Exhibit No.: _____
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Witness: Timothy S. Lyons
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Sponsoring Party: Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty
Case No.: GR-2024-0106
Date Testimony Prepared: August 2024

Before the Public Service Commission of the State of Missouri

Rebuttal Testimony

of

Timothy S. Lyons

on behalf of

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

August 22, 2024

Liberty™

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Timothy S. Lyons. My business address is 3 Speen Street, Suite 150, Framingham, Massachusetts 01701.

Q. Are you the same Timothy S. Lyons who provided direct testimony in this matter on behalf of Liberty Utilities (Midstates Natural Gas) Corp. ("Liberty" or the "Company")?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony ("Rebuttal Testimony") is to address on behalf of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty ("Liberty" or the "Company") recommendations by Lisa Ferguson on behalf of the Missouri Public Service Commission Staff ("Staff") regarding the Company's cash working capital ("CWC") requirement as well as recommendations by Claire M. Eubanks and Michael L. Stahlman on behalf of Staff regarding the Company's class cost of service study ("COSS") and rate design.

Q. Have you prepared schedules supporting your rebuttal testimony?

A. Yes, I have prepared two schedules supporting my rebuttal testimony. **Rebuttal Schedule TSL-1** shows the impact of Staff's proposed changes to the CWC requirement. **Rebuttal Schedule TSL-2** shows the Company's recommended CWC requirement filed in rebuttal testimony. The Rebuttal Schedules were prepared by me or under my direction.

II. RESPONSE TO STAFF WITNESS FERGUSON

Q. What is Staff witness Ferguson's recommendation regarding the Company's CWC requirement?

A. Ms. Ferguson recommends the Company increase lead days for federal and state income tax payments from 37 days to 365 days.[1] Ms. Ferguson's recommendation is based on the Commission's order in Spire Missouri's rate case in GR-2021-0108 that found it appropriate to utilize lead days for federal and state income tax payments of 365 days because the Company was not required to make income tax payments in the test year or true-up period.[2] Ms. Ferguson states the Company is in a similar situation as Spire Missouri in not having to make income tax payments in the future since the Company has available a large net operating loss carryforward ("NOLC") balance.

Q. What is the impact of Ms. Ferguson's recommendation?

A. Ms. Ferguson's recommendation to increase lead days for federal and state income tax payments from 37 days to 365 days changes the Company's CWC requirement from (negative) $1,921,592 to (negative) $1,764,451 based on the Company's adjusted test year expenses filed in direct testimony, as shown in **Rebuttal Schedule TSL-1**.

Q. Does the Company agree with Ms. Ferguson's recommendation?

A. No. The Company does not agree with an increase in lead days for federal and state tax payments from 37 days to 365 days because it does not reflect the Internal Revenue Service's ("IRS") payment schedule for income taxes in accordance with IRS

[1] Testimony of Lisa Ferguson, pp. 65-66.
[2] Id.

Publication 542.[3] Specifically, IRS Publication 542 states that estimated tax payments are due by the 15th day of the 4th, 6th, 9th, and 12th month of a corporation's tax year. For the Company's tax year ending December 31, the estimated tax payments are due April 15th, June 15th, September 15th, and December 15th. These payment dates were used to develop the Company's lead days for income tax payments in this rate case proceeding.

Q. What is the Company's recommendation regarding the CWC requirement?

A. The Company recommends a CWC requirement of (negative) $841,258, as shown in **Rebuttal Schedule TSL-2**. The Schedule is based on the Company's proposed lead-lag days and the Company's adjusted test year expenses filed in rebuttal testimony.

III. RESPONSE TO STAFF WITNESS EUBANKS

Q. What are Staff witness Eubanks' recommendations regarding the Company's classification and allocation of certain distribution plant in the COSS?

A. Ms. Eubanks recommends changes to the Company's classification and allocation of certain distribution plant, primarily distribution mains (FERC account 376), meters (FERC account 381), and services (FERC account 380).

Q. What are Ms. Eubanks' recommendations regarding classification and allocation of distribution mains?

A. Ms. Eubanks recommends three changes to the Company's classification and allocation of distribution mains. First, Ms. Eubanks utilizes data for the classification of distribution mains that is different than what the Company presented in direct testimony.[4]

[3] https://www.irs.gov/pub/irs-pdf/p542.pdf
[4] Testimony of Claire M. Eubanks, P.E., p. 2.

Second, Ms. Eubanks recommends that the estimated cost of a minimum size main be based on mains that are two inches or less. By comparison, the Company's estimated cost of a minimum size main was based on plastic mains that are two inches.[5]

Third, Ms. Eubanks recommends separate classification and allocation of distribution mains for the NEMO/WEMO and SEMO service areas. The recommendation reflects Staff's approach to prepare three COSS studies: one each for the NEMO/WEMO and SEMO service areas and a third for the combined Missouri service area.[6]

By comparison, the Company prepared a single COSS study that reflects consolidation of all customers in the Missouri service area. The Company's approach is consistent with its goal of achieving a single set of distribution base rates for all customers in the Missouri service area, subject to bill continuity considerations.

Q. Does the Company have concerns with Ms. Eubanks' data for the classification of distribution mains?

A. Yes. The data used for the classification of distribution mains are not consistent with the Company's data. For example, the data show a vintage year of 1998 for most 12" steel mains while the Company's data shows vintage years ranging from 1955 to 2006. The difference in vintage years results in a lower adjusted cost for steel mains and higher minimum system percentage in Staff's study as compared to the Company's study.

Q. Does the Company have concerns with Ms. Eubanks' estimated cost of a minimum size main based on distribution mains that are two inches or less?

[5] Id. p. 5.
[6] Id. p. 6.

A. No. The Company does not have concerns with Ms. Eubanks' estimated cost of a minimum size main based on distribution mains that are two inches or less; however, Staff and the Company's approaches are substantially similar since 2" mains represent 96.40 percent of mains that are 2" or less.

As noted earlier, however, the Company has concerns with Staff's approach to prepare separate COSS studies for the NEMO/WEMO and SEMO service areas. The Company views the combined Missouri service area as a single operating area for purposes of distribution planning, facility investments, and operations and maintenance activities and thus the Company's goal is to achieve a single set of distribution base rates for all customers in the Missouri service area.

Q. What are Ms. Eubanks' recommendations regarding allocation of service lines and meters to each rate class?

A. Ms. Eubanks recommends separate allocation of meters and services for the NEMO/WEMO and SEMO service areas. The recommendation again reflects Staff's approach to prepare three COSS studies.

Q. Does the Company have concerns with Ms. Eubanks' meter study used to allocate meter plant to each rate class?

A. Yes. Staff's meter study allocates the "unidentified" portion of meter costs based on the number of meters in each rate class.[7] This approach disproportionately allocates more cost to those rate classes with a higher number of meters, primarily the residential class. The Company recommends allocation of the "unidentified" portion of meter costs based on the "identified" portion of meter costs rather than number of meters.

[7] Id. p. 7.

The Company's recommended approach results in percentages that are substantially similar to the results of the Company's meter study, as shown in Figure 1 (below).

Figure 1: Comparison of Meter Study Results

Meter Study	RS	SGS	MGS	LGS	SPECIAL	IN	Total
Staff	80.83%	11.82%	6.62%	0.60%	0.07%	0.07%	100.00%
Adjusted Staff	65.69%	12.61%	19.27%	1.98%	0.23%	0.21%	100.00%
Company	63.38%	13.89%	20.29%	2.23%	0.21%	0.00%	100.00%

Q. Does the Company have concerns with Ms. Eubanks' services study used to allocate services plant to each rate class?

A. Yes. The Company has concerns with the data used in Staff's services study. Staff's services study is based on service costs that are substantially different than those in the Company's service study, as shown in Figure 2 (below).

Figure 2: Comparison of Cost per Service[8]

Cost per Service	Staff	Company
<1"	$484	$996
2"	$33,402	$1,450
4"	$591	$3,670
6"	$120,986	$7,340

Specifically, Staff's study utilizes a cost per 2" service of $33,402 as compared to the Company's cost per 2" service of $1,450. Staff's study also utilizes a cost per 6" service of $120,986 as compared to the Company's cost per 6" service of $7,340.

Staff's study when adjusted to reflect the Company's cost per service results in service cost allocations that are substantially similar to the results of the Company's services study, as shown in Figure 3 (below).

[8] Staff's workpaper, "Meters_Services Allocator_7-24.xlsx".

Figure 3: Comparison of Services Study Results

Service Study	RS	SGS	MGS	LGS	SPECIAL	IN	LV	Total
Staff	62.36%	8.47%	26.81%	1.77%	0.21%	0.08%	0.29%	100.00%
Adjusted Staff	86.31%	11.19%	2.15%	0.25%	0.02%	0.03%	0.05%	100.00%
Company	86.31%	11.22%	2.18%	0.26%	0.02%	0.00%	0.00%	100.00%

IV. RESPONSE TO STAFF WITNESS STAHLMAN

Q. What are Staff witness Stahlman's recommendations regarding the Company's COSS and rate design?

A. Mr. Stahlman recommends the following changes to the Company's COSS and rate design.

- Prepare three COSS studies: one each for the NEMO/WEMO and SEMO service areas, and a third for the combined Missouri service area.[9]
- Include special contract customers as a separate rate class in the COSS studies.[10]
- Increase residential rates in the NEMO/WEMO service area by a higher percentage than residential rates in SEMO service area based on the results of the COSS studies.[11]
- Ensure no rate class receives a rate decrease in the context of an overall rate increase.[12]
- Implement higher delivery charges in the NEMO/ WEMO service area during the summer months than winter months.[13]

While Mr. Stahlman does not recommend consolidating the medium, large, and interruptible rate classes, he does state that if Staff were to recommend consolidation

[9] Testimony of Michael L. Stahlman, p. 5.
[10] Id.
[11] Id. p. 7.
[12] Id. p. 8.
[13] Id. p. 9.

of the large and interruptible rate classes then Staff would recommend moving to the higher rates of the respective rate classes and the utilize the higher revenues to mitigate the overall rate impact on residential and small general service customers.

Q. As an initial matter, does the Company have concerns with the billing determinants in Staff's COSS studies?

A. Yes. The Company has concerns with the billing determinants in Staff's COSS studies. Specifically, Staff's billing determinants reflect a higher use per customer than the Company's billing determinants included in its COSS study, as shown in Figure 4 (below).

Figure 4: Comparison of Staff and Company Billing Determinants

Liberty Utilities (Midstates Natural Gas): MO Comparison of Bills and Usage	Total Company	Residential RS	Small General Srv SGS	Medium General Srv MGS	Large General Srv LGS	Large Volume/ Interruptible LV/ IN	Special Contract
Bills							
Staff Number of Bills	626,604	543,977	71,377	10,687	414	48	101
Company Number of Bills	632,533	549,806	71,445	10,720	514	48	-
Difference	(5,929)	(5,829)	(68)	(33)	(100)	-	101
Volumes (CCF)							
Staff Volumes	85,550,371	32,229,617	10,021,031	10,921,906	17,102,457	1,802,030	13,473,330
Company Volumes	73,858,038	29,824,225	9,082,268	10,506,555	22,752,220	1,692,770	-
Difference	11,692,333	2,405,391	938,763	415,351	(5,649,763)	109,260	13,473,330
Volumes per Customer (CCF)							
Staff Volumes	136.5	59.2	140.4	1,022.0	41,310.3	37,542.3	133,399.3
Company Volumes	116.8	54.2	127.1	980.1	44,265.0	35,266.0	-
Difference (CCF)	**19.8**	**5.0**	**13.3**	**41.9**	**(2,954.7)**	**2,276.3**	**133,399.3**
Difference (%)	**16.9%**	**9.2%**	**10.4%**	**4.3%**	**-6.7%**	**6.5%**	**0.0%**

Source for Company Bills and Volumes in Company workpaper "Liberty MO COSS and Rate Design Model_vFinal.xlsx", sheet "Input Revenues (Sch. 3)"
Source for Staff Bills and Volumes in Staff workpaper "CCOS_Total.xlsx", sheet "Input"

The Figure shows Staff's residential use per bill of 59.2 CCF as compared to the Company's residential use per bill of 54.2 CCF, or an increase of 9.20 percent. The Figure also shows Staff's small general service use per bill of 140.4 CCF as compared to the Company's small general service use per bill of 127.1, or an increase of 10.4 percent.

The billing determinants reflect normal use per bill; consequently, the difference in use per bill is not due to colder- or warmer-than-normal weather. While Staff's billing determinants are based on the 2023 update period and the Company's billing determinants are based on the 2022 test year period, the billing period differences alone do not explain the differences in use per bill.

Q. **Then what explains the differences in use per bill? Are customers using more natural gas?**

A. No. Customers are not using more natural gas. The differences in use per bill can be explained by a one-time change in the Company's meter reading schedule. Specifically, there was a one-time change in the Company's meter reading schedule that resulted in customer bills that reflected an unusually high number of billing days and thus unusually high customer usage. Typically, customer bills reflect usage based on 26 to 34 billing days. However, as a result of a one-time change in the Company's meter reading schedule, customer bills in October 2023 through December 2023 reflected usage based on billing days well in excess of 34 days, resulting in customer usage well in excess of the typical levels.

Consequently, customer bills and usage during the 2023 update period – the basis for Staff's billing determinants – reflects billing days well in excess of 365 days.

Q. **Why is this issue a concern?**

A. This issue is a concern because the Company's rates during the effective period of the new rates will under-recover the Commission-authorized revenue requirement if the Company sets rates based on Staff's billing determinants.

Staff's billing determinants overstate customer usage during the effective period of the new rates because the billing determinants reflects a one-time change in the meter reading schedule. Going forward and during the effective period of the new rates, customer bills and usage will reflect billing days of approximately 365 days rather than the higher level of usage reflected in Staff's billing determinants. In other words, Staff's billing determinants are based on an anomaly in usage during the 2023 update period that will not occur during the effective period of the new rates.

Q. What is the Company's recommendation?

A. Due to the unique and technical nature of this issue, the Company proposes to work with Staff to adjust the update period billing determinants for changes in the Company's meter reading schedule.

Q. Does the Company have concerns with Mr. Stahlman's recommendation to prepare three COSS studies?

A. Yes. As stated earlier, the Company views the combined Missouri service area as a single operating area for purposes of distribution planning, facility investments, and operations and maintenance activities. Accordingly, it is appropriate for the Company to conduct its COSS on a combined basis.

Q. Does the Company have concerns with Mr. Stahlman's recommendation to include special contract customers in the COSS studies?

A. Yes. The terms and conditions of the special contract customers – including pricing – are not subject to evaluation in the cost of service in this rate case proceeding. The Company and special contract customer agreed to certain terms and conditions, which were subsequently filed with the Commission. From a ratemaking perspective, the revenues generated from special contract customers are credited to customers in the COSS study.

Q. **Does the Company have concerns with Mr. Stahlman's recommendation to increase residential rates in the NEMO/WEMO service area by a higher percentage than the residential rates in the SEMO service area based on the results of the COSS studies?**

A. Yes. Residential rates in the NEMO/WEMO service area are presently higher than residential rates in the SEMO service area, making it a challenge to achieve a single set of distribution base rates for the Missouri service area. Increasing residential rates in the NEMO/WEMO service area by a higher percentage than the residential rates in the SEMO service area will only increase the challenge.

The Company believes a better approach is to phase-in a movement <u>toward</u> (rather than away from) a single set of distribution base rates for the Missouri service area, subject to bill continuity considerations.

Q. **Does the Company have concerns with Mr. Stahlman's recommendation to implement higher delivery charges in the NEMO/ WEMO service area during the summer months than winter months?**

A. Yes. Higher delivery charges during the summer months than winter months is inconsistent with the underlying cost of service. Gas utility systems are generally designed to meet winter peak demands; consequently, the cost of service is generally higher in the winter months than summer months.

However, the Company agrees with Mr. Stahlman's concerns regarding customer bill impacts during the winter months and thus proposes to utilize incremental revenues from a consolidation of the medium, large and interruptible rate classes, as discussed below, to address the concerns.

Q. **Does the Company agree with Mr. Stahlman's recommendation that no class should receive a rate decrease in the context of an overall rate increase?**

A. Yes. The Company agrees that in this proceeding no rate class should receive a rate decrease in the context of an overall rate increase.

Q. **What is the Company's response to Mr. Stahlman's reference to "openness" to consolidate the medium, large, and interruptible rate classes if consolidation means moving to the higher rates for the respective rate class and using the additional revenues to mitigate the rate impact on residential and small general service customers?**[14]

A. The Company believes Mr. Stahlman's approach is creative and achieves two important objectives: (1) rate consolidation and simplification in moving toward a single set of distribution base rates for the Missouri service area, and (2) gradualism.

The Company suggests one modification to Mr. Stahlman's approach: reflect in the higher rates, the current base rates plus the ISRS charge.

Q. Does this conclude your rebuttal testimony at this time?

A. Yes.

[14] Id. p. 9.

VERIFICATION

I, Timothy S. Lyons, under penalty of perjury, on this 22nd day of August, 2024, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ Timothy S. Lyons