

Exhibit No.:
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Rate Case Expense, Management
Expenses, ISRS Reconciliation,
Capitalized Depreciation.
Witness; Charles Evans
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Liberty Utilities
(Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Case No: GR-2018-0013
Date Testimony Prepared: May 9, 2018

**Before the Public Service Commission
of the State of Missouri**

Surrebuttal Testimony

of

Charles Evans

On behalf of

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

May 2018



SURREBUTTAL TESTIMONY
OF
CHARLES EVANS
LIBERTY UTILITIES
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. GR-2018-0013

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SURREBUTTAL TESTIMONY OF
CHARLES EVANS
LIBERTY UTILITIES
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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1 **I. WITNESS IDENTIFICATION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Charles Evans. My business address is 2751 North High Street,
4 Jackson, Missouri.

5 **Q. ARE YOU THE SAME CHARLES EVANS WHO PREVIOUSLY FILED**
6 **DIRECT, REBUTTAL AND DIRECT TRUE-UP TESTIMONY IN THIS**
7 **PROCEEDING ON BEHALF OF LIBERTY UTILITIES?**

8 A. Yes I am.

9 **II. PURPOSE OF TESTIMONY**

10 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN**
11 **THIS PROCEEDING?**

12 A. The purpose of my surrebuttal testimony is to address a number of the
13 recommendaions made or positions taken by witnesses for the Staff of the
14 Missouri Public Service Commission (“Staff”) and the Office of the Public
15 Counsel (“OPC”) in their rebuttal testimony on a number of discrete issues.
16 These include recommendaions that have been made regarding weather
17 normalization, rate case expense, management expenses, the ISRS reconciliation
18 and capitalized depreciation.

1 **Q. WILL SOME OF THESE ISSUES ALSO BE ADDRESSED BY OTHER**
2 **COMPANY WITNESSES?**

3 A. Yes, and I will identify who those witnesses are in my discussion of specific
4 issues.

5 **III. RESPONSE TO SPECIFIC ISSUES**

6 **A. Weather Normalization**

7 **Q. WHAT IS YOUR UNDERSTANDING OF THE RECOMMENDATIONS**
8 **BEING MADE BY THE STAFF RELATING TO WEATHER**
9 **NORMALIZATION?**

10 A. Staff noted several areas where they disagreed with the assumptions and
11 methodology used by the Company, including, among others, (1) the use of
12 customers as a variable in regression analysis, (2) the use of 10 years of historical
13 usage data, and (3) the use of the Kansas City weather station for purposes of
14 deriving the weather normal for WEMO.

15 **Q. WHAT IS THE COMPANY'S POSITION REGARDING STAFF'S**
16 **RECOMMENDATIONS ON THESE MATTERS?**

17 A. The Company generally disagrees with much of the criticism levied by Staff
18 regarding its weather normalization analysis. Furthermore, the Company finds
19 that projecting a warming period, or arbitrarily shortening the timeframe for the
20 use of historical data as suggested by Staff, could lead to some problematic results
21 as well. While temperatures overall seem to have "warmed" over the last few
22 years, there is no guarantee that will continue. However, the Company does not
23 believe these differences are significant as the adoption of the Weather

1 Normalization Adjustment Rider (“WNAR”), as proposed by Staff and extended
2 to the SGS class as recommended by the Company, would largely alleviate most
3 of these concerns.

4 **Q. IS THERE ANYTHING ELSE YOU WOULD LIKE TO ADDRESS**
5 **REGARDING WEATHER NORMALIZATION?**

6 A. Yes, Staff also addressed the weather stations and time series used in the weather
7 normalization analysis conducted by the Company. Specifically, the Staff
8 criticized the use of a Kansas City Airport weather station for the WEMO
9 jurisdiction and, in general, the use of data from the National Oceanic and
10 Atmospheric Administration (“NOAA”). Staff also noted that the Company did
11 not analyze anomalies in the data extracted from NOAA.

12 **Q. WHAT IS THE COMPANY’S POSITION REGARDING STAFF’S**
13 **RECOMMENDATION?**

14 A. The Company opted to use the daily NOAA data set to ensure that the years 2011-
15 2017 were represented in the analysis. The Company continues to believe that the
16 use of such data is appropriate. The Company also believes it was appropriate to
17 use data from the Kansas City Airport weather station given its proximity to the
18 WEMO district. I would again note however, that the Company does not believe
19 these differences are significant since adoption of an WNAR, as proposed by
20 Staff and extended to the SGS class as recommended by the Company, would
21 largely alleviate any concerns the Company might have regarding normalization
22 techniques.

23

1 **B. Rate Case Expense**

2 **Q. WHAT IS YOUR UNDERSTANDING OF THE RECOMMENDATIONS**
3 **BEING MADE BY THE OFFICE OF THE PUBLIC COUNSEL (“OPC”)**
4 **RELATING TO RATE CASE EXPENSE?**

5 A. In her rebuttal testimony, OPC witness Amanda Conner stated OPC’s support for
6 Staff’s position on this issue which proposes a sharing of rate case expense
7 between shareholders and customers according to the percentage of the utility’s
8 rate increase that is ultimately awarded by the Commission.

9 **Q. WHAT IS THE COMPANY’S POSITION REGARDING THE SHARING**
10 **MECHANISM?**

11 A. For the reasons stated in my rebuttal testimony, the Company does not believe
12 there is any basis upon which it should be required to absorb any portion of the
13 rate case expense it has incurred to conduct this proceeding.

14 **Q. ARE THERE UNIQUE REASONS THAT MAKE THE APPLICATION OF**
15 **AN EXPENSE “SHARING” PROPOSAL INAPPROPRIATE IN THE**
16 **CASE OF LIBERTY UTILITIES?**

17 A. Yes. These reasons have been articulated in my rebuttal testimony previously and
18 there is nothing in Ms. Conners’ rebuttal testimony that would suggest these
19 considerations are not valid. In addition, the Company believes that the relatively
20 small shift in the requested increase between direct and true-up testimony further
21 supports its stance in this matter.

22 **Q. DO YOU BELIEVE THE COMPANY IS REASONABLE AND PRUDENT**
23 **IN ITS MANAGEMENT OF RATE CASE EXPENSE?**

1 A. Yes. As stated in my rebuttal testimony, we believe that the approach Liberty
2 Utilities has taken over the years is economical, efficient and right for us. OPC
3 has described the Company's actual rate case expense as "overinflated" when
4 comparing the actuals to estimated figures. The Company finds this
5 characterization to be unnecessarily pejorative. The Company updates its rate
6 case expense based on actual expenses as they become available during the rate
7 case. Those expenses can vary based on the issues raised, whether the case is
8 settled or proceeds to litigation. But they are reasonable and prudent and nothing
9 has been presented by Ms. Conner to suggest they aren't.

10 **Q. IS OPC'S CHARACTERIZATION OF THE COMPANY**
11 **OVERINFLATING ACTUAL RATE CASE EXPENSE IN ITS IOWA**
12 **RATE CASE ACCURATE?**

13 A. No. While Ms. Conner accurately describes the fact that the Company's direct
14 filing in its Iowa rate case (Docket No. RPU-2016-003) included estimated rate
15 case expense based on its belief that it would reach an early settlement, she fails
16 to mention the ultimate decision of the Iowa Utilities Board ("Board") in that
17 case, which was further upheld by the Iowa District Court.

18 **Q. WHAT WAS THE BOARD'S DECISION REGARDING RATE CASE**
19 **EXPENSE IN THE COMPANY'S RATE CASE?**

20 A. Although the Board agreed that it was appropriate to disallow a portion of the
21 Company's actual rate case expense as being unreasonable and unjust on the basis
22 that it denied other parties and the Board an opportunity to consider the
23 reasonableness of the Company's rate case expense at the hearing, in the end the

1 Board only disallowed \$25,000 of rate case expense. The Board concluded it was
2 reasonable and just for the Company to recover 97% of its actual rate case
3 expense incurred in that case. Furthermore, the Iowa District Court fully and
4 thoroughly affirmed the Board's decision on the Company's rate case expense.

5 **Q. IS THE COMPANY'S ESTIMATE OF RATE CASE EXPENSE IN THIS**
6 **CASE BASED ON ANY EXPECTATION OF AN EARLY SETTLEMENT?**

7 A. No.

8 **C. Management Expenses**

9 **Q. WHAT IS YOUR UNDERSTANDING OF THE RECOMMENDATIONS**
10 **BEING MADE BY OPC REGARDING MANAGEMENT EXPENSES?**

11 A. Ms. Conner disallowed meal or transportation expenses because in her view they
12 were not necessary to provide utility service or involved the possible purchase of
13 an alcoholic beverage as part of a meal. OPC used a rather rudimentary method
14 of analyzing the expense reports of 6 management employees to quantify an
15 "average" disallowance per employee and then extrapolated this average to
16 management employees to derive an overall proposed disallowance.

17 **Q. DO YOU AGREE WITH THE DISALLOWANCES PROPOSED BY OPC**
18 **FOR THE 6 SPECIFIC EMPLOYEES?**

19 A. No. While the Company has no objection to excluding alcohol related meal
20 expenses from rates, Ms. Conner's disallowance of all meal expenses, for
21 example, where an alcoholic beverage may have been purchased (but was not
22 separately accounted for, seems extreme. Many other expenses cited by Ms.
23 Conner were reasonable business expenses, but the Company is willing to accept

1 her exclusion of them as a means of limiting the issues that may need to be
2 litigated in this case. The Company continues to oppose, however, Ms. Conner's
3 disallowance of business expenses based on her method of quantifying an average
4 disallowance for 6 management employees and then extrapolating that
5 disallowance to the expenses of all employees. Such approach is statistically
6 flawed, does not take into account differences in the work done by other
7 employees and how their business expenses relate to that work, and says nothing
8 about the propriety of the expense accounts incurred by these employees.

9 **D. ISRS Reconciliation**

10 **Q. WHAT IS YOUR UNDERSTANDING OF THE RECOMMENDATIONS**
11 **BEING MADE BY THE OFFICE OF THE PUBLIC COUNSEL**
12 **REGARDING AN ISRS RECONCILIATION?**

13 A. OPC and Staff support the position that the Company should submit an ISRS
14 reconciliation as part of its next ISRS filing.

15 **Q. WHAT IS THE COMPANY'S POSITION REGARDING THESE**
16 **RECOMMENDATIONS?**

17 A. The Company agrees with Staff and OPC. As of March 31, 2018, the Company
18 has an ISRS under-recovery of \$81,662 and agrees that it should perform a
19 reconciliation and any final over/under recovery should be included as an
20 adjustment in its next ISRS filing.

21 **E. Capitalized Depreciation**

22 **Q. DID YOU REVIEW THE REBUTTAL TESTIMONY OF OPC WITNESS**
23 **JOHN ROBINETT?**

1 A. Yes. While Company witness Dane Watson will address most of the
2 recommendations made by Mr. Robinett relating to depreciation issues, I want to
3 make sure that Mr. Robinett's apparent recommendation that there be no change
4 in depreciation rates does not have an inadvertent impact on the issue I addressed
5 relating to the capitalization of depreciation on buildings used to house equipment
6 used for capital work. As I explained in my rebuttal testimony, there are sound
7 reasons for capitalizing such depreciation in the manner proposed by the
8 Company. In fact, capitalizing depreciation on buildings that have equipment or
9 employees who perform capital work is a practice that is not only followed by the
10 Company in Missouri but also a practice that it has followed – without objection I
11 might add – in other regulatory jurisdictions in which the Company operates. The
12 Company accordingly believes that this practice should be continued. At a
13 minimum, however, if the Commission concludes that there should be any change
14 in the capitalization treatment of such depreciation on buildings, it should only be
15 done prospectively. I should note that the Company's revenue requirement would
16 also need to be modified to reflect the additional depreciation expense resulting
17 from a change.

18 **Q. DOES THIS MEAN THAT THE COMPANY'S CAPITALIZATION OF**
19 **SUCH DEPRECIATION RESULTS IN A LOWER REVENUE**
20 **REQUIREMENT IN THIS CASE?**

21 A. Yes. If the Company would be willing to revise its practice on a going basis, it
22 should be recognized that the approach currently followed by the Company
23 results in lower rates for its customers. This is another factor that the

1 Commission should take into consideration in determining how this issue should
2 be resolved.

3 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

4 A. Yes, it does.

AFFIDAVIT OF CHARLIE EVANS

STATE OF MISSOURI)
) ss
COUNTY OF CAPE GIRARDEAU)

On the 8th day of May, 2018, before me appeared Charlie Evans, to me personally known, who, being by me first duly sworn, states that he is Manager of Special Projects of Liberty Utilities – Central Region and acknowledges that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.



Charlie Evans

Subscribed and sworn to before me this 8th day of May, 2018.



Notary Public

My commission expires: May 2, 2020

