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Base Items, Insurance
Expense*
Witness: *Blair Hardin*
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Case No.: *GR-2024-0106*
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MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL & BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

DIRECT TESTIMONY

OF

BLAIR HARDIN

LIBERTY UTILITIES (Midstates Natural Gas) CORP.,

d/b/a Liberty

CASE NO. GR-2024-0106

Jefferson City, Missouri
July 2024

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DIRECT TESTIMONY

OF

BLAIR HARDIN

LIBERTY UTILITIES (Midstates Natural Gas) CORP.,

d/b/a Liberty

CASE NO. GR-2024-0106

Q. Please state your name and business address.

A. Blair Hardin, 111 North 7th Street, Suite 105, St. Louis, MO, 63101.

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

A. I am employed by the Missouri Public Service Commission (“PSC”) as a Utility Regulatory Auditor.

Q. Have you previously filed testimony before this Commission?

A. No.

Q. Please describe your education.

A. I graduated from Southeast Missouri State University in December of 2023, with a Bachelor of Science degree in Business Administration with a minor in Business Law.

EXECUTIVE SUMMARY

Q. What is the purpose of your direct testimony in this proceeding?

A. The purpose of this testimony is to discuss Staff’s position on the following issues: miscellaneous expense, PSC assessment, plant in service and accumulated depreciation reserve, materials and supplies, prepayments, customer deposits, interest on customer deposits, customer advances, capitalized operations and maintenance (“O&M”) depreciation, natural gas fuel inventory, and insurance expense.

1 **MISCELLANEOUS EXPENSE**

2 Q. What is miscellaneous expense, and what types of costs would be included in
3 this category?

4 A. Miscellaneous expenses are costs that do not fall under any specific category.
5 Costs included in this category might include office supplies, cleaning services, trash removal,
6 or professional services.

7 Q. Did Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty's
8 ("Liberty Midstates") incur any miscellaneous expenses?

9 A. During the test year, Liberty Midstates recorded numerous miscellaneous costs.
10 Some costs were directly charged, but a majority were allocated from various corporate and
11 affiliate levels to each of its three Missouri rate districts. These districts include Western
12 Missouri ("WEMO"), Southeast Missouri ("SEMO"), and Northeast Missouri ("NEMO").

13 Q. Did Liberty Midstates propose an adjustment to its miscellaneous expenses?

14 A. Yes. Liberty Midstates has proposed to remove miscellaneous expenses relating
15 to business administration and outside services. These expenses were recorded during the
16 test year in FERC account 923, outside services.

17 Q. What is Staff's position on miscellaneous expenses?

18 A. After review of Liberty Midstates' books and records, Staff agrees with
19 Liberty Midstates' proposed cost removal with a few exceptions. During its review of
20 miscellaneous expenses, Staff found some additional charges that are not beneficial to
21 rate payers, and they were removed. These additional charges found were customized logo
22 jackets for employees.

1 **MISSOURI PUBLIC SERVICE COMMISSION (“PSC”) ASSESSMENT**

2 Q. What is the PSC Assessment?

3 A. The PSC Assessment is an annual amount billed to all regulated utilities
4 operating under the Missouri PSC. The assessment is used to satisfy the Commission’s
5 operating costs for regulating those utilities.

6 Q. Please explain Staff’s adjustment to the PSC assessment.

7 A. Staff’s adjustment represents the difference between the Missouri PSC
8 assessment expenses recorded by Liberty Midstates’ three Missouri rate districts during the test
9 year and the fiscal year 2024 assessment that is in effect for each of those three rate districts for
10 the period covering July 1, 2023, to June 30, 2024.

11 **PLANT IN SERVICE AND ACCUMULATED DEPRECIATION RESERVE**

12 Q. Please explain Plant and Reserve.

13 A. Plant represents the equipment and structures that are used by Liberty Midstates
14 to provide adequate gas service to its ratepayers, while depreciation reserve represents the sum
15 of all the depreciation accruals, net of cost of removal and salvage, that have been recorded on
16 plant assets since the date they were placed in service. The reserve is a reduction to plant in the
17 determination of rate base.

18 Q. What amount of plant and accumulated reserve has Staff included in the
19 cost of service?

20 A. Staff’s plant and reserve will reflect, by account, Liberty Midstates’ plant and
21 reserve balances for Missouri gas operations as of December 31, 2023, including any common
22 plant shared amongst the Midstates Gas entities, as well as shared services plant and reserve
23 that Liberty Midstates is allocated a portion of.

1 **Investment Since Liberty Midstates Gas' Last Rate Case**

2 Q. What new investments has Liberty Midstates implemented since its last
3 rate case in 2018?

4 A. Liberty Midstates has implemented a total of seven new projects among its three
5 Missouri rate districts, plus new software for its ratepayers called Customer First.
6 Liberty Midstates witnesses Ron Snider and Jeff McChristian provide a detailed explanation of
7 each of the new projects in the rate districts as part of their direct testimonies. For a more
8 detailed discussion of the Customer First investment, please refer to Staff witness
9 Lisa M. Ferguson's direct testimony.

10 **Automated Meter Reading ("AMR") Investment**

11 Q. Please explain automated meter reading.

12 A. Automated meter reading is communication technology that Liberty Midstates
13 has installed to automatically collect customer usage, diagnostics, and status data from gas
14 metering devices. This meter technology allows for collection of data electronically via
15 walk-by or drive by customer premises. Once the data is collected, it is transferred to a database
16 where Liberty Midstates can monitor and analyze usage, troubleshoot issues, and use the data
17 for customer billing.

18 Q. Did Liberty Midstates install new meters to each rate district?

19 A. No. In Liberty Midstates' last rate case, GR-2018-0013, the Company was in
20 the process of installing Encoder Receiver Transmitters ("ERT"s), to the existing diaphragm
21 meter infrastructure. The installation of the ERTs was completed approximately between
22 February - July of 2018. The ERTs utilize Itron software to communicate customer data to

1 Liberty Midstates. The addition of ERTs to existing meters allows the meters to have
2 AMR technology.

3 Q. Are there AMR devices installed in each rate district?

4 A. Yes. All customers within the three rate districts have AMR technology installed
5 as of the end of the test year, with the exception of meters equipped with transport customer
6 telemetry equipment, pressure corrector equipment, Supervisory control and data acquisition
7 (“SCADA”) equipment and three meters that are manually read in SEMO.

8 **MATERIALS AND SUPPLIES**

9 Q. What are considered materials and supplies expenses?

10 A. Materials and supplies consist of everyday tools, or items that Liberty Midstates
11 might need on a daily basis to provide service to its ratepayers. Materials and supplies are items
12 such as tools, equipment, spare parts, etc.

13 Q. Does Liberty Midstates maintain a level of materials and supplies in each
14 of its districts?

15 A. Historically, Liberty Midstates has not maintained a level of materials and
16 supplies inventory, but rather utilizes a consignment process where a third party owns the
17 materials in Liberty Midstates’ storerooms and bills Liberty Midstates weekly for the materials
18 used in functional jobs or specific projects. As discussed below, Liberty Midstates still utilizes
19 that practice but now also maintains materials and supplies in WEMO.

20 Q. How does Liberty Midstates track the use of its materials and supplies?

21 A. Liberty Midstates uses a third-party integrator, McJunkin Redman, to track its
22 materials and supplies.

23 Q. Does Liberty Midstates actually own any materials and supplies?

1 A. In late 2022, Liberty Midstates began to purchase materials separately
2 (not part of the consignment process) to be used in case of shortages resulting from Covid-19.
3 This material is maintained in a separate ledger account and housed offsite in a McJunkin
4 Redman facility. In Liberty Midstates' response to Staff data request 310, which states that due
5 to shortages from Covid-19 it ordered materials and supplies that its third-party supplier did not
6 have available. However, many of the materials and supplies that were ordered in late 2022
7 were placed on backorder and arrived in July of 2023; that balance has been maintained since
8 that time.

9 Q. What is Staff's recommendation on materials and supplies?

10 A. Since the balance has been maintained since July 2023, Staff recommends to
11 include a level of materials and supplies based on December 31, 2023.

12 **PREPAYMENTS**

13 Q. What are prepayments?

14 A. Prepayments represent payment for a good or service prior to the period the good
15 or service is received. It is an investment of funds included in rate base, if that investment has
16 not been recognized elsewhere, such as in cash working capital.

17 Q. Does Staff propose an adjustment to pre-payments?

18 A. Yes. Staff proposes to remove the PSC Assessment from prepayments.
19 This consistent with Staff's position in Liberty Midstates last rate case in 2018.

20 Q. Why did Staff exclude the PSC Assessment from prepayment balances?

21 A. During the course of Staff's review of pre-payment amounts, Staff discovered
22 that Liberty Midstates included the PSC assessment in prepayments as well as in its payment
23 lag calculation as part of its overall calculation of cash working capital. Staff's position is that

1 it is inappropriate to include the PSC assessment in both rate base calculations because the
2 Company should not be able to earn a return on the PSC assessment in prepayments and also
3 cash working capital. Therefore, Staff excluded the PSC assessment from the calculation of
4 prepayments, but included it in Staff's cash working capital analysis. For more information on
5 cash working capital, please see Staff witness Paul Amenthor's direct testimony.

6 **CUSTOMER DEPOSITS AND INTEREST**

7 Q. What are customer deposits?

8 A. Customer deposits are funds received from the utility company's customers as
9 security against potential loss arising from a customer's failure to pay for utility service.
10 Until refunded, customer deposits represent a source of funds available to the company and are
11 included as an offset to the rate base investment.

12 Q. What is Staff's recommendation on customer deposits?

13 A. Staff included a 13-month average of customer deposits ending
14 December 31, 2023, as a reduction to rate base.

15 Q. How did Staff calculate the interest on customer deposits it proposes to include
16 in the cost of service?

17 A. Liberty Midstates' tariff states that interest on deposits shall be paid at the per
18 annum rate equal to the prime bank lending rate as of the last business day in December of the
19 prior year plus one percentage point. The current prime rate as of May 20, 2024, was 8.50%¹,
20 plus 1%, for a total of 9.50%. This was also the prime rate on the last business day in
21 December, 2023. Staff applied this prime rate to its 13-month average balance of customer
22 deposits in this case to determine an annual level of customer deposit interest expense.

¹ Forbes.com, The Wall Street Journal's Money Rates table.

1 **CUSTOMER ADVANCES**

2 Q. Please explain customer advances.

3 A. Customer advances are funds received by the company from customers to
4 finance the cost of a portion of plant. Customer advances occur when a new customer is not
5 near any existing utility facilities or requires unusual facilities. The customer is required to pay
6 an advance to the utility for the cost to construct the plant necessary to connect to the system.
7 Like customer deposits, customer advances are available for use by the utility. Unlike customer
8 deposits, no interest is paid to customers for the use of this money. Since these funds represent
9 interest-free money to the company, it is appropriate to include these funds as a reduction,
10 or offset, to rate base in order to ensure that the utility does not earn a return on the value of the
11 level of advances until the time that the utility eventually returns a least a portion of the
12 funds advanced.

13 Q. Please provide Staff's recommendation on customer advances.

14 A. During its analysis, Staff recognized a downward trend in customer advances
15 since February 2023. Consequently, Staff has included the last known balance for customer
16 advances as of December 31, 2023, for each district (WEMO, SEMO, and NEMO).

17 **CAPITALIZED O&M DEPRECIATION**

18 Q. What is capitalized O&M depreciation, and why must an adjustment be made to
19 account for it?

20 A. A portion of depreciation expense, related to power-operated equipment and
21 transportation equipment, for Liberty Midstates is calculated based on assets that are used in
22 both capital projects and maintenance expense. The capital portion of depreciation must be

1 removed from the annualized depreciation expense, as of December 31, 2023, for these
2 accounts in order to prevent double recovery in rates.

3 Q. What is Staff's recommendation on capitalized O&M depreciation.

4 A. Liberty Midstates has assets in FERC accounts 392, 394, and 396 that are used
5 in both capital projects and maintenance projects. Staff has removed the capital portion of
6 annualized depreciation expense as that portion is already attributed to capital within rate base
7 when Staff updates its plant and reserve balances to December 31, 2023.

8 **NATURAL GAS STORAGE INVENTORY**

9 Q. What is gas storage inventory?

10 A. Natural gas inventory represents an investment by Liberty Midstates and is
11 seasonal in nature, in that gas inventory volumes increase throughout the summer as gas is
12 injected into storage, then decreases throughout the winter as gas is withdrawn or consumed.
13 The pipeline gas inventory represents an investment by Liberty Midstates. Since the funds are
14 expended by the Company to invest in gas inventory, it is included as an addition to rate base
15 which allows Liberty Midstates an opportunity to earn a return on its investment.

16 Q. What is Staff's recommendation for gas inventory?

17 A. Staff recommends a gas inventory level based on a 13-month average of
18 month-ending balances ending December 31, 2023.

19 **INSURANCE EXPENSE**

20 Q. What types of insurance does Liberty Midstates maintain?

21 A. Insurance expense is the cost paid to third party insurers for protection against
22 the risk of financial loss associated with unanticipated events or occurrences. Utilities, like

1 non-regulated entities, routinely incur insurance expense in order to minimize their liability
2 (and, potentially, that of their customers) associated with unanticipated losses.

3 Liberty Midstates' insurance expenses consist of the following types of coverage:

- 4 • Directors' and Officers' Liability Insurance;
 - 5 • Workers' Compensation - covers all employees;
 - 6 • General and Excess Liability – all liability claims against the company;
 - 7 • Property – covers tangible property; and
 - 8 • Fiduciary Liability – general coverage including theft, forgery, fraud, terrorism.
- 9

10 Q. What amount has Staff included in the cost of service for insurance expense?

11 A. As insurance is an ongoing and normal expense of a utility, Staff reviewed all
12 insurance policies and has adjusted test year insurance costs to reflect all annual premiums that
13 were in effect at December 31, 2023.

14 Q. Does this conclude your direct testimony?

15 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 BLAIR HARDIN

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

COMES NOW BLAIR HARDIN and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct Testimony of Blair Hardin*; and that the same is true and correct according to her best knowledge and belief.


Further the Affiant sayeth not.



BLAIR HARDIN

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.



Notary Public



Blair A. Hardin

Present Position:

I am a Utility Regulatory Auditor, Auditing Department, Financial & Business Analysis Division of the Missouri Public Service Commission. As a Utility Regulatory Auditor, I assist in research and analysis of the financial aspects of public utility operations. I am responsible, in part, for assisting with the audit and examination of the books and records of utilities that operate within the State of Missouri. I also sponsor testimony and recommendations as an expert witness in Commission proceedings.

Educational Credentials and Work Experience:

I received a Bachelor of Science degree in business administration with a minor in business law from Southeast Missouri State University in December of 2023. I have been employed by the Missouri Public Service Commission since December 2023.

Prior to my present position I worked part-time as an intern for the Commission's St. Louis office from September 2023-December 2023. My tasks as an intern included reviewing testimony, workpapers, as well as learning regulatory terminology and ratemaking methodology.