Exhibit No.:	
Issue(s):	*Revenue Requirement,* *Certain S&A Items,* *Corporate Allocations,* *Customer First,* *Business Development Cost,* *Income Tax, Excess ADIT,* *CWC tax expense lag*
Witness:	*Lisa M. Ferguson*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*GR-2024-0106*
Date Testimony Prepared:	*July 18, 2024*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL & BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

DIRECT TESTIMONY

OF

LISA M. FERGUSON

LIBERTY UTILITIES (Midstates Natural Gas) CORP.,

d/b/a Liberty

CASE NO. GR-2024-0106

Jefferson City, Missouri
July 2024

****** Denotes Confidential Information ******

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LIBERTY UTILITIES (Midstates Natural Gas) CORP.,
d/b/a Liberty

CASE NO. GR-2024-0106

Q. Please state your name and business address.

A. My name is Lisa M. Ferguson. My business address is 111 N. Seventh Street, St. Louis, MO 63101.

Q. Please describe your educational background and work experience.

A. I attended Truman State University where I earned a Bachelor of Science degree in Accounting and a Master of Accountancy degree. I have been employed by the Missouri Public Service Commission ("Commission") since June 2008 with the Auditing Department.

Q. What is your current position with the Commission?

A. I am a Utility Regulatory Audit Supervisor in the St. Louis office.

Q. What knowledge, skills, experience, and training do you have in the areas of which you are testifying as an expert witness?

Q. I have been employed with the Commission for 16 years. During that time, I have assisted, conducted, and supervised audits and have also examined the books and records of electric, gas, water and wastewater utilities in many cases before the Commission in the state of Missouri. I have also received continuous training on technical ratemaking matters since I began my employment at the Commission.

Q. Have you previously testified before this Commission?

A. Yes. A list of cases and issues that I have addressed in verbal and written testimony are attached to this testimony as Schedule LMF-d1.

EXECUTIVE SUMMARY

Q. What is the purpose of your direct testimony?

A. I am sponsoring Staff's Direct Accounting Schedules that are being filed concurrently with this direct testimony. Staff's recommendation regarding the amount of the revenue requirement increase for Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty ("Liberty Midstates") operations in Missouri are based on actual historical information through the update period ending December 31, 2023. There is no true-up audit as part of this rate proceeding. In addition, as part of this rate proceeding, approximately $1.94 million of Infrastructure System Replacement Surcharge Revenue (ISRS) will be transferred to base rates for the investment that occurred during April 1, 2018 through February 28, 2023, and the ISRS rate will be reset to zero.

In this testimony, I will provide an overview of the results of Staff's direct audit and its recommended revenue requirement for Liberty Midstates. During Staff's examination, several Staff members participated in the review of Liberty Midstates books and records. The components of Staff's review include (1) capital structure and return on equity, (2) rate base investment, (3) revenue, (4) operation & maintenance expenses, (5) depreciation & amortization expense, and (6) income taxes, all of which are represented in the formula below.

OVERVIEW OF STAFF'S REVENUE REQUIREMENT DIRECT TESTIMONY

Q. Please explain the components of the cost of service for a regulated, investor-owned public utility.

A. The cost of service for a regulated, investor-owned public utility is comprised of the following formula:

Cost of Service = Cost of Providing Utility Service

Or

COS = O + (V-D)R where,

COS = Cost of Service

O = Operating Costs (Payroll, Maintenance, etc.), Depreciation, and Taxes

V = Gross Valuation of Property Required for Providing Service (including plant and additions or subtractions of other rate base items)

D = Accumulated Depreciation Representing Recovery of Gross Depreciable Plant Investment

V – D = Rate Base (Gross Property Investment less Accumulated Depreciation = Net Property Investment)

R = Rate of Return

(V-D)R = Return Allowed on Rate Base

At other times, the terminology "cost of service" and "revenue requirement" have been used interchangeably. In this testimony, Staff will refer to the "revenue requirement" in terms of the increase or decrease in revenues based on the current total cost of service as compared to the current revenue level that exists in current rates. Liberty Midstates consists of two separately tariffed service territories in Missouri: Northeast Missouri/Western Missouri ("NEMO/WEMO") and Southeast Missouri ("SEMO"). In turn, Staff has prepared separate accounting schedules to demonstrate the cost of service for each service territory as well as accounting schedules demonstrating the consolidated total company cost of service.

Q. What is the objective of an audit of a regulated, investor-owned public utility for ratemaking purposes?

A. The objective of the audit is to determine the appropriate amounts of the cost of service components for the regulated entity within its tariffed service territory. All relevant factors are examined and a proper relationship of revenues, expenses, and rate base is maintained. The following summarizes the process for making the revenue requirement determination:

(1) Selection of a test year. The test year income statement represents the starting point for determining a utility's existing annual revenues, operating costs, and net operating income. Net operating income represents the return on investment based upon existing rates. The test year approved by the Commission for Case No. GR-2024-0106 is the twelve months ending December 31, 2022. Several types of adjustments such as "annualization," "normalization", and "disallowance" adjustments are made to the test year results when the unadjusted amounts do not fairly represent the utility's most current, ongoing, and appropriate annual level of revenues and operating costs. These adjustments are described later in this testimony.

(2) Selection of a "test year update period." A proper determination of revenue requirement is dependent upon matching the components of rate base, return on investment, revenues and operating costs at a point in time. This is referred to as the "matching" principle. It has been standard practice in Missouri for ratemaking to utilize a period that is beyond the established test year in which to match the major components of a utility's revenue requirement. By utilizing an update period, information can be reflected beyond the established test year and be based upon more current information. The Commission ordered an official update period in this case, for the twelve months ending on December 31, 2023.

(3) Selection of a "true-up date" or "true-up period." A true-up date generally is established when a significant change in a utility's cost of service occurs after the end of the test year update period, but prior to the operation-of-law date, and the significant change in cost of service is one the parties and/or Commission has decided should be considered for establishing the cost of service in the current case. In this case, neither Liberty Midstates nor other parties to the case requested a true-up period audit.

(4) Determination of the Rate of Return, which is represented by the "R" in the formula above. An examination of the cost-of-capital must occur to allow Liberty Midstates the opportunity to earn a fair rate of return on its net investment ("rate base") that is utilized in providing utility service. Staff witness, Christopher C. Walters, Principal at Brubaker and Associates, has performed a cost-of-capital analysis of which he discusses the results of his analysis in his direct testimony.

(5) Determination of Rate Base, which is represented by the (V-D) in the formula above. A utility's rate base represents the net investment that is used in providing utility service, and this net investment is what the rate of return is applied to that permits the utility the opportunity to earn a return. Staff has utilized a rate base as of the December 31, 2023, update period in this case for its direct filing. Rate base includes plant-in-service, accumulated reserve, cash working capital, prepayments, materials and supplies, natural gas inventories, customer advances, customer deposits, accumulated deferred income tax, and various regulatory assets and liabilities, etc.

(6) Net Operating Income from Existing Rates, which is represented by the "O" in the formula above. In order to develop net income from existing rates, the operating revenues, expenses, depreciation, and taxes for the test year is used. The utility's revenue and expense

categories are examined to determine whether the unadjusted test year results require adjustment to fairly represent the utility's most current level of operating revenue and expense. Several changes can occur during any given year that will impact a utility's annual level of operating revenue and expense. The test year has been adjusted to reflect Staff's determination of the appropriate ongoing levels of revenue and expense.

(7) Determination of Net Operating Income Required. The net income required for Liberty Midstates is calculated by multiplying Staff's recommended rate of return by Staff's recommended rate base. Net income required is then compared to net income available from existing rates in Item (6) above. The difference, after factoring-up for income taxes, represents the incremental change in the utility's rate revenues required to cover its operating costs and to provide a fair return on investment used in providing gas service. If a utility's current rates are insufficient to cover the operating costs and provide a fair return on investment, the comparison of net operating income required (Rate Base x Recommended Rate of Return) to net income available from existing rates (Operating Revenue less Operating Costs, Depreciation, and Income Taxes) will result in a positive amount, which indicates that the utility requires a rate increase. If the comparison results in a negative amount, this indicates that the utility's current rates may be excessive.

Q. Please identify the types of adjustments that are proposed to unadjusted test year results so as to reflect the current annual level of operating revenue and expense for a utility.

A. The following types of adjustments are used to reflect a utility's current annual level of operating revenue and expense:

(1) Normalization Adjustments. A utility's rates are intended to reflect normal ongoing operations. A normalization adjustment is required when the test year contains an

abnormal event. An example of this type of adjustment is weather normalization. Actual weather conditions during the test year are compared to 30-year "normal" values. The weather normalization adjustment restates the test year sales volumes and revenues to reflect normal weather conditions.

(2) Annualization Adjustments. Annualization adjustments are required when changes have occurred during the test year, update and/or true-up period that have not been fully reflected in the unadjusted test year results. An example of this is payroll. Because Liberty Midstates' test year is the twelve months ending December 31, 2022; it does not include the pay increase for employees that occurred during 2023. Staff used the payroll rates in effect at December 31, 2023 and applied those rates to the actual employee levels experienced at this date to annualize payroll expense. An adjustment was proposed to the test year to capture the impact of the payroll increase as if that increase existed for the entire annual period.

(3) Disallowance adjustments. Disallowance adjustments are proposed to eliminate costs during the test period that are not considered to be prudent, reasonable, appropriate, non-recurring or not of benefit to Missouri ratepayers and thus not proper for recovery from ratepayers.

(4) Proforma Adjustments. A proforma adjustment is proposed due to an event that generally occurs beyond the test year, update or true-up cut-off date. These adjustments occur anytime a party proposes to include the effects of an event without considering the revenue requirement associated with the offsetting items. The Commission allows parties to request the inclusion of the revenue requirement associated with proforma or isolated adjustments in the calculation of the cost of service. These adjustments must be proposed with caution as these adjustments must be known and measurable and must be examined to determine whether its

inclusion will affect the relationship between revenue, expense and investment. There are no isolated adjustments proposed as a part of Staff's direct filing in this case.

Q. What amount of revenue requirement increase did Liberty Midstates request in this case and on what return on equity (ROE) percentage was this request based?

A. When Liberty Midstates filed its rate case in February 2024, the Company requested an increase in annual revenue of $6.3 million for NEMO/WEMO and $6.9 million for SEMO for a consolidated annual revenue increase of $13.1 million. This request was based upon a test year twelve months ending December 31, 2022, updated through December 31, 2023; however, the data for October, November and December 2023 was estimated. Per the ordered procedural schedule in this case, Liberty Midstates updated its case on May 15, 2024 to restate the NEMO/WEMO, SEMO and consolidated total company cost of service to include actual data for October, November, and December 2023. The increase in annual revenue for both service territories contemplates a 10.8% ROE. The increase also includes a rebase related to the ISRS of $1.94 million in revenue requirement for both NEMO/WEMO and SEMO rate districts. As part of this rate proceeding, the ISRS revenue surcharge will be reset to $0 and the ISRS rate components will be included in base rates for all service territories.

Q. Has Liberty Midstates updated its cost of service since its direct filing?

A. Yes. Liberty Midstates provided an updated cost of service for SEMO, NEMO/WEMO and Total Company on May 15, 2024.

Q. What changes were reflected in Liberty Midstates' updated cost of service?

A. The main changes that Liberty Midstates reflected in their case were to include actual financial balances as of December 31, 2023, which replaced the estimate values included in their direct filing for October, November and December 2023. Liberty Midstates also removed a rate base adjustment related to allocation of corporate building costs. The corporate building costs are actually already reflected within its intercompany corporate allocations and another adjustment to include the cost would be duplicative.

Q. How is the revenue requirement determined for a regulated utility?

A. First, the utility's cost of service must be calculated. Staff has examined all aspects of the case that would affect the test year in this case. This historical test year was ordered by the Commission through its *Order Establishing Test Year* on March 21, 2024. Staff has also updated its cost of service calculations for items through December 31, 2023.

Q. Please describe Staff's direct cost of service (revenue requirement) filing in this rate proceeding.

A. The results of Staff's audit of Liberty Midstate's books and records as part of this proceeding can be found in Staff's filed Accounting Schedules and is summarized on Accounting Schedule 1, Revenue Requirement. Accounting Schedule 1 demonstrates that Staff's recommended revenue requirement in this proceeding is $2,503,512 for the NEMO/WEMO district and $1,866,007 million for the SEMO rate district, for a consolidated total company revenue requirement of $4,407,899. Staff's direct accounting schedules also include a rebase of the ISRS surcharge of $940,146 for NEMO/WEMO and $1.003 million for SEMO related to plant in service for the period of April 1, 2018 through February 28, 2023. The recommended revenue requirements are premised on a mid-point recommended rate of return (ROR) after tax of 7.515% for both NEMO/WEMO and for SEMO. For both NEMO/WEMO and SEMO, Staff is recommending a midpoint ROE of 9.45%, with a range of 9.00% to 9.90% as calculated by Staff witness Christopher C. Walters. Staff's revenue requirement at the low and high ROR range of 7.29% to 7.74% for NEMO/WEMO is

$2,249,151 to $2,757,872. Staff's revenue requirement at the low and high ROR range of 7.29% to 7.74% for SEMO is $1,611,875 to $2,120,141. For Liberty Midstates consolidated the revenue requirement at the low and high ROR range is $3,899,389 to $4,916,411.

Q. Does Staff have a small difference in the revenue requirements for its individual NEMO/WEMO and SEMO accounting schedules as compared to the total consolidated Liberty Midstates accounting schedules?

A. Yes. The individual NEMO/WEMO and SEMO accounting schedules total approximately $38,380 less than the total consolidated accounting schedules. Staff continues to reconcile its accounting schedules and will update the accounting schedules to resolve this issue in rebuttal.

Q. Did Staff include a true-up allowance in its Accounting Schedules?

A. No. There was no true-up requested or ordered by the Commission in this case.

Q. Please list the items that are included in Staff's recommended rate base in its direct case.

A. The following rate base items were updated as of the update period of December 31, 2023, either through a balance as of that date or a 13-month average balance: Plant-in-service, Accumulated Depreciation Reserve, Cash Working Capital, Materials and Supplies, Natural Gas Inventory, Customer Deposits, Customer Advances, Accumulated Deferred Income Tax (ADIT), and regulatory asset and liability balances for Pensions & Other Post-Employment Benefits ("OPEBs"), Energy Efficiency and excess ADIT.

Q. Please explain how various Staff members contribute to create a combined work product in rate proceedings.

A. Staff auditors in this case relied upon the work from several other Staff departments in order to calculate the revenue requirement for Liberty Midstates in this case. Weather normalized revenue and the recommended rate of return are some examples of data analysis and inputs that are provided to the Auditing Department for inclusion in the Accounting Schedules. Each Staff member who has contributed a calculation or input for inclusion in the Accounting Schedules has submitted direct testimony in this case providing discussion on each topic that they were assigned along with their recommendation on the issue.

Q. Did Staff encounter issues when reviewing test year revenue for Liberty Midstates?

A. Yes. Staff discovered that the tariffed rate classes do not align with the Federal Energy Regulatory Commission ("FERC") accounts for per book revenue. For example, the tariffed rate classes are residential, small general service, medium general service, large general service, interruptible, and transportation while FERC accounting requires residential in Account 480 and commercial and industrial revenue in Account 481 with no delineation of the different tariffed revenue classes. In addition, the total test year billing determinants for test year revenue did not match the per book test year revenue. Please see Staff witness Marina Stever's direct testimony for additional discussion regarding this issue and Staff's proposed resolution.

Q. What are the biggest differences between the revenue requirements filed by Liberty Midstates as compared to the revenue requirement filed by Staff in this case?

A. There are 3 main revenue requirement differences. The differences are based on actual calculations for the test year updated with actual information through

December 31, 2023, as proposed by Liberty Midstates. The below revenue requirement values reflect total company consolidated differences.

- Return On Equity (ROE) and Capital Structure – Issue Value $4.5 million - Liberty Midstates' ROE recommendation for both NEMO/WEMO and SEMO is 10.8%. Staff's mid-point recommendation is 9.45%. The value of the difference between Liberty Midstates and Staff for ROE for the total company consolidated revenue requirement is $1.5 million. Liberty Midstates recommends a capital structure of 47.50% long-term debt and 52.50% equity for both NEMO/WEMO and SEMO. Staff's proposed capital structure is 50.00% long term debt and 50.00% equity. Staff also recommended a cost of long-term debt of 5.58% which is the same as Liberty Midstates recommended 5.58%. The value of the difference between Liberty Midstates and Staff for capital structure is $3 million.
- Payroll and Payroll Taxes – Issue Value $2.4 million – Staff has included the current employees for each division as of December 31, 2023 using 2023 allocation factors similar to Liberty Midstates, however Staff did not include vacant positions and has proposed to remove the salaries of four employees as Staff believes these employee's salaries should not be recovered in customer rates. In addition, Staff utilized specific capital percentages to determine the capitalized piece of payroll whereas Liberty utilized one capitalization rate per district.
- Property Taxes – Issue Value $2 million – Staff has included the actual property tax expense amount incurred in December 2023, but as this is the initial establishment of the property tax tracker in this rate case, the tracker will begin at the effective date of rates and no amortization expense has been included in Staff's case. Liberty Midstates' proposes to establish a property tax tracker base equal to the property tax expense established in its last rate case and

included amortization expense representing the difference between the property tax level in their last case as compared to current property tax expense as proposed in this case.

There are other differences that exist between Staff and Liberty Midstates' direct filings; however, these other differences have lesser value than those listed and discussed above.

Q. Could it be possible that differences exist between Staff's revenue requirement and other parties to this case besides Liberty Midstates?

A. Yes. The other parties who have different positions than those of Liberty Midstates, and possibly Staff, will also file direct testimony concurrently with Staff's filing. Those differences will be reviewed and addressed in further rounds of testimony.

Q. Please describe the direct testimony Staff has filed for this current rate proceeding.

A. Each Commission Staff member has direct testimony that sponsors specific issues. The testimony provides an explanation of each specific area of concern or adjustment with Staff's recommendation. Schedule LMF-d2, attached to this testimony, summarizes Staff's witnesses who contributed to Staff's direct cost of service and their associated area of responsibility.

Q. For issues in which significant differences exist between Staff and Liberty Midstates, please list the Staff witness and the issue for which they are responsible.

A. The Staff expert/witness for each significant difference is listed below:

Issue	Staff Witness
Return on Equity & Capital Structure	Christopher C. Walters
Payroll & Payroll Taxes	Benjamin H. Burton
Property Taxes	Jane C. Dhority

Q. On what date will Staff file its direct class cost of service and rate design testimony in this proceeding?

A. Staff's class cost of service and rate design testimony and associated schedules will be filed on August 1, 2024.

Q. As a part of this testimony, do you individually address any revenue requirement issues?

A. Yes. I address Liberty Midstates' fulfillment of requirements from the ordered Stipulation & Agreement (S&A) in Case No. GR-2018-0013 regarding the Hannibal facility, transition/transaction costs stemming from Case No. GM-2012-0337, and reporting requirements for the utility. I also address Corporate Allocations and Affiliate Transactions; Customer First investment and O&M cost; Business Development costs, current and deferred income tax expense; ADIT, excess accumulated deferred income taxes (TCJA & MO); and the cash working capital (CWC) expense lag for federal, state, and city income tax.

STIPULATION & AGREEMENT REQUIREMENTS – GR-2018-0013

Surveillance and Affiliated Corporate Allocations Reporting

Q. Please give a brief description of what Liberty Midstates agreed to provide regarding surveillance and affiliated corporate allocations reporting.

A. Liberty Midstates agreed to provide quarterly surveillance using a sample template that was provided to Liberty Midstates as well as quarterly reporting identifying the amounts charged or allocated to Liberty Midstates during the preceding quarter by its upstream corporate affiliates for corporate support services, including:

(1) a breakdown identifying the proportion of such costs that were direct charged and the proportion that was allocated;

(2) for the proportion of such costs that were direct charged, a description of any procedures, training or other measures in place to ensure that such direct charges were accurately and fully recorded;

(3) for the proportion of such costs that were allocated, a full and complete explanation of the methodology used to allocate such costs between the various affiliated business units.

Liberty Midstates also agreed to provide Staff with electronic copies of its General Ledger on an annual basis, within 30 days of the close of Liberty Midstates' fiscal year; as well as a subledger provided with accumulated depreciation reserve amounts by FERC account. In addition, Liberty Midstates was to develop an annual schedule to provide to Staff that showed its ADIT on a Missouri jurisdictional basis.

Finally, the parties agreed to additional reporting requirements and periodic internal audits of timesheet reporting relating to the corporate support services provided by affiliates of the Company per Staff's recommendation on pages 4-5 and 46-49 of Staff's Cost of Service Report in GR-2018-0013, which is attached to this testimony as Schedule LMF–d3.

Q. Did Liberty Midstates provide the information listed above as agreed to in the S&A ordered by the Commission in the last rate case, GR-2018-0013.

A. Yes.

Q. What reporting requirements would Staff recommend the Commission order as part of this rate proceeding?

A. As part of this rate case, Staff requests the Commission order that Liberty Midstates continue to provide the same surveillance information as was requested in the last rate case separately for the rate divisions that are ultimately determined as part of this case.

Due to its implementation of Customer First, discussed later in this testimony, the general ledger currently does not include unitized plant in service and accumulated depreciation reserve by FERC account. Staff recommends that Liberty Midstates provide the unitized plant in service and unitized accumulated depreciation reserve for each month on an annual basis.

The allocations process for Liberty Utilities is complex and can be time consuming as Liberty Midstates is allocated costs from not just one service company but rather from several Liberty affiliates, including Liberty Utility's parent, Algonquin Power and Utilities Corporation ("APUC"). As part of the last rate case, Staff requested that Liberty Midstates provide surveillance and actual earnings information related to their natural gas operations. The requested surveillance would help Staff monitor the level of allocations that Missouri is receiving. Specifically, Staff requested that Liberty Midstates provide a complete Midstates level and corporate level general ledger, and complete subledgers, as well as all allocations "billing" reports with all supporting transactional detail, consistent with FERC USOA[1] requirements, that includes all income statement and balance sheet transactions by month by FERC account; including all transactions occurring between Liberty Midstates' divisions and all other affiliated entities, both regulated and unregulated. In addition, Staff also requested that Liberty Midstates provide an actual earned return on equity report, similar to the Fuel Adjustment Clause ("FAC") quarterly surveillance reporting that is currently required of electric utilities pursuant to 20 CSR 4240-20.090(6). This information assists Staff with monitoring actual earned ROE in between Liberty Midstates' rate cases and allow Staff to better inform the Commission in certain circumstances where Liberty Midstates' earnings may need to be reviewed in more detail. Given that Liberty Midstates typically has filed rate cases in

[1] Uniform System of Accounts.

intervals that are three years or longer. Providing the surveillance data will assist Staff in monitoring Liberty Midstates' earnings during these intervals. Since Liberty Midstates' last rate case, there have been some acquisitions that have affected the allocation rates to APUC, and Liberty Utilities (Canada) Co. ("LUC") that are applied to costs that are then charged to Liberty Midstates' Missouri. In addition, when comparing the information provided as part of Staff Data Request Responses Nos. 0032 and 0033 in the current case to the surveillance data provided since the time of Liberty Midstates' last rate case, there are discrepancies. Staff is unsure what issues are occurring or if there are timing differences, but totals do not necessarily tie out to the data requested in the case.

Hannibal Shop

Q. Give a brief summary regarding the issue surrounding the Hannibal Shop from Liberty Midstates' last rate case and what was agreed to as part of the Stipulation & Agreement.

A. During Liberty Midstates' last rate case proceeding, the Company was nearing completion of construction of a new shop located in Hannibal, Missouri, in order to store horizontal directional drilling equipment and a vacuum trailer, and Liberty Midstates proposed inclusion of the shop in its rate base. Staff discovered as part of its review that inclusion of the shop in rate base was in direct conflict with an affiliated lease agreement under which Liberty Midstates leased the property on which the shop was located. That lease essentially made the shop the property of the landlord/affiliate LUC.

After discussions with Liberty Midstates, Staff included the Hannibal Shop in rate base in the last rate case subject to the following conditions: completion of a survey of the land that the shop is attached to and that will be transferred to Liberty Midstates; ownership and title to the land that the shop is attached to be transferred to Liberty Midstates; an easement be granted to Liberty Midstates to provide unencumbered access to the shop at all times; the land that the shop is attached to be transferred at a reasonable cost to Liberty Midstates; the affiliate lease acknowledge that Liberty Midstates has exclusive ownership of the Hannibal Shop and land; and, finally, that documentation demonstrating the completion of each of the conditions be provided within six months.

Q. Has Liberty Midstates met the conditions reflected in the S&A in case GR-2018-0013?

A. Yes. Liberty provided the documentation, dated August 15th, 2018 as requested, meeting Staff's conditions.

Taxes

Q. Please explain the requirements regarding income taxes that were agreed to by the parties.

A. It was agreed that the stipulated revenue requirement in GR-2018-0013 reflected the reduction in the statutory federal corporate income tax rate from 35% to 21% resulting from the Tax Cuts and Jobs Act[2] of 2017, but did not include an allowance for the return of excess accumulated deferred income taxes (EADIT). A regulatory liability deferral was established to account for the tax savings associated with the EADIT which would be evaluated for inclusion in Liberty Midstates' next rate proceeding. Liberty Midstates was also required to notify the parties to the case within 30 days of determining what method the Company would be able to utilize to measure its protected EADIT. There is further discussion regarding EADIT and these different methods of measurement later in this testimony.

[2] Tax Cuts and Jobs Act ("TCJA").

Q. Has Liberty Midstates met the conditions as set out in the Stipulation & Agreement regarding this issue?

A. Yes. On January 4, 2019, Liberty Midstates filed notice regarding its method used to value its EADIT for purposes of the deferral and reflection in customer rates for this case.

TRANSITION & TRANSACTION COSTS – GM-2012-0337

Q. Has Liberty Midstates removed the capitalized transition and transaction costs from its books and records that Staff witness John P. Cassidy recommended in Liberty Midstates' last rate case, GR-2018-0013?

A. No. According to the response to Staff Data Request No. 0257, Liberty Midstates has not removed from its books and records the plant and accumulated reserve balances associated with the transition and transaction costs as proposed by Staff in Case No. GR-2018-0013. It was explained that Liberty Midstates utilizes a Commission Order as authorization to remove balances from its books and records and that no such order has been issued. However, Staff has proposed removal of these amounts since Liberty Midstates' 2014 rate case as these costs are related to Liberty Midstates' acquisition of Atmos Energy Corporation to obtain its Missouri gas properties in NEMO/WEMO and SEMO. Liberty Midstates has agreed to removal of these amounts from customer rates but has not removed the costs from its books and records despite agreeing to a rate base value in the Commission ordered stipulations & agreements in its prior rate cases.

Q. Has Staff removed the capitalized transition and transaction costs from the cost of service in this case?

A. Yes. Per Staff's position in Liberty Midstates' last rate case, Staff has proposed removal of the plant and accumulated reserve balances at the December 31, 2023 update period, regarding the transition and transaction costs.

CORPORATE ALLOCATIONS & AFFILIATE TRANSACTIONS

Q. Please explain what the Affiliate Transaction Rule represents and the requirements that Liberty Midstates must follow regarding this rule.

A. The NARUC[3] Guidelines for Cost Allocations as well as the Affiliate Transactions Rule, 20 CSR 4240-20.015, require that costs be directly charged as much as possible to the entity that procures any specific service or a cost creator, and also to ensure that subsidization of unregulated activities by regulated activities does not occur. Costs such as direct labor, direct material and direct purchased services as well as all indirect charges should be charged to any receiving entity at fully distributed cost. Fully distributed cost ("FDC") is a methodology that examines all costs of an enterprise in relation to all the goods and services that are produced. FDC requires recognition of all costs incurred directly or indirectly used to produce a good or service. Costs are assigned either through a direct or allocated approach. Costs that cannot be directly assigned or indirectly allocated (e.g., general and administrative) must also be included in the FDC calculation through a general allocation. Liberty Utilities most current Cost Allocation Manual (CAM) was updated as of January 1, 2017 and Liberty Midstates files its CAM information annually with the Commission.

Q. Has Liberty Midstates' CAM been officially approved and ordered by the Commission?

[3] National Association of Regulated Utility Commissioners.

A. No. Liberty Utility's entities have been appropriately filing their CAM and associated affiliate transaction costing documentation in EFIS with the Commission each year, but there is no official order. There is an open docket before the Commission in Case No. AO-2017-0360 to formally address approval of a CAM for all of Liberty's affiliates in Missouri (Liberty Midstates Gas, Liberty Water, Liberty Empire electric & gas) but that case is currently on hold as progress on the CAM approval is dependent upon the promulgation of new Affiliate Transaction Rules ("ATRs"). This will "likely contain differences from the current electric, gas, and heating ATRs, on which the CAMs are based (and upon which any need for variances will need to be assessed)."

Q. Please provide an overview of the Algonquin Power and Utilities/Liberty Corporation as a whole and explain how cost allocation flows to the Liberty entities, including Liberty Midstates, utilizing the methodology in the CAM.

A. Costs are incurred at various Liberty entities that provide labor and non-labor services to other Liberty entities further downstream. Each Liberty entity is comprised of different departments that provide various services that are detailed in Liberty's CAM.

Algonquin Power and Utilities Corporation ("APUC")

Algonquin Power and Utilities Corp. ("APUC") is the ultimate parent company to Liberty Utilities (Canada) Corp. ("LUC") and Liberty Power ("LP"). Liberty Utilities Company is comprised of rate-regulated businesses for natural gas distribution, water distribution, wastewater treatment, as well as electricity generation, transmission and distribution utility services. Liberty Power is a wholly owned entity that owns only unregulated independent power production (IPP) generating stations. The power production facilities are located in both Canada and the United States; however, the regulated distribution utility operations are located mainly in the United States. APUC is publicly traded on the New York Stock Exchange and the Toronto Stock Exchange. APUC's operations primarily take place in Canada and as a publicly traded holding company, ** [redacted]

[redacted]

Q. [redacted]

A. [redacted]

[redacted]

[redacted]

[redacted] ** Below is a chart detailing how APUC costs are allocated.

**

[redacted]

**

Liberty Utilities (Canada) Corp. ("LUC")

** [redacted] **

Liberty Utilities (Canada) Corp ("LUC") provides ** [redacted]

[redacted]

[redacted] **

Liberty Algonquin Business Services ("LABS")

Liberty Algonquin Business Services ("LABS") provides ** [redacted]

[redacted]

[redacted]

[4] ** [redacted] **

[redacted]

[redacted] **

Liberty Utilities Service Company ("LUSC")

** [redacted]

[redacted]

[redacted] **

The diagram below combines all of the previous individual affiliate allocations diagrams into one for an overall picture of the allocations process for all APUC/Liberty entities:

**

[redacted]

**

Local Four Factor

** [redacted]

[redacted]

**

Liberty Empire Electric and Gas

** [redacted] **

Q. Are the allocation factors used in Liberty Midstates' CAM typical for allocation of utility costs?

A. Staff has seen ** [redacted] ** allocation methods used for purposes of indirect cost allocation at certain utilities and in the industry, they are commonly known as utilizing the ** [redacted] **, however Staff has not seen another utility that uses a ** [redacted] ** allocation method, rather than a ** [redacted] ** and ** [redacted] ** that is utilized by Liberty Midstates. The utilization of a ** [redacted] ** allocation method is not necessarily incorrect, but the ** [redacted] **. Liberty Midstates discusses in its CAM that the ** [redacted] ** methodology was developed and utilized to better allocate costs, ** [redacted]. **

The benefit of the ** [redacted] ** could lean ** [redacted]. ** That seems reasonable as ** [redacted]. ** Staff does not have any indication that more ** [redacted] ** would allocate more or less costs to Missouri utilities than the ** [redacted]. **

The allocation factors at APUC, LUC, LABS, LUSC, and Midstates are updated annually in ** [redacted] ** unless there is a material change that would affect the allocation factors, ** [redacted]. ** Since Liberty Midstates' last rate case, there were ** [redacted] ** changes to the allocation factors outside of the annual updates.

- ** [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

- [redacted] **

Staff's Concerns with Corporate Allocations in Case No. GR-2018-0013

Q. Staff had numerous concerns regarding Liberty Utility's allocation process in the last rate case. Please provide a summary of what those concerns consisted of.

A. In its direct testimony in Liberty Midstates' last rate case, Staff listed several concerns based upon its audit.

Q. Has Liberty Midstates resolved Staff's concerns based upon its audit of corporate allocations and affiliate transactions in this current case?

A. Partially. Below is Staff's list of concerns outlined in the last rate case and updates to those concerns as reviewed in this case:

- Concern #1 - Upstream Service Affiliates were not properly and accurately direct charging labor to benefiting entities as specifically provided for within the Algonquin CAM.

  Staff Update: The data provided as part of surveillance demonstrates that all types of costs, including labor, from the upstream affiliates are being directly and indirectly charged. However, the concern still lies at the APUC level; where all costs, including labor, is currently only indirectly charged to all affiliates. Liberty Midstates needs to ensure that labor related to due diligence and work concerning acquisitions is appropriately recorded to ensure that these labor costs are not inadvertently allocated to affiliates. In addition, periodic review of time sheet reporting is recommended to give comfort that direct and indirect labor charges are accurately recorded and allocated.

- Concern #2 - APUC had not adequately supported the ratepayer benefits expected to be derived from its incentive compensation plans, nor has it supported the overall reasonableness of its executive compensation package.

  Staff Update: Please refer to Staff witness Jane C. Dhority's direct testimony for discussion on direct and allocated incentive compensation plans/bonuses and Staff's proposed adjustments relating to earnings-based compensation. Staff requested Liberty Midstates provide a current compensation study for board of directors, officers, executives and remaining employees. First, Liberty Midstates relayed that it has ** [redacted]. ** Through Staff's payroll analysis, it was discovered that ** [redacted]. ** This does not allow for Staff to directly determine the reasonableness of the APUC and other executive compensation packages; but currently there are no labor costs from APUC allocated to Liberty Midstates Gas.

- Concern #3 - Staff was unable to determine if the cost of acquisition efforts were being fully tracked and retained at any upstream service affiliate.

  Staff Update: Staff determined that acquisition costs are being tracked in some manner and for the most part are being "held" and reflected as part of the financial reporting for each affiliate that incurs the cost. While the vast majority of costs are not being allocated down to affiliates; Staff did find some travel related acquisition costs within the allocated amounts during the test year and Staff has proposed removal of the costs.

- Concern #4 - Charges for upstream service affiliates were disjointed, not easily aggregated for trends or aberrations analysis, and could not be reasonably analyzed within the time constraints of a rate case procedural schedule.

  Staff Update: The charges incurred at each Liberty entity are now “bucketed” by cost pool (APUC, LUC, LABS, LUSC) and cost categories (salaries, benefits, administrative, IT, etc.), as laid out in the CAM, so as to analyze for trends and aberrations.

- Staff Concern #5 - It was unclear how, and to what extent, upstream service affiliates were monitoring and controlling costs.

  Staff Update: Staff has reviewed the overall direct and indirect costs by year to analyze how the levels have changed from year to year for each Liberty affiliate entity prior to allocation. Staff also requested through discovery any information available to determine if Liberty affiliates review and possibly deny cost recovery. There are several employees that support the intercompany billing process, at the upper corporate levels as well as locally. Locally, the Central Region accounting personnel reviews the monthly supporting documentation provided by Corporate Accounting and questions may be raised by this group if there is missing support or if costs are incorrectly allocated. Liberty Midstates does not maintain a list of disputed or misallocated costs so Staff cannot determine how often costs are rejected as opposed to accepted, however any corrections that may be needed are made to the books and records during the month following charge disputes. Liberty Midstates relays that they do have the ability to deny a cost, but Staff has no evidence of cost refusal. In addition, after reviewing the overall indirect costs allocated to Liberty Midstates, it appears the overall amount has increased year over year; however, the increase has started to decline and level off. Staff was unable to see requested budgeted, actual and variance reports for all Liberty Utility entities prior to allocation, only the portion already allocated to Liberty Midstates. Staff believes this information gives insight into spending measures and whether cost control measures should be recommended moving forward, but without seeing the full picture of spending and whether budgeted levels have been exceeded and why, Staff is unable to make an assessment.

Q. What audit steps did Staff perform as part of the current rate case?

A. Staff performed several audit steps as part of its review of corporate allocations:

- Staff reviewed the CAM documentation in tandem with the organizational charts to determine if the CAM accurately reflected the corporate structure and the basic methodology of how costs are ultimately allocated to downstream affiliates. This required meeting with Liberty personnel to ensure understanding and acquire any needed clarification.
- Staff reviewed all affiliate executed agreements between Liberty affiliates, including the tax allocation agreement and a new affiliate agreement.
- Staff reviewed the ** [redacted] ** external studies conducted in ** [redacted]

[redacted] ** as well as results of internal audits conducted regarding the ** [redacted] **.

- Staff reviewed all surveillance documentation to determine whether the majority of the levels of costs are being charged directly as opposed to indirectly in order to conform with the affiliate transaction rule.
- Staff reviewed all Liberty affiliate allocation factors and the inputs utilized to develop the allocation factors used at each Liberty affiliate for the calendar years of 2018 through 2023. Staff considered the appropriateness of the allocation factors and verified that material changes to the corporate structure were timely and accurately reflected through resulting changes in the allocation factors.
- Staff reviewed all Liberty affiliate general ledgers to verify that acquisition costs and other costs not beneficial to ratepayers were either, not ultimately allocated to Liberty affiliates, including Liberty Midstates, or if they were purposefully or inadvertently charged, the costs were located and proposed for removal from inclusion in customer rates during the test year.
- Staff reviewed the overall levels of cost actually incurred at each Liberty affiliate for the calendar years 2018 through 2023.

Staff's Audit Findings and Proposed Adjustments and Recommendations– Current Case

1. As discussed earlier in this testimony, the affiliate transaction rule ("ATR") governs appropriate corporate allocations. The rule is premised on the idea that allocated costs should be directly charged to an entity to the extent possible, leaving minimal costs to be indirectly allocated. This ensures that costs are borne by the cost causer. The APUC costs have not been directly charged since the end of 2019.

2. Liberty Utilities engaged third-party consultants to perform three separate external reviews of ** [redacted]. ** The ** [redacted] ** study assessed ** [redacted] ** The ** [redacted] ** study analyzed ** [redacted] **

3. Liberty Midstates has included adjustments to individual cost of service issues based on allocated items in its direct case using the various 2023 allocation factors. Staff reviewed the allocation factors and their supporting data and calculations for the period of 2018 through 2023 and determined that the appropriate allocation factor to utilize and to include within the cost of service are the 2023 allocation factors for each Liberty entity. The 2023 factors contemplate the most current data and take into account all material changes to the APUC/Liberty structure that have occurred since Liberty Midstates' last rate case. These allocation factors were provided to other members of auditing to annualize/normalize issues such as payroll, employee benefits, insurance, etc. Staff also has adjusted the test year

allocated cost from each Liberty Utilities affiliate to restate the test year dollars for the 2023 allocation factors for each level of allocated costs to Liberty Midstates.

4. Costs appear to be fairly assigned/allocated between regulated and unregulated operations using the CAM as discussed above, and Staff has verified that costs being pushed down to regulated utility holdings, for the most part, do not include costs incurred for merger and acquisition efforts, or earnings-based costs or Kentucky costs. As stated above, Staff removed a small amount of travel related acquisition costs allocated during the test year.

5. Staff reviewed test year costs that were recorded and ultimately allocated down to Liberty Midstates and removed some costs as they should not be recovered from ratepayers.

Indirect Overhead Allocation Capitalization Rates

Q. Please explain what overhead costs consist of.

A. Overhead costs are those that are not directly related to the production of goods or services, but are necessary for the operation of a business. Examples of overhead costs include rent, utilities, insurance, legal fees, office supplies, advertising, payroll, and accounting fees.

Q. How does Liberty Midstates determine its capitalization rates?

A. ** [redacted]

[redacted] **

Q. How are capitalization rates typically determined?

A. Capitalization rates should be based upon the recording of actual direct and indirect labor charges to either capital or expense projects within the employee timesheets. Then a capitalization percentage can be calculated on a monthly and annual basis. The capitalization rates from the upstream affiliates ** [redacted]. ** However, because the overhead rates are applied to numerous indirect costs, that magnifies the importance accurate time reporting by all employees at all Liberty affiliates, whether those labor costs are directly charged or allocated to Liberty Midstates. This percentage will fluctuate over time depending on the work performed by the employees. Predetermination of these percentages should be kept to a minimum and review of adherence to time reporting policies should be reviewed on a regular interval.

Liberty has utilized a 48% capitalization percentage when determining ongoing levels of expense. This percentage appears to coincide with supporting information provided to Staff and appears consistent with other Missouri utilities.

CUSTOMER FIRST ("C1") INITIATIVE

Investment

Q. Please explain in general what kind of computer platform and operational system is typically used at utilities such as Liberty Midstates.

A. There are three main workstreams or major business processes that are addressed by the computer platforms and systems in order for the utility to perform everyday business:

** [redacted] **

Q. Please explain what Customer First ("C1") consists of.

A. Customer First is a corporate-wide project to replace major business processes through new computer systems/platforms/applications. The Customer First transition first began in ** [redacted]. ** There are multiple aspects of the Customer First project as a whole and these computer platforms, systems, and applications are being incorporated at each of the levels of Liberty Utilities beginning at the upper levels of the Company, including the parent utility APUC. This transition has occurred in phases that began in ** [redacted] ** and then through each of the regulated utilities geographical regions, some still transitioning in early ** [redacted] **. Liberty Midstates began to be allocated costs associated with C1 as project installations occurred that would be used for gas operations.

Q. When did each Customer First project go in-service for Liberty Midstates?

A. As described above, the in-service dates were different for each C1 project. Specifically, for Liberty Midstates, there were multiple steps in the process of bringing the overall project in-service.

See the chart below for in-service dates for each of the projects for Liberty Midstates.

**

[redacted]

**

Q. Why has Liberty Utilities engaged in the overhaul of its operational systems?

A. Liberty Utilities has replaced its computer system platforms and software applications as many of their legacy systems are becoming obsolete with employees that maintenance them hard to find. The change increases cybersecurity, provides more customer options than the legacy systems – such as access to data and flexibility of services, and under the legacy systems there were numerous disparate systems across the company that were not integrated. Customer First will allow for integration of data amongst the company's entities as SAP can serve many states in which Liberty Utilities has service territory and serve different commodities of which Liberty Utilities has including electric, gas, water and wastewater.

Q. Please explain the different projects that make up the Customer First transition.

A. There are ** [redacted] ** different individual projects as part of the Customer First transition and they consist of:

** [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted] **

Q. Please explain what the C1 capital project costs consisted of, how they were funded and then allocated to each Liberty entity.

A. The capital costs for all of the C1 projects consisted of two main buckets of costs that were funded differently. Approximately ** [redacted] ** of the C1 costs were related to ** [redacted]. ** The other ** [redacted] ** of the C1 costs relate to ** [redacted]. **

The costs incurred associated with ** [redacted] **

The remaining C1 costs were self-funded through traditional capitalization by Liberty Utilities, as it does any other investment, by utilizing an allowance for funds used during construction ("AFUDC") rate. ** [redacted] **

Q. What portion of the capital costs of Customer First are allocated to Liberty Midstates and how was that portion determined?

A. Not all Liberty entities actually utilize all six project phases. APUC's subsidiaries in Chile and Bermuda were not included in the scope for Customer First and have not implemented any of the systems. Please refer to the chart below demonstrating what Liberty entities utilize and were thus allocated a portion of C1 capital costs.

Application	Entity
Employee Central	• All Liberty's regulated entities in the US and Canada, Liberty Power and St. Lawrence unregulated business received Employee Central
Procure-to-Pay	• All Liberty's regulated entities in the US and Canada and Liberty Power received Procure-to-Pay (St. Lawrence unregulated is excluded)
eCustomer	• All Liberty's regulated entities in the US and Canada were allocated Kubra and MyAccount. • Kubra: Tinker Transmission and Liberty Power were excluded as they do not use the customer related application. • MyAccount: Tinker Transmission and Liberty Power were excluded as both entities do not have retail customers.
Network Design – GIS	• All Liberty's regulated entities in the US and Canada were allocated • Tinker Transmission, Liberty Power and Empire Fiber were excluded as the application is largely focused on electric, gas, and water distribution assets
Network Design – DDS & OMS	• No costs were allocated to Liberty Power, Liberty's transmission, fiber, gas, water and wastewater distribution entities but this will be reevaluated after deployment for electric distribution

The amount Liberty Midstates proposes to include for its portion of Customer First is approximately ** [redacted] ** million and was determined using the cost allocation factors that existed at the time that each phase of the capital project was completed. This amount was determined by using the allocation methodology described in its Cost Allocation Manual (CAM) modified only for the portions of C1 investment that were allocated to Liberty entities actually using the different aspects of the C1 assets. Based upon review of the supporting documentation and allocation calculations Staff has included the proposed amount in the cost of service as the assets are in service and recorded to Liberty Midstates books and records.

Q. Is the amount of C1 capital costs mentioned above the final amount that will be recorded on Liberty Midstates books and records?

A. No. ** [redacted] ** Once completed, Liberty Utilities will perform a ** [redacted] ** Due to this, Staff requests that the Commission order Liberty Midstates to maintain all supporting documentation as well as a full accounting of all "true-up" calculations for all Liberty entities so Staff can review these calculations and changes in plant and reserve in Liberty Midstates' next rate case.

Q. Earlier you had discussed several ** [redacted]. ** Did those entities incur costs related to the C1 transition?

A. Yes, with the exception of the Kentucky utilities, Chile and Bermuda. Liberty Utilities attempted to acquire Kentucky electric utilities in the 2021-2022-time frame; but FERC ultimately denied the transaction. ** [redacted] **

Q. Did Liberty Midstates experience problems and discover corrections that needed to be made to any areas of its books and records resulting from the Customer First Transition?

A. Yes. Liberty Midstates relayed to Staff that there were some areas where post go live account cleanup and configuration adjustments were needed for Missouri. These areas include ** [redacted] **

Q. Were the issues discovered above resolved by Liberty Midstates?

A. Liberty Midstates relayed to Staff that these issues were resolved and corrected.

Legacy Assets

Q. Have the legacy assets replaced by Customer First been retired from Liberty Midstates' books and records?

A. No. Liberty Midstates has not retired the legacy assets from its books and records as those assets are still being used for archival purposes and data retention. The Customer First project included conversion of two years of financial data and five+ years of asset data in order to continue operations and reporting. It is possible for the C1/SAP system to manage all of the archive data; however, it was relayed to Staff that it would have been expensive to have migrated all of the data at the time that the system conversion was developed and performed with the third-party vendor.

Q. What solution does Liberty Midstates have for the remaining legacy asset data that was not converted to C1/SAP?

A. Liberty Midstates plans to keep archive data from the original host/legacy system on an interim basis. Liberty Midstates is currently determining data archive reporting requirements by reviewing each of the legacy systems to identify reporting and data retention requirements. Liberty Midstates intends to migrate the data determined from the review to the C1/SAP archiving system and build the archived data itself. Liberty Midstates plans to migrate all of the necessary legacy data and retire all the legacy systems in the 2026 timeframe. However, the legacy asset, Cogsdale, will be completely retired in the first quarter of 2025.

Q. What amount of net plant, amortization expense and ongoing maintenance expense is included in Liberty Midstates' cost of service related to the legacy assets?

A. As of December 31, 2023, the net plant balance for the legacy assets was $73,558. The revenue requirement amount would be approximately $5,524, if Staff applies the rate of return proposed in this case. The annual amortization expense would be approximately $10,508 and the ongoing annual maintenance would be approximately $33,664 for an overall annual cost of $49,696.

Q. Has Staff proposed to remove the legacy assets from Liberty Midstates' updated plant in service and accumulated reserve balances in this case?

A. No. Staff understands the need for retention of historical data. When reviewing the remaining balances of net plant in service for these assets as well as the minor cost to maintenance the assets, the approximate $50,000 would more than likely be far less than what it would cost to engage a third-party vendor to migrate of the legacy asset data.

Ongoing Operations & Maintenance ("O&M") Expense

Q. Is Liberty Midstates seeking to include costs for O&M expense related to the Customer First system investment in this case?

A. Yes. There are ** [redacted] ** related to the C1 Foundations project ** [redacted]

[redacted]. ** The ** [redacted] ** have been capitalized while the ** [redacted] ** are expensed. A ** [redacted] ** The ** [redacted] ** are expensed. The ongoing expense related to the ** [redacted] ** are received and charged on a monthly basis and the ** [redacted] ** costs are received and charged on an annual basis to the Liberty entities, including Liberty Midstates. Liberty Midstates has proposed to include O&M expense amounts of $765,885 for ** [redacted], ** however this is a budgeted amount and is not known and measurable at this time. Staff has included an annualized level of expense for the ongoing O&M related to Customer First of $495,339 based upon annualizing the known and measurable costs actually incurred during the first quarter of 2024.

Q. What amortization rates has Liberty Midstates proposed to be applied to the Customer First assets?

A. Liberty Midstates has proposed to utilize the following amortization rates and based upon FERC guidance should record amortization expense within Account 404.3:

C1 Project	**Amortization Rate**
Foundations	20 Years
Employee Central	7 Years
Procure to Pay	7 Years
eCustomer	7 Years
Network Design	7 Years

BUSINESS DEVELOPMENT COSTS

Q. Please explain what the ** [redacted] ** is and what activities this group has conducted.

A. As part of Liberty Midstates' strategic plan, ** [redacted]. ** These activities are typically related to ** [redacted]. ** During the period of 2021 through 2023, Liberty Midstates incurred labor and non-labor costs associated with the activities of the ** [redacted] ** that consists of ** [redacted] ** that spent time primarily on ** [redacted]. **

Q. What is Staff's position regarding these labor and non-labor costs?

A. Staff has removed the test year non-labor costs associated with the ** [redacted]. ** Please refer to Staff witness Benjamin H. Burton's direct testimony for discussion regarding labor costs.

INCOME TAX

Current and Deferred Income Tax

Q. How has Staff approached current and deferred income taxes in this case?

A. Staff's methodology for calculating income tax expense is largely consistent with the methodology used in Liberty Midstates' previous rate cases. The income tax calculations begin by taking adjusted net operating income before taxes, then adding to or subtracting from net income certain timing differences in order to obtain the net taxable income amount for ratemaking purposes. These "add back" and/or "subtraction" adjustments are necessary to identify new amounts for the tax deductions that are different from those levels reflected in the income statement as revenues or expenses. Tax timing differences occur when the timing used in reflecting a cost (or revenue) for financial reporting purposes (book purposes) is different than the timing required by the IRS in determining taxable income (tax purposes). The current income tax calculations for Liberty Midstates reflect timing differences consistent with the timing required by the IRS. Staff has included Liberty Midstates' calculations of timing differences. The ratemaking calculation of income taxes for regulated utilities may reflect either the "normalization" approach or the "flow through" approach of recognizing the effect of tax timing differences on income tax expense. The tax normalization method defers for ratemaking purposes the deduction taken for tax purposes for certain tax timing differences. The effect of use of tax normalization is to allow utilities the net benefit of certain net tax deductions for a period of time before those benefits are passed on to the utility's customers in rates. The flow-through tax method essentially provides for the same tax deduction taken as a deduction for ratemaking purposes as is taken for tax payment purposes. Staff utilized a normalization approach in calculating income taxes for this case. Under either the tax normalization or tax flow-through approach, the resulting net taxable income for ratemaking is then multiplied by the appropriate federal and state tax rates to obtain the current liability for income taxes. A federal tax rate of 21.00% and a state income tax rate of 4.00% were used in calculating Liberty Midstates' current income tax liability. The difference between the calculated current income tax provision and the per book income tax provision is the current income tax provision adjustment.

Q. Is Liberty Midstates subject to city income taxes?

A. No. Liberty Midstates does not incur city income tax and no inclusion of any city earnings taxes have been included in the cost of service.

Q. Does Liberty Midstates file as part of a larger consolidated group?

A. Yes. Algonquin Power & Utilities Corp. is a Canadian corporation that has ultimate ownership of all of its unregulated and regulated Liberty entities. APUC is not subject to US income tax, but Liberty Utilities (America) Corp. files a consolidated tax return including all of its regulated and non-regulated affiliate enterprises. Liberty Midstates itself had ** [redacted]. ** The Liberty consolidated group ** [redacted]. ** A net operating loss occurs when a company's allowable deductions exceed its taxable income within a tax period. The NOL can generally be used to offset a company's future tax payments in other tax periods called a net operating loss carryforward. ** [redacted] ** However, following Internal Revenue Service's (IRS) guidance, Staff is normalizing the tax treatment and is including a positive amount of current federal and state income tax expense for each of Liberty Midstates' Missouri districts.

Accumulated Deferred Income Tax (ADIT)

Q. What is ADIT and what has been included in the cost of service?

A. Liberty Midstates' Accumulated Deferred Income Tax ("ADIT") Reserve represents, in effect, a prepayment of income taxes by Liberty Midstates' customers to Liberty Midstates prior to payment being made by Liberty Midstates to taxing authorities. Each year that Liberty Midstates has a temporary tax timing difference that causes a deferred income tax expense, a liability is created. The liability recognizes that the tax savings received in the current period are temporary, and will be reversed in future periods. The federal government intended to create these timing differences so that a company could have an effective cost-free loan from the federal government so that the firm could reinvest in its company. Over time, the tax assets or liabilities related to temporary timing differences are accumulated in Liberty Midstates' liability accounts as ADIT. Ratepayers are charged deferred income tax expense related to normalized tax timing differences protected by the IRS's Internal Revenue Code (IRC). Because ratepayers do not immediately receive the benefits of the normalized tax deductions, customers have effectively paid income tax expense that Liberty Midstates has not yet incurred. As such, Liberty Midstates' ADIT represents cash collected from customers for an expense that will be realized in future periods and is considered an interest-free loan from ratepayers. Since the amount of ADIT customers have provided is available for Liberty Midstates' use, rate base is reduced by that amount to avoid charging customers a rate of return on funds they have made available to Liberty Midstates.

As an example, because Liberty Midstates is allowed to deduct depreciation expense on an accelerated basis for income tax purposes, the depreciation expense deduction used for income taxes paid by Liberty Midstates is considerably higher than depreciation expense used for ratemaking purposes. This results in what is referred to as a "book-tax timing difference" and creates a deferral of income taxes to the future. The net credit balance in the deferred tax reserve represents a source of cost-free funds to Liberty Midstates. Therefore, Liberty Midstates' rate base is reduced by the deferred tax reserve balance to avoid having customers pay a return on funds that are provided cost-free to Liberty Midstates. Since the expense recognized for depreciation is considerably lower for accounting and ratemaking purposes than for income tax purposes, Liberty Midstates' customers are required to pay higher costs for income taxes in rates than Liberty Midstates will actually pay to the IRS. The difference in income tax paid to the IRS and those paid in utility rates are "accumulated" to recognize the future tax liability that will eventually be paid to the IRS. Because Liberty Midstates has retained these tax deferrals, they will be used as an offset to rate base. Staff has included the ADIT balance as of December 31, 2023 in the direct cost of service for both plant related and non-plant related tax timing differences.

Federal TCJA Excess Accumulated Deferred Income Tax (EADIT)

Q. What is excess ADIT and what has been included in the cost of service?

A. The TCJA was signed into law in December 2017, and as part of that, a reduction in the corporate tax rate required the revaluation of accumulated tax timing differences that were previously valued at 35% to be revalued at 21%. This excess deferred tax value is required to be returned to customers based on whether the excess deferred taxes are considered protected or unprotected. Utilities can have both protected and unprotected excess deferred income taxes.

Protected excess ADIT is the portion associated with accelerated depreciation tax timing differences that must be "normalized" for rate making purposes and where the flow back of excess ADIT cannot be returned to customers any more quickly than over the estimated life of the assets that gave rise to the ADIT. Unprotected excess ADIT is the portion of the deferred tax reserve that resulted from normalization treatment of tax timing differences other than accelerated depreciation.

During the pendency of Liberty Midstates' last rate case, the TCJA was passed into law in December 2017 which reduced the corporate tax rate from 35% to 21%. This change in tax rate means that customers of Liberty Midstates have paid more in deferred taxes than the utility will ultimately pay to the taxing authorities. The EADIT related to the change in tax rate should be returned over a time period based on whether those excess deferred taxes are protected or unprotected.

Protected deferred income taxes are those that are based on depreciation related tax timing differences. Per IRS guidance, the time period (or amortization period) for protected excess deferred income taxes to be returned to customers is to be over a time period not to exceed the estimated average remaining lives of the assets that gave rise to the tax timing difference under tax normalization requirements. This time period can be determined using one of two IRS approved methods, ARAM or the Average Rate Assumption Method which is the average useful life remaining for each depreciable asset; or the Reverse South Georgia Method (RSGM); which (a) computes the excess tax reserve on all public utility property included in the plant account on the basis of the weighted average life or composite rate used to compute depreciation for regulatory purposes, and (b) reduces the excess tax reserve ratably over the remaining regulatory life of the property. The Reverse South Georgia Method is typically used when a taxpayer lacks sufficient vintage account data necessary to apply the ARAM.

Q. What method did Liberty Midstates utilize for measurement of EADIT?

A. In the last rate case, Liberty Midstates' had a test year of the twelve months ending June 30, 2017 with a true-up cutoff of March 31, 2018. Due to this, Staff attempted to include a regulatory liability balance for the federal EADIT in rate base and establish an ongoing amortization to flow the federal excess deferred taxes back to customers. However, at that time there was limited guidance to utilities regarding how to apply all of the tax law changes to regulated utilities. In addition, Liberty Midstates' was uncertain what method the Company could ultimately use to value the protected EADIT as Liberty acquired Midstates Missouri gas assets from Atmos Energy in 2012 and did not have all records for these past assets.

Staff set the current income tax to 21% to calculate current federal income taxes in the last case and it was stipulated to the following with regard to the treatment of excess ADIT in paragraph 7B:

> Liberty Utilities is in the early stages of evaluating the cost and ability to use the Average Rate Assumption Method ("ARAM") as a method for computing and normalizing excess ADIT. If Liberty Utilities determines that it is unable to use the ARAM, Liberty Utilities shall notify the Parties within thirty (30) days of such determination. Liberty Utilities shall provide testimony and support in its next general rate case of its proposed methodology in dealing with the balances.

On August 29, 2018, Liberty Utilities personnel had an informal discussion with Staff and at that time stated that the Company did not believe it would be able to use ARAM for all assets but that the Company was still reviewing the matter. On December 13, 2018, Liberty Utilities determined that it cannot utilize the ARAM as the method for computing and normalizing protected excess ADIT because it lacks sufficient asset records necessary to perform the calculation. Instead, Liberty Utilities has determined that the most appropriate and reasonable method to utilize for computing and normalizing protected excess ADIT is the Reverse South Georgia Method. Liberty Midstates notified Staff of the method it would use on January 4, 2019 per the Stipulation & Agreement. In addition, the parties agreed that Liberty Midstates would begin calculation of the deferral of EADIT as of January 1, 2018.

Q. What kind of EADIT has been included in customer rates from Liberty Midstates' prior rate cases?

A. Since Liberty Midstates' acquisition of the Atmos energy utility districts, Staff has included only depreciation related (protected) tax timing differences in customer rates.

Thus, there is no unprotected EADIT that is due back to customers from the TCJA or state corporate tax reductions.

Q. What is Liberty Midstates' proposal for customer recovery of EADIT in this case?

A. Liberty Midstates has proposed in this case to return the protected (depreciation related) balances of EADIT, netted by a net operating loss (NOL) balance back to ratepayers over 37.2 years per the RSG[5] method. Liberty Midstates determined the amortization period for return of the protected EADIT based upon a depreciation study that was performed in 2021. That depreciation study reset the remaining lives of Liberty Midstates assets from the last depreciation study that had occurred in 2015.

Q. Please explain how Liberty Midstates' treated EADIT?

A. Liberty Midstates proposed balance of EADIT consists of depreciation related EADIT as of January 1, 2018 per the S&A in GR-2018-0013, netted by an NOL balance. While Staff mostly agrees with the EADIT balances proposed to be returned to customers prior to the NOL offset, Staff does not agree with the amount of NOL for which Liberty Midstates is offsetting the balance of EADIT. The balances that Liberty Midstates is utilizing for the NOL consist of the loss recorded on the income tax returns of Liberty Midstates, produced as a stand-alone tax entity. Taxable income occurs when total income exceeds total deductions on the tax return and a loss occurs when total deductions exceed total income. However, that means that the amount of the NOL proposed by Liberty Midstates' may or may not have been fully attributed to the depreciation deduction; but Liberty Midstates is treating it as if it is all attributable to depreciation when offsetting all protected EADIT. As all general business

[5] Reverse South Georgia

expenses are considered deductions, depreciation is just one, and Staff does not believe that the entire NOL for which Liberty Midstates is reducing the balance of EADIT to be returned back to customers, stems completely from depreciation. In addition, Staff does not necessarily agree with the methodology Liberty Midstates' used to determine its amortization period. The IRS does not state distinctly how to determine the remaining life of assets or what point at which to determine the remaining life of the assets. Liberty Midstates has proposed to utilize the remaining life of the assets as of December 31, 2021 in determining the period of time to return the protected EADIT back to customers. Staff believes the EADIT balances net of an appropriate NOL balance as of January 1, 2018 should be returned to customers using the remaining life of those assets at the time the tax rate change went into effect. This maintains consistency and reflects the correct time period for customer recovery. Similar to the treatment afforded customers at other Missouri utilities, Staff also proposes that the balance for EADIT be given rate base treatment until fully returned to customers.

State Corporate Tax Reform and State Excess ADIT

Q. Please explain the excess ADIT that was created due to the Missouri corporate tax reform.

A. The state of Missouri passed legislation reducing Missouri's corporate tax rate from 6.25% to 4.00% on January 1, 2020, however the effective date of rates in Liberty Midstates' last rate case, GR-2018-0013, was June 30, 2018 and this current case is the first case Liberty Midstates has requested to change rates since that time. The Missouri tax rate reduction had the same effect on Liberty Midstates' ADIT liability as the TCJA and lead to a balance of unprotected excess ADIT. Even though all of the excess deferred income taxes in this case stem from depreciation related deductions, excess deferred taxes related to the state corporate tax deduction is considered unprotected. This is because the TCJA addresses excess deferred taxes for federal purposes regarding protected and unprotected excess ADIT. The state tax laws do not make this delineation. Due to the fact that Liberty Midstates' rates, effective June 30, 2018, did not reflect the reduced state tax rate, the accumulation of deferred taxes in current customer rates has been at the higher tax rate of 6.25% since January 1, 2020. Similar to federal EADIT, Staff will need to include the excess ADIT produced by Missouri's tax reform beginning with the effective date of rates in this current rate case. Staff has included an EADIT balance in rate base and an annualized amount of amortization in its income tax schedule. The amortization is based on a 5-year period for unprotected EADIT. This change in tax rate means that customers of Liberty Midstates have paid more in state deferred taxes than the utility will ultimately pay to the taxing authorities. The excess accumulated deferred income tax related to the change in tax rate for state income tax is considered unprotected and as such can be returned to customers over any time period approved by the Commission, either through a Stipulation & Agreement or a Report & Order. Due to the timing of the rate reduction occurring subsequent to the effective date of rates in Liberty Midstates' last rate case, Staff did not reflect the lower tax rate in its cost of service calculations nor determine an appropriate amount of excess ADIT to return to customers in the last rate case. Staff will include a 4% tax rate in its calculation of current income tax and establish the EADIT balance that will need to be returned to customers beginning from January 1, 2020 through December 31, 2023.

Staff proposes to separate the state EADIT from the federal EADIT and return the state EADIT over a 5-year period, consistent with how it has been established for other Missouri utilities. Staff also proposes that the balances for unprotected EADIT be given rate base treatment until fully returned to customers.

TCJA and State EADIT Stub Period Amortization

As discussed above, a major change to the federal tax code that was brought about due to the TCJA was a reduction in the corporate tax rate on businesses from 35% to 21% beginning January 1, 2018. The state of Missouri also enacted legislation reducing the state corporate tax rate from 6.25% to 4% beginning January 1, 2020. These tax rate reductions affect the current and deferred income tax calculation as well as the accumulated deferred income tax (ADIT) calculation included in the base rates of a utility.

For the federal tax rate change, the rate was initially calculated assuming a 35% rate but after January 1, 2018 the ADIT was overstated as the new tax rate was only 21%. Staff included the ongoing federal tax rate of 21% in its calculation of current income taxes in Liberty Midstates' last rate case so as of the effective date of rates in the last case, ADIT moving forward would have been valued at the lower tax rate. However, since the tax rate change occurred January 1, 2018 but rates did not change to enact the lower current tax rate until June 30, 2018, this creates a stub period of federal excess ADIT from the period of January 1, 2018 through June 30, 2018.

For the state tax rate change, the tax rate was initially calculated assuming a 6.25% rate but after January 1, 2020, it was overstated as the new tax rate was only 4%. The tax rate change for state corporate income tax did not occur until well after the effective date of rates in the last rate case, so state excess ADIT has been overstated since January 1, 2020 and will be overstated through the effective date of rates in this case when the current state tax rate is reflected at 4%. This creates a stub period of state excess ADIT from the period of January 1, 2020 through the effective date of rate in this case. Staff has included the federal EADIT stub period return to customers in the current rate case and has also included the state EADIT through December 31, 2023 in this case. The stub period amount for state EADIT for the period of January 1, 2024 through the effective date of rates in this case will need to be deferred and returned to customers in Liberty Midstates' next rate case.

Cash Working Capital (CWC) Income Tax Expense Lag

Q. What did Liberty Midstates propose for its cash working capital (CWC) expense lag for income taxes in the current rate case?

A. Liberty Midstates witness Timothy S. Lyons proposes a 37-day expense lag for income taxes.

Q. Please explain the current Commission guidance regarding the income tax expense lag as part of the CWC calculation.

A. In Spire Missouri's rate case, GR-2021-0108, the Office of the Public Counsel witness John A. Riley, proposed to reflect a 365-day expense lag as part of cash working capital because Spire Missouri would not be required to pay income taxes through the period that the rates from the last rate case were in effect. This issue was litigated and the Commission found that:

> …federal and state income tax expense is included in rates but the Company is not likely to remit any federal or state income taxes because of its net operating loss carryforward (NOLC)…this lack of income tax payment should be reflected in the CWC expense lag. The fact that no income tax payments have been made in the test year or true-up period justifies the use of a 365-day expense lag. Therefore, the Commission finds that the appropriate expense lag days for income taxes within the CWC calculation is 365 days.

Q. Has Staff included a 365-day expense lag in CWC for the current case?

A. Yes.

Q. Is Liberty Midstates still experiencing a net operating loss (NOL)?

A. Yes. Liberty Midstates has not ** [redacted] **, and there is a ** [redacted] ** for future tax offset.

Q. Does this conclude your direct testimony?

A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Request of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company	)))))	Case No. GR-2024-0106

AFFIDAVIT OF LISA M. FERGUSON

STATE OF MISSOURI)
) ss.
CITY OF St. Louis)

COMES NOW LISA M. FERGUSON and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct Testimony of Lisa M. Ferguson*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Lisa M. Ferguson
LISA M. FERGUSON

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the City of St. Louis, State of Missouri, at my office in St. Louis, MO, on this 16th day of July 2024.

Antoinette C. Lang
Notary Public

ANTOINETTE C. LANG
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis City
My Commission Expires: April 04, 2028
Commission Number: 16767761

Lisa M. Ferguson

Present Position:

I am a Utility Regulatory Audit Supervisor in the Auditing Department, of the Financial and Business Analysis Division of the Missouri Public Service Commission. As a Utility Regulatory Auditor, I review all exhibits and testimony on assigned issues, develop accounting adjustments and issue positions that are supported by workpapers and written testimony. In addition, I oversee the auditing casework of junior level utility regulatory auditors.

Educational Credentials and Work Experience:

I have an Associate of Science degree from Moberly Area Community College, a Bachelor's of Science degree in Accounting from Truman State University, and a Master's degree in Accounting from Truman State University. I have been employed by the Missouri Public Service Commission since June 2008. Prior to joining the Commission, I worked in several departments, primarily Customer Service and as an accounting assistant, for Hy-Vee Food and Drug from July 1998 to May 2002. I was also employed by Kelly L. Lovekamp as a legal office assistant during 2001. From June 2002 to May 2008, I was employed as a support staff for Chariton Valley Association. My duties included support of daily living activities for people with disabilities.

Lisa M. Ferguson

Past Rate Case Proceedings:

Company Name	Case No.	Issue
Spire Missouri	GR-2022-0179	Co-Case Coordinator Gas Revenue, Miscellaneous Revenue, Oil & Propane Revenue, CNG, Home Inspection Fees & Revenues, Uncollectibles, Property Sales/Donations/Facility O&M, Energy Efficiency, Energy Affordability, Red Tag, ISRS Investment, Propane Assets, Propane O&M, Legal Expense, Cash Working Capital, Income Tax Expense, ADIT, MGE ADIT Ratebase Offset, TCJA Tracker & Amortization, CAM Reporting, All Other Amortizations Filed Direct, Rebuttal, Surrebuttal (True-up Direct)
Ameren Missouri (ELEC)	ER-2021-0240	Co-Case Coordinator Sioux R&D Capital/Expense, PISA rebase and amortization, Miscellaneous Revenue, Uncollectibles, RESRAM rebase, Fuel Expense, Fuel Additives, Fuel Inventories, Purchased Power, Off System Sales, Green Tariff Program, Maryland Heights Fuel, MISO Revenue and Expense, MISO Transmission Revenue & Expense, SPP Transmission Revenue & Expense, Mark Twain Transmission, Capacity & Ancillary Sales, Coal Refinement, DOE Reimbursements, Radioactive Waste, FERC ROE, Income Tax, ADIT, FIN 48 Tracker, Federal & State TCJA Tracker, Wind Generation O&M, RES AAO and Amortization, Solar Rebates, All Other Amortizations, RECs, Emission Allowances, Callaway Refueling, Callaway Unplanned Outage, Community Solar, Meramec Tracker, Neighborhood Solar Accounting Schedules/Reconciliation Filed Direct, Rebuttal, Surrebuttal (True-up Direct)

Lisa M. Ferguson

Past Rate Case Proceedings:

Company Name	**Case No.**	**Issue**
Ameren Missouri (Gas)	GR-2021-0241	Co-Case Coordinator Miscellaneous Revenue, Uncollectibles, Natural Gas Stored Underground, Income Tax, ADIT, Federal & State TCJA Tracker, All Other Amortizations Accounting Schedules/Reconciliation Filed Direct, Rebuttal, Surrebuttal (True-up Direct)
Ameren Missouri (ELEC)	ER-2019-0335	Lead Auditor Fuel Expense, Fuel Additives, Purchased Power, Off System Sales, Green Tariff Program, Maryland Heights Fuel, MISO Revenue and Expense, MISO Transmission Revenue & Expense, Mark Twain Transmission, Capacity & Ancillary Sales, Coal Refinement, DOE Reimbursements, Radioactive Waste, FERC ROE, Income Tax, ADIT, FIN 48 Tracker, TCJA Tracker Accounting Schedules/Reconciliation Filed Direct, Rebuttal, Surrebuttal (True-up Direct)
Ameren Missouri (Gas)	GR-2019-0077	Lead Auditor TCJA Income Tax AAO/Interim Rates Income Tax, Accumulated Deferred Income Tax (ADIT), Amortization of Excess ADIT, Pensions & OPEBs, Energy Efficiency, Regulatory Asset Overcollection
Missouri-American Water Co.	WO-2018-0373	ISRS - Accumulated Deferred Income Taxes (Inclusion of NOL)
Ameren Missouri (ELEC)	ER-2018-0362	2017 Federal Tax Cuts and Jobs Act (“TCJA) – Tax Reduction Filing

Lisa M. Ferguson

Past Rate Case Proceedings:

Company Name	Case No.	Issue
Ameren Missouri (ELEC)	EA-2018-0202	Terra-Gen Wind Generation CCN
Ameren Missouri (ELEC)	ER-2018-0362	2017 TCJA Tax Reform effect on current and excess deferred taxes
Liberty Gas (MNG)	GR-2018-0013	Income Tax, Accumulated Deferred Income Tax (ADIT), Property Tax, Vegetation Management, Payroll, Payroll Tax, Employee Benefits Accounting Schedules/Reconciliation Filed Direct, Rebuttal, Surrebuttal (True-up Direct)
Spire Missouri (Laclede Gas & Missouri Gas Energy)	GR-2017-0215 GR-2017-0216	Co-Lead Auditor Insulation Financing, EnergyWise Revenue/Rate Base, Gas Safety AAO Overcollection, Natural Gas/Propane Inventory, MGE Rate base Offset, Income Taxes, ADIT, Surveillance Reporting, Uniform Expense, AMR Devices Filed Direct, Rebuttal, Surrebuttal, True-Up Testified on FIN 48 as part of ADIT, Surveillance Reporting, AMR Devices, 2017 TCJA Tax Reform effect on current and excess deferred taxes
Ameren Missouri	EO-2017-0176	Cost Allocation Manual
Ameren Missouri (ELEC)	EO-2017-0127	Lead Auditor Asset Sale Case – Mercy Health

Lisa M. Ferguson

Past Rate Case Proceedings:

Company Name	Case No.	Issue
Ameren Missouri (ELEC)	ER-2016-0179	Allocations, Coal Refinement, Callaway II Write-Off, Capacity, FAC expense removal, FIN 48, Income Taxes, ADIT, Mark Twain Transmission, MISO revenues & expenses, MISO Transmission revenues & expenses, Sioux Construction Accounting Accounting Schedules/Reconciliation Filed Direct, Rebuttal, Surrebuttal
Rex Deffenderfer Enterprises	WR-2016-0267	Lead Auditor – Oversee All Issues
House Springs Sewer Co.	SM-2016-0204	Sale of Company Assets to Jefferson County Public Sewer District
Missouri-American Water Co.	WR-2015-0301 & SR-2015-0302	Amortizations, Arnold Acquisition, Belleville Labs, Capitalized O&M Depreciation, Regulatory Assets & Liabilities, Regulatory Deferrals, Hickory Hills Receivership Costs Accounting Schedules/Reconciliation
Missouri-American Water Co.	WO-2016-0054	Asset Purchased Case; Missouri American Acquisition of Jaxson Estates
House Springs Sewer Co.	Earnings Investigation	Operations & Maintenance Contract, Legal Fees, Office Rent & Electric, Plant/Reserve/CIAC, Repairs & Maintenance, Sludge Hauling, City of Byrnes Mill Expense, Garnishment

Lisa M. Ferguson

Past Rate Case Proceedings:

Company Name	**Case No.**	**Issue**
Ameren Missouri (ELEC)	ER-2014-0258	Fuel, NBEC, Fuel Additives, Fuel Inventory, Off System Sales, Purchased Power, Callaway Refueling, Coal Car Depreciation, Low Level Radioactive Waste Expense Accounting Schedules/Reconciliation Filed Direct, Rebuttal, Surrebuttal
Liberty Gas (MNG)	GR-2014-0152	Lead Auditor Board of Directors Fees, Payroll, Employee Benefits, Incentive Compensation, Environmental Expense, Fleet Fuel Expense, Property Tax, Relocation Expense
Terre Du Lac Utility Co.	WR-2014-0104 SR-2014-0105	Lead Auditor Revenues, Uncollectibles, Water Loss Adjustment
Laclede Gas Co.	GR-2013-0171	Lead Auditor Revenue, Energy Wise and Insulation Revenues and Ratebase, Gas Costs, Gross Receipts Tax, ISRS Revenue, OSS and Capacity Release, Postage Expense, Unbilled Revenues, Uncollectibles
Lincoln County Water & Sewer	SR-2013-0321	Revenues, Bank Fees, Billing Expense, DNR Fees, Office Supplies, Postage Expense, PSC Assessment, SOS Fees, Uncollectibles
Gladlo Water and Sewer Co.	SR-2013-0258 WR-2013-0259	Informal Rate Case – All Issues
Missouri-American Water Co.	SO-2013-0260	Asset Purchased Case; Missouri American Acquisition of Meramec Sewer Co; Rate Base Determination
Ameren Missouri (ELEC)	EO-2013-0044	Asset Sale Case

Lisa M. Ferguson

Past Rate Case Proceedings:

Company Name	**Case No.**	**Issue**
Meramec Sewer Co.	SR-2012-0309	Rate Base, Revenues, Uncollectibles
Ameren Missouri (ELEC)	ER-2012-0166	Advertising, AMS Allocations, Capitalized O&M Depreciation, Distribution Training, Employee Benefits other than Pensions, Environmental Expense, Incentive Compensation, Legal Expense, Name Change/Branding Expense, Payroll, Payroll Taxes, Production Training Expense, Severance, Underground Training Expense, VSE/ISP Amortization EMS Accounting Schedules Filed Direct and Surrebuttal Testimony Deposed on Severance and Advertising Testified on Severance
Missouri-American Water Co.	SO-2012-0091	Asset Purchased Case; Missouri American Acquisition of Meramec Sewer Co; Rate Base Determination
House Springs Sewer Co.	SR-2011-0274	Revenues, Billing Supplies Expense, Bank Fees, Dues & Donations, Outside Services, Miscellaneous Expense, Rent Expense, Postage Expense, PSC Assessment, Rate Case Expense, Secretary of State Fees, EMS Accounting Schedules
Missouri-American Water Co.	WO-2011-0106	ISRS Filing; Extending data to Effective Date; Retirements; Deferred Taxes; Accumulated Depreciation

Lisa M. Ferguson

Past Rate Case Proceedings:

Company Name	**Case No.**	**Issue**
Ameren Missouri (ELEC)	ER-2011-0028	Capitalized O&M Depreciation, Dues & Donations, 900 Account analysis, Property Taxes, Other Rate Base Items, Corporate Franchise Taxes, CWC, Plant and Reserve, PSC Assessment, Rate Case Expense, Advertising, Interest on Customer Deposits, Outside Contractors/Services, Allocations Accounting Schedules/Reconciliation Filed Direct and Surrebuttal Testimony Deposed on Advertising Testified on Property Tax
AmerenUE (GAS)	GR-2010-0363	Capitalized O&M Depreciation, Dues & Donations, 900 Account analysis, Property Taxes, Other Rate Base Items, Corporate Franchise Taxes, CWC, Plant and Reserve, PSC Assessment, Rate Case Expense, Advertising, Interest on Customer Deposits, Outside Contractors/Services Accounting Schedules/Reconciliation Filed Direct Testimony
KMB Utility Corporation	WR-2010-0345 SR-2010-0346	Revenues, Late Fees, Electric Bills, Lost Water Adjustment, Uncollectibles, Master meter reads Filed Staff Recommendation
Ameren UE (ELEC)	ER-2010-0036	Advertising, Capitalized O&M Depreciation, Dues & Donations, 900 Account Analysis, Property Taxes, Other Rate Base Items, Corp. Franchise Taxes, Leases, CWC, Plant, Depreciation/ Reserve, PSC Assessment, Rate Case Expense, Interest on Customer Deposits, Insurance Expenses, Accounting Runs, Injuries and Damages Accounting Schedules/Reconciliation Filed Direct and Surrebuttal Testimony

Lisa M. Ferguson

Past Rate Case Proceedings:

<u>**Company Name**</u>	<u>**Case No.**</u>	<u>**Issue**</u>
Peaceful Valley	SR-2009-0146 WR-2009-0145	Informal Small Water and Sewer Request for Rate Increase
Cannon Home Association	SR-2009-0144	Informal Small Water Request for Rate Increase
Atmos Energy	GO-2009-0046	Assisted on ISRS Filing; Extending data to Effective Date; Retirements; Deferred Taxes; Accumulated Depreciation; Removal of Meters
Ameren UE (GAS)	GT-2009-0038	Assisted on ISRS Filing; Extending data to Effective Date; Additions/Retirements; Deferred Taxes; Accumulated Depreciation
Laclede Gas Company	GO-2009-0029	Assisted on Abandonment Case – Recommendation Submission
Mill Creek	SR-2005-0116	Quarterly Reviews; Procedural Schedule; A/P Billing Calendar; Conference Calls; Discussion Notes; Revenues

Liberty Midstates Gas General Rate Case Case No. GR-2024-0106 Staff's Direct Testimony – Staff Testimony Responsibility	
Staff Witness	**Issue Responsibility**
Paul K. Amenthor	Test Year Revenue Adjustments; ISRS Revenue; WNAR Revenue (weather normalization adjustment rider); Uncollectibles; Cash Working Capital; Rents and Leases; Accounting Schedules; Reconciliations
Benjamin H. Burton	Payroll; Payroll Taxes; Severance; Dues and Donations; Fuel Expense; Advertising Expense
Amanda Coffer	Depreciation
Francisco Del Pozo	Revenue Adjustments for Weather
Jane C. Dhority	Training and Travel Costs; Employee Benefits; Incentive Compensation & Bonuses; Pensions and OPEBs; Rate Case Expense; Property Tax Expense and Tracker; Energy Efficiency & Low-Income Weatherization
Lisa M. Ferguson	Transition & Transaction Costs; Corporate Allocations; Customer First Investment and Ongoing O&M Expense; Business Development Costs; Current & Deferred Income Tax; Accumulated Deferred Income Tax; Excess Accumulated Deferred Income Taxes; CWC income tax lag
Blair A. Hardin	Miscellaneous Expense; PSC Assessment; Insurance Expense; Plant in Service & Accumulated Depreciation Reserve; Materials & Supplies; Prepayments; Customer Deposits; Interest on Customer Deposits; Customer Advances; Capitalized O&M Depreciation; Natural Gas Inventory
Hari K. Poudel, PhD	Weather Normalization; Rate Switching; Days
Marina Stever	Retail Sales Revenue
Justin Tevie	Transport Revenue
Charles Tyrone Thomason	Customer First, Monthly Performance Reporting
Christopher C. Walters	Capital Structure and Return on Equity

IV. Staff's Revenue Requirement Recommendation

Staff recommends increases an increase of $ 1,292,380 to Liberty Midstates - MO's base rates, and that the Company's ISRS be reset to zero. Staff recommends a return on equity (ROE) of 10.0%, which is the high-end of Staff's recommended ROE range of 9.5% to 10.0%. Staff's recommended increase by rate district is summarized below:

NEMO	$474,990
SEMO	$635,395
WEMO	$181,995

Staff Witness/Expert: Michelle A. Bocklage

V. Surveillance Reporting

Presently Liberty Midstates - MO does not provide Staff with surveillance information. As part of this rate case, Staff requests that Liberty Midstates - MO provide surveillance and actual earnings information related to their natural gas operations. Staff has had discussions with Company personnel regarding their allocations methodology and how requested surveillance information will help Staff monitor the level of allocations that Missouri is receiving. In the event that Staff cannot reach an agreement with Liberty Midstates - MO regarding the proposed surveillance reporting, Staff requests that the Commission order Liberty Midstates - MO to provide reporting information on a quarterly basis. Staff requests that the provision of surveillance information begin for the first quarter of January 1, 2019.

Specifically, Staff requests that Liberty Midstates - MO provide a complete Midstates level and Corporate (8850) level general ledger, and complete subledgers, as well as all allocations "billing" reports with all supporting transactional detail, consistent with FERC USOA requirements, that includes all income statement and balance sheet transactions by month by FERC account; including all transactions occurring between Liberty Midstates' divisions and all other affiliated entities, both regulated and unregulated. In addition, Staff also requests that Liberty Midstates - MO provide an actual earned return on equity report, similar to the Fuel Adjustment Clause (FAC) quarterly surveillance reporting that is currently required of electric utilities pursuant to 4 CSR 240-3.161(6). Staff is seeking a report that is consistent with actual earned ROE reporting that is provided on a quarterly basis by Union Electric Company, d/b/a Ameren Missouri. This information would greatly assist Staff with monitoring actual earned ROE in between Liberty Midstates - MO's rate cases and allow Staff to better inform the Commission in certain circumstances where Liberty Midstates - MO's earnings may need to be reviewed in more detail. Given that Liberty Midstates - MO typically has filed rate cases in intervals that are three years or longer, and in light of the recent acquisition of Empire and continued future acquisition activity, the surveillance data will assist Staff in monitoring Liberty Midstates - MO's earnings during these intervals. In addition, this would reduce the burden of providing many years of this data in the context of a rate case. Staff will endeavor to work with Liberty Midstates - MO to explain exactly the surveillance information being requested.

Staff Witness/Expert: Lisa M. Ferguson

VI. Rate of Return (ROE, Cost of Capital, Capital Structure)

A. Staff's Positions

1. <u>Return on Equity (ROE)</u>

Based on my rate-of-return analyses and consideration of the Commission's recent decision in the Spire Missouri Inc. rate cases, I recommend that the Commission set the Company's return on equity ("ROE") at 10% (based on a range of 9.5% to 10%), resulting in an overall rate of return ("ROR") of 6.76% (range of 6.56% to 6.76%). My recommended ROE provides the Company with a fair and reasonable opportunity to earn at least its cost of common equity ("COE") in view of the fact that my analyses show that the COE for gas utilities is most likely in the range of 6% to 7%.

2. <u>Capital Structure</u>

I also recommend that the Commission use LUCo's adjusted actual capital structure of 40.43% equity and 59.57% debt for purposes of setting Liberty Midstates' allowed ROR because this capital structure is that which is used to finance LUCo's United States' regulated utility assets, including that of Liberty Midstates.[1] Staff considered several other different capital structures, which I will discuss in much more detail in my Detailed Direct Testimony attached as Appendix 2 to this Report.

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[1] Calculated with short-term debt removed.

E. Staff Recommendations to Facilitate More Expeditious Discovery Responses, and to Achieve a More Detailed and Efficient Audit of Upstream Service Affiliates' Costs to Liberty Midstates in Future Missouri Base Rate Proceedings

Because of the slowness in discovery response time, concerns regarding failure to adequately direct-assign employees' and officers' labor hours, as well as the disjointed and "unfriendly" nature of cost support that has been provided for Liberty Midstates charges from upstream service affiliates in this proceeding, Staff is concerned that adequate records are not being maintained by Liberty Midstates' upstream affiliates, as required by the Commission's Affiliate Transaction Rules.[11] Therefore, Staff recommends that APUC/LUCo:

- develop additional report writing capabilities from the Company's accounting records,
- implement positive time sheet reporting with some additional documentation requirements,
- establish work orders immediately when a business acquisition is being considered and/or a business project is being considered for development,
- undertake regular internal audits of employees' and executives' timesheet recording.

Given the lack of timeliness in responding to discovery, the quality of discovery responses received, as well as the deficiencies in direct timesheet reporting observed, each recommendation is warranted, and Staff plans to make the same recommendations in the CAM case (Case No. AO-2017-0360).

1. <u>Recommended Report Writing Capabilities</u>

1. Costs from each upstream affiliate providing business services, for annual and multi-month periods as maybe requested, within one executable spreadsheet, further broken out into:
   a. Total direct costs incurred, before assignment to benefiting affiliates, further broken down into categories of:

[11] 4 CSR 240-40.015(5).

   i. Labor and labor-related (benefits, taxes, and other burdens typically associated with, and loaded onto, straight hourly wages)
   ii. Non-labor costs

b. Total indirect-allocable costs incurred, before assignment to benefiting affiliates, further broken down into categories of:
   i. Labor and labor-related (benefits, taxes, and other burdens typically associated with, and loaded onto, straight hourly wages)
   ii. Non-labor costs

c. Direct costs assigned to *each* benefiting affiliate, also further broken down into the categories of:
   i. Labor and labor-related (benefits, taxes, and other burdens typically associated with, and loaded onto, straight hourly wages)
   ii. Non-labor costs

d. Indirect costs allocated to *each* benefiting affiliate, also further broken down into the categories of:
   i. Labor and labor-related (benefits, taxes, and other burdens typically associated with, and loaded onto, straight hourly wages)
   ii. Non-labor costs

2. Extraction of costs by "Account Number," "Account Descriptions," and other designations that may arise prospectively for annual and multi-month periods as may be requested, by upstream service affiliate, within one executable spreadsheet, before direct assignment or allocation to downstream subsidiaries and affiliates.
3. Incentive compensation components by incentive plan by upstream service affiliate for annual and multi-month periods as may be requested, in one executable spreadsheet, in total, and as:
   a. Direct assigned to each benefiting affiliate
   b. Allocated to each benefiting affiliate.
4. Identification and quantification of any costs that may be being retained at any upstream service affiliate, for annual and multi-month periods as may be requested, in one executable spreadsheet

2. **Timesheet Reporting**

– for any officer or employee at APUC, as well as service affiliates below the APUC level, that routinely work on both unregulated Liberty Power operations as well as Liberty Utilities Co. regulated utility operations:

1. Positive time sheet reporting for all hours of the year. In other words, no "exception" timesheet reporting. No hours will be permitted to automatically fall to a "residual" or "home" account or activity. All hours should be assigned to some activity with a written description of activities undertaken.
2. Positive time sheet reporting should designate various work products produced or being worked on.
3. Timesheets should be retained in electronic format, with proper cataloguing for quick identification and retrieval during the discovery phase of a rate case procedural schedule.

3. **Mergers and Acquisitions Accounting**

Whenever any company/investment/new development project is being considered for acquisition or development, one or more work orders should be established to capture 1) all costs of investigating such potential acquisition/development project, 2) all costs incurred to facilitate the acquisition, 3) all cost incurred seeking regulatory approvals, 4) all costs incurred for closing each transaction, 5) all transaction costs incurred in closing the acquisition/development project, as well as 6) all costs incurred in transitioning the operations of the newly acquired/developed utility system/generating facility/project into Algonquin Power & Utilities Corp operations. Such work order(s) should capture all costs for outside services, as well as all loaded payroll costs of any employees/officers working at APUC or within any APUC subsidiary or service affiliate. Further, the disposition of all costs initially charged to any work orders established to capture any cost categories delineated above should be retained by entity charged, by month, and by FERC account. The accounting requirements set forth herein will not dictate the ratemaking treatment that should automatically be afforded such costs. However, it is imperative that all internal and external costs incurred in researching, negotiating, and closing a business acquisition/development project be accurately tracked.

4. <u>Periodic Internal Audits of Timesheets Required for</u>

1. All officers/employees at APUC and all officers/employees working at service affiliates who routinely work on both unregulated Liberty Power operations as well as Liberty Utilities Co. regulated utility operations.
2. Liberty Utilities (Canada) Corp Business Services – Two highest paid employees/officers working on the following “Type of Cost” as listed on Table 4a of the Algonquin CAM:
    a. Human resources
    b. Executive and Strategic Management
    c. Utility Planning
3. Liberty Utilities (Canada) Corp Corporate Services – Two highest paid employees/officers working on the following “Type of Cost” as listed on Table 4b of the Algonquin CAM:
    a. Financial Reporting, Planning, and Administration
    b. Treasury
    c. Legal Costs
4. Liberty Utilities Service Corp – Two highest paid employees/officers working on the following “Shared Services” delineated on Table 5 of the Algonquin CAM:
    a. Legal
    b. Regulatory & Governmental Relations
    c. Utility Planning

Staff Witness/Expert: James R. Dittmer

IX. Income Statement

A. Missouri Jurisdictional Rate Revenues

1. <u>Introduction</u>

The following describes how Staff determined the amount of Liberty Midstates – MO’s adjusted operating revenues for its three rate districts (WEMO, SEMO, and NEMO). Since the largest component of operating revenue is a result of rates charged to Liberty Midstates – MO’s retail customers, a comparison of operating revenues with the cost of service is fundamentally a