

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of The Empire)
District Electric Company, The Empire District)
Gas Company, Liberty Utilities (Midstates Natural) **File No. AO-2018-0179**
Gas) Corp., and Liberty Utilities (Missouri Water))
LLC for an Affiliate Transactions Rule Variance)

RESPONSE TO ORDER DIRECTING FILING

COME NOW Staff of the Missouri Public Service Commission (“Staff”) and The Empire District Electric Company, The Empire District Gas Company, Liberty Utilities (Midstates Natural Gas) Corp., and Liberty Utilities (Missouri Water) LLC (collectively “Applicants”) and for their *Response to Order Directing Filing*, state as follows:

1. An evidentiary hearing was held in this matter on June 27, 2019. On June 28, 2019 the Commission directed the parties to respond, by July 12, 2019, to potential conditions the Commission discussed during the hearing.

2. As detailed below, Staff and Applicants find the Commission’s potential conditions acceptable and suggest language.

3. At page 120 of the transcript, Commissioner Hall asks Mr. Murray about modifying paragraph 6(a) of the *Nonunanimous Stipulation and Agreement* (“Stipulation”) to make it more internally consistent:

Q. If you could look at provision 6(a) on page 3.

A. Yes.

Q. I want to understand your sense as to whether there’s a difference between interest rate and actual interest cost as those two phrases are used in that provision.

A. No, I don’t believe there’s a difference.

Q. And so there’s no reason for those to have different words? It could be actual interest costs in both places? It would have the same effect in your view?

Staff and Applicants suggest that paragraph 6(a) be modified as follows:

Applicant utilities may borrow from the Money Pool only if the interest ~~rate~~ cost on borrowing from the Money Pool does not exceed the actual interest cost for the funds obtained or used to provide the funds borrowed by the Applicant Utility.

4. At page 87 of the transcript during his questions to Mr. Timpe, on page 113 during his questions to Ms. Bolin, and on page 132 during his questions to Mr. Schallenberg, Commissioner Hall asks about modifying the Stipulation to make clear that the LUCo Money Pool is not a profit center for LUCo:

Q. Is there a way that we could make that clearer such that it being a condition of the variance that LUCo doesn't benefit financially from the applicants' participation in the fund?

Q. And one of the things I asked [Mr. Timpe] is whether or not applicants would be comfortable with some type of condition on the -- on the granting the variance that would in essence prevent LUCo from turning this money pool into a profit center.

Q. If there was a condition put in place with the granting of the variance at issue in this case that prevented LUCo from turning the money pool into a profit center, would -- and I don't know how exactly that would be worded.

Staff and Applicants suggest that the following language be added to paragraph 6(a):

Applicant Utilities may borrow from the Money Pool only if the interest ~~rate~~ cost on borrowing from the Money Pool does not exceed the actual interest cost for the funds obtained or used to provide the funds borrowed by the Applicant Utility. The Money Pool is designed to benefit all participants but shall not be operated as a profit center for LUCo. A reduction in LUCo's interest expense shall not be considered "profit."

5. At page 86 of the transcript during his questions to Mr. Timpe, on pages 120-121 during his questions to Mr. Murray, and on page 135 during his questions to Mr. Schallenberg, Commissioner Hall asks about modifying paragraph 6(b) of the Stipulation to make it more objective:

Q. What I'm wondering is your position on this provision: Applicant utilities may not borrow from the money pool if the applicant utility could have borrowed at a lower cost directly from outside banks or other third party financial institutions or through the sale of its own commercial paper.

Q. And then moving on to 6(b) on that same page, what would your position be if a condition was put in place on the granting of the variance that modified this provision so that it read applicant utilities may not borrow from the money pool if the applicant utility could have borrowed at a lower cost directly from outside banks or et cetera?

Q. So if there was a modification to the stipulation, and I'm referring to 6(b) on page 3, and by modification, I mean a condition put in place by the Commission with regards to the variance request at issue here, if that was changed so that it read applicant utilities may not borrow from the money pool if the applicant utility could have borrowed at a lower cost directly from outside banks or other third party financial institutions, why does that not address your concern?

Staff and Applicants suggests this language:

Applicant Utilities may not borrow from the Money Pool if the Applicant Utility ~~determines that it can~~ could borrow at a lower cost directly from outside banks or other third party financial institutions or through the sale of its own commercial paper.

6. Staff and Applicants have common ground in their responses to the Commission's potential conditions. However, there is not common ground between Staff and Applicants and the Office of Public Counsel.

7. For these reasons, Staff and Applicants will file post-hearing briefs by July 18, 2019 and request a Commission Report and Order.

WHEREFORE Staff and Applicants submit the foregoing *Response to Order Directing Filing*.

Respectfully submitted,

/s/ Karen E. Bretz

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been electronically mailed to all counsel of record this 12th day of July, 2019.

/s/ Karen Bretz