annual property tax expenses actually incurred above what has been included in rates. As such, the Company has included a regulatory asset balance in the amount of $1,033,418 within its rate base.

Q. Please explain RB ADJ 5 for Cash Working Capital.

A. RB ADJ 5 decreases the Company's rate base by $1,921,591 to account for the appropriate level of cash working capital. Please refer to Company witness Timothy S. Lyons' Direct Testimony for discussion of the lead-lag study.

Q. Please explain RB ADJ 6 for the 13-Month Average Adjustments?

A. A thirteen-month average is used to help smooth fluctuations in costs and better represent a normal level of costs for inclusion in rate base when establishing new rates. When applying this method, it results in a decrease to materials and supplies by

$264,346. Prepayments were decreased by $6,585. Customer deposits were increased by $78,543. Lastly, Customer advances were increased by $126,008.

Q. Please explain RB ADJ 7 to Underground Gas Storage.

A. The purpose of RB ADJ 7 is to normalize the value of Underground Gas Storage due to the volatility of the balance throughout the year. The pro-forma balance included in the Company's revenue requirement calculation is $8,150,006 which has been adjusted to a 13-month average. The 13-month average methodology reduced our Underground Storage balance by $3,747,973.

Q. Please explain RB ADJ 8 to Regulatory Assets.

A. RB ADJ 8 was used to adjust the various Regulatory Asset balances recorded at the test year. The Company made an adjustment to exclude balances that are not components of calculating base rates such as those balances recovered through the Purchase Gas Adjustment ("PGA") tariff schedule in the amount of $2,287,192. Further, the Company removed the Deferred Rate Case Costs from inclusion in rate base in the amount of $49,967. Finally, RB ADJ 8 made an adjustment to reflect the anticipated balance of its Energy Efficiency Regulatory Assets that were established in prior cases[2] for new costs and additional amortization that was expected to occur during 2023 which results in an additional net increase of $174,122.

Q. Please explain RB ADJ 9 to Regulatory Liabilities.

A. RB ADJ 9 was used to adjust the various Regulatory Liability balances recorded at the end of the test year. The Company made an adjustment to exclude balances that are not components of calculating base rates such as those balances recovered through the PGA tariff schedule in the amount of $1,160,980. In addition, the Company proposes

[2] Case Nos. GR-2010-0192, GR-2014-0152 and GR-2018-0013.

to return to customers the Regulatory Liability in the amount of $570,477 associated with Excess Accumulated Deferred Income Taxes ("EADIT") which was established as the result of the 2017 Tax Cuts and Jobs Act. Discussion on why this balance should be incorporated into the revenue requirement calculation is discussed further in the Direct Testimony of Company witness Michael McCuen.

Q. Please explain RB ADJ 10 to ADIT.

A. RB ADJ 10 was made to reflect the anticipated balance of ADIT at the end of December 31, 2023. An adjustment was made to increase ADIT by $2,845,086 which results in a pro-forma balance of $12,205,474.

Q. Please explain RB ADJ 11 to Pension and OPEB Regulatory balances.

A. Please see the Direct Testimony of Company witness James A. Fallert regarding the rate base adjustments made for Pension and OPEB.

V. <u>OPERATING INCOME</u>

Q. Has the Company proposed any adjustments to its test year operating income?

A. Yes, the Company has proposed multiple adjustments to normalize and annualize balances to arrive at what is deemed a normal test year. The various adjustments will be discussed in further detail later in my testimony.

Q. Please list the proposed operating income adjustments that relate to revenue.

A. The Company proposes the following adjustments to test year revenue:

- REV ADJ 1 Adjustment to remove PGA Revenues
- REV ADJ 2 Adjustment to remove Unbilled Revenues
- REV ADJ 3 Adjustment to Reconcile ISRS Revenues
- REV ADJ 4 Adjustment to normalize Revenue due to the impact of weather
- REV ADJ 5 Adjustment to reflect a contract revision for a customer

- REV ADJ 6 Adjustment to normalize large customer revenues

Q. Please list the proposed operating income adjustments that relate to expense?

A. The Company proposes the following adjustments to test year expenses:

- EXP ADJ 1 Adjustment to remove PGA Expenses
- EXP ADJ 2 Adjustment to add the amortization associated with the Property Tax Regulatory Asset
- EXP ADJ 3 Adjustment to Uncollectible Expense
- EXP ADJ 4 Adjustment to reflect the amortization of the Regulatory Assets and Liabilities
- EXP ADJ 5 Adjustment to reflect rate case expense amortization
- EXP ADJ 6 Adjustment to Insurance Expense
- EXP ADJ 7 Adjustment to remove non-recoverable costs
- EXP ADJ 8 Adjustment for payroll and related labor costs
- EXP ADJ 9 Adjustment for employee benefit costs
- EXP ADJ 10 Adjustment to Commission assessment costs
- EXP ADJ 11 Adjustment to Depreciation Expense
- EXP ADJ 12 Adjustment to Property Tax Expense
- EXP ADJ 13 Adjustment to Interest Expense on Customer Deposits
- EXP ADJ 14 Adjustment to O&M for new technology costs
- EXP ADJ 15 Adjustment to Normalize Training and Travel Expenses
- EXP ADJ 16 Adjustment to Pension and OPEB Expenses
- EXP ADJ 17 Adjustment to Income Tax Expenses

VI. REVENUE ADJUSTMENTS

Q. Please explain REV ADJ 1 to remove PGA related revenues.

A. REV ADJ 1 is made to remove PGA-related revenues from the Revenue Requirement. These revenues represent the amount recovered from customers as a result of collections under the PGA tariff schedule. This results in a pro-forma adjustment to decrease revenues of $35,163,589.

Q. Please explain REV ADJ 2 to remove Unbilled Revenues.

A. This adjustment removes $198,991 of revenues from test year that were not billed to or received from customers during the test year and which billing determinants were not reflected in the billing determinants that are used to calculate a weather normalized level of revenue. Therefore, this adjustment is required to avoid a double counting of revenue.

Q. Please explain REV ADJ 3 to reconcile ISRS Revenues.

A. The Company's existing ISRS was established in File Nos. GT-2022-0118, GT-2021-0073 and GT-2023-0229. The Company calculated the amount of ISRS revenue it has earned from its customers during the test year. This amount was compared to the authorized recovery balances in File Nos. GT-2022-0118, GT-2021-0073 and GT-2023-0229, and the difference between the amounts represent the adjustment reflected within REV ADJ 3. Furthermore, in accordance with the ISRS Statutes, the Company's ISRS will be zeroed out and rolled into rate base amounts which are being requested in this case. The total REV ADJ 3 is an addition to revenue of $1,253,169.

Q. Please explain REV ADJ 4 to weather normalize revenues.

A. Weather normalization is the process of determining what consumption would have been if normal weather conditions existed during the test year. Weather plays a major role in the level of consumption by our Liberty customers. Therefore, it is appropriate to reflect an adjustment to revenue to align revenues to normal weather. The Company is proposing a weather normal adjustment to increase revenues by $224,924. For further discussion on the methodology and approach to arrive at the weather normalization adjustment, please refer to the Direct Testimony of Company witness Eric Fox.

Q. Please describe REV ADJ 5 Large Customer Contract Revision.

A. The Company renegotiated a contract with one of its large customers at the end of 2022. As a result of the contract negotiations, the contracted rate increased. To properly reflect the increased anticipated ongoing revenues from this contract, it is appropriate to incorporate the increase of revenue into the revenue requirement calculation. Therefore, the Company has included an adjustment in the amount of $698,172. This adjustment was calculated based on actual usage experienced for the months of January – September 2023 and an estimate of revenue for the remaining months of October – December 2023.

Q. Please describe REV ADJ 6 Large Customer Revenue Normalization Adjustment.

A. REV ADJ 6 decreases operating revenues by a net amount of $415,663 to reflect the discounts provided to customers during the test year in accordance with the Company's Economic Development Gas Service Tariff and anticipated revenue loss of a large customer who has notified us they are curtailing all operations.

VII. EXPENSE ADJUSTMENTS

Q. Please explain EXP ADJ 1 to remove the test year level of PGA expense.

A. In conjunction with REV ADJ 1 discussed above, EXP ADJ 1 removes $35,170,425 for PGA expenses from the revenue requirement calculation. These expenses represent the amount recovered from customers in accordance with the PGA tariff schedule.

Q. Please explain EXP ADJ 2 which incorporates Amortization Expense associated the Property Tax Regulatory Asset balance.

A. In conjunction with RB ADJ 4 discussed above, EXP ADJ 2 represents the proposed annual amortization expense associated with the new Property Tax Regulatory Asset balance in the amount of $344,473. Currently, the test year does not include any amortization expense for this regulatory asset, and it is appropriate to incorporate the full year's balance into the annual revenue requirement calculation. The Company is proposing a three (3) year amortization life for the Property Tax Regulatory Asset. The Company is proposing the three (3) year amortization period as it will allow the Property Tax Regulatory Asset balance to be fully recovered before the Company's next anticipated rate case filing, which will help to ensure that the customers receiving the benefits of the costs are the customers paying for such costs.

Q. Please explain EXP ADJ 3 to annualize the Uncollectible Expense.

A. EXP ADJ 3 increases Uncollectible Expenses by $177,727 by normalizing Uncollectible Expense based on a five-year historical Uncollectible percentage. The five-year historical average used to calculate the Uncollectible percentage excludes 2021 as it was impacted by the various payment plans provided to customers related to the COVID-19 pandemic. In addition, the adjustment reflects the incremental increase in Uncollectible Expense anticipated for the requested revenue deficiency.

Q. Please explain EXP ADJ 4 which is being proposed to annualize Amortization Expense associated with Energy Efficiency Regulatory Assets and the EADIT Regulatory Liability.

A. Liberty is proposing EXP ADJ 4 to reflect the continued Amortization Expense for the Energy Efficiency Regulatory Asset balances which was established in prior cases.[3] The amortization expense is adjusted to reflect the known and measurable balance of the assets through the December 31, 2023 update period. The adjustment increases amortization expense by $65,841. Furthermore, EXP ADJ 4 proposes an adjustment to decrease Income Tax Expense in the amount of $22,763 to reflect the amortization of the Excess ADIT Regulatory Liability being proposed by the Company.

Q. Please explain EXP ADJ 5 to include a normalized amount of rate case expense.

A. Liberty anticipates that it will spend approximately $688,524 to prepare, file and litigate this proceeding. The Company currently anticipates that it will file its next rate case no sooner than three years from now, and thus proposes to amortize the total rate case expense over three years. Accordingly, Liberty has included an adjustment to Operating Expense of $229,508. It should be noted that the Company should only be allowed to recover the actual rate case expense incurred, so the Commission's final Order in this case should allow for the recovery of actual rate case expense, as determined through the appropriate filings following briefing of the case.

Q. Please explain EXP ADJ 6 for Insurance Expense.

A. EXP ADJ 6 decreases Operating Expenses by $91,097 associated with Insurance Expense because even though insurance premiums are anticipated to increase from 2022 to 2023, the allocation of worker's compensation insurance premiums to Liberty

[3] Case Nos. GR-2010-0192, GR-2014-0152 and GR-2018-0013.

is expected to decrease. These changes netted are anticipated to lower insurance expense going forward.

Q. Please explain EXP ADJ 7 for Non-Recoverable expenses.

A. EXP ADJ 7 reduces Operating Expenses by $2,246 for expenses allocated to Liberty by Algonquin Power & Utilities Corp and its subsidiaries that are not appropriate to recover through customer rates. Examples of these expenses include charitable donations, meals, and entertainment. Because these costs are incurred by Liberty's parent companies, only a portion is allocated to Liberty and subsequently removed from rates by this adjustment.

Q. Please explain EXP ADJ 8 for payroll normalization.

A. This adjustment is made to include in the cost of service a normalized level of payroll and payroll taxes expected at the end of the update period. To calculate this, the Company obtained the annual salary amount for each active employee at the end of the test year and applied a four (4) percent merit increase which became effective in 2023. The Company also included in its adjustment a portion of annualized payroll related to overtime. This annualized amount of overtime was determined by using an overtime percentage computed for the non-union and union employees based upon a two-year average of overtime hours actually incurred and the overtime rate as of December 31, 2022. This rate was then applied to the Company's pro-forma base payroll amounts as previously described. In addition to annualizing the base salaries and overtime, the Company also included in its revenue requirement calculation payroll related to open positions the Company anticipates it will fill by the end of the update period. These amounts were then compared back to the test year amounts included in the cost of service and an adjustment was made for the difference.

The annualized level of payroll related to the base salaries with the incorporated merit increase and overtime adjustment mentioned above, and the annualized level of payroll related to the open positions anticipated to be filled by the update period results in a pro-forma level of payroll expense of $5,116,280. This results in a pro-forma adjustment in the amount of $732,765. Furthermore, the Company is proposing additional increases in associated payroll tax expenses associated with the proposed payroll adjustment. The adjustment for payroll taxes is $54,442.

Q. Please explain EXP ADJ 9 for employee benefits.

A. Liberty currently offers a variety of benefits, including, Medical, Dental, Vision, Life Insurance, Accidental Death and Dismemberment, Accident Insurance, Short and Long-Term Disability, and a 401(k) match, to its employees. For EXP ADJ 9, the Company obtained the annualized amounts it was incurring for each employee at the test year end and included benefit amounts for any open positions that the Company anticipates being filled by the end of the update period. To determine an annualized 401(k) expense, the actual 401(k) match rates that each employee was receiving at the test year end was used and then the Company match rate was used for the open positions. These rates were then applied to the pro-forma salary amounts calculated in EXP ADJ 8 and then compared back to the test year amounts included in the revenue requirement calculation. The annualized pro-forma balance of benefits related to active employees on December 31, 2023, is $1,275,334, which results in a pro-forma adjustment in the amount of $43,918.

Q. Please explain EXP ADJ 10 to normalize Regulatory Commission Expense.

A. EXP ADJ 10 represents a normalized amount of Commission Assessment when comparing the charges assessed to the Company during the test year versus the charges assessed during 2023. This adjustment increases Liberty Operating Expenses by $1,919, which results in a pro-forma balance of $157,763.

Q. Please explain EXP ADJ 11 to normalize Depreciation Expense.

A. EXP ADJ 11 represents an annual depreciation expense based on Plant in Service at the end of the update period including plant addition included in RB ADJ 1. This adjustment consists of two different components, one to adjust the depreciation expense based on current depreciation rates, as well as the incremental decrease related to the proposed depreciation rates from the most recent depreciation study. The amount of depreciation expense related to the current rates results in an increase to expenses of $2,402,673 and the incremental decrease from the proposed depreciation rates results in a decrease of $662,433. In sum, this results in a total increase in depreciation expense of $1,740,240.

Q. Please explain EXP ADJ 12 to normalize Property Tax Expense.

A. This adjustment represents the annualized amount of Property Tax Expense expected to be incurred for the Company's pro-forma plant that is included in its revenue requirements calculation. The property tax rate utilized by the Company in this adjustment is based on the average rate actually incurred for 2022. This results in a pro-forma balance of Property Tax Expense of $4,806,451 and a pro-forma adjustment of $2,441,716.

Q. Please explain EXP ADJ 13 to include interest on customer deposits as an operating cost.

A. EXP ADJ 13 increases operating expenses by $161,613 to include interest paid to Liberty customers on their deposit accounts, as the test year revenue requirement does not reflect an account for customer deposit interest expense. The Company utilized the interest rate of 8.5% which went into effect in January 2023.

Q. Please explain EXP ADJ 14 related to Customer First.

A. The adjustment reflects the level of additional O&M expenses from the Customer First implementation. The adjustment increases annual Operating Expenses by $925,800. For further details on these costs and the Customer First program, please refer to the Direct Testimony of Company witness Lauren Preston.

Q. Please explain EXP ADJ 15 Travel and Training Adjustments?

A. Due to the travel restrictions surrounding the COVID-19 pandemic, the test year level of training and travel expenses are lower than what is normally incurred. Therefore, the Company compared the test year balance to our 2023 budgeted amounts to determine a "normalized" amount of training and travel expenses that the Company can expect to incur going forward. This results in an adjustment of $9,220 bringing the ongoing annual Training and Travel expenses to $126,102.

Q. Please explain EXP ADJ 16 to reflect the balances in the Pension and OPEB accounts at the end of the test period.

A. The Company has included an adjustment to reduce the amount of Pension and OPEB expenses in the amount of $211,130. For further discussion on the appropriateness of this adjustment, please see the Direct Testimony of Company witness James A. Fallert.

Q. Please explain EXP ADJ 17 to normalize income taxes.

A. EXP ADJ 17 is made to annualize income taxes based on the pro-forma net operating income. This results in an adjustment to decrease income taxes for Liberty in the amount of $2,205,896.

Q. Does this conclude your Direct Testimony.

A. Yes.

VERIFICATION

I, Charlotte T. Emery, under penalty of perjury, on this 9th day of February, 2024, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ Charlotte T. Emery