

Exhibit No.: _____
Issues: Revenue Requirement, Rate Base,
Rate Base Adjustments, Income Statement
and Income Statement Adjustments
Witness: Charlotte T. Emery
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Liberty Utilities
(Midstates Natural Gas) Corp. d/b/a Liberty
Case No.: GR-2024-0106
Date Testimony Prepared: September 2024

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

Surrebuttal Testimony

of

Charlotte T. Emery

on behalf of

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

September 19, 2024



TABLE OF CONTENTS
FOR THE SURREBUTTAL TESTIMONY OF CHARLOTTE T. EMERY
LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP. D/B/A LIBERTY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. GR-2024-0106

SUBJECT	PAGE
I. INTRODUCTION.....	1
II. PURPOSE	1
III. LIBERTY’S REVISED SURREBUTTAL REVENUE REQUIREMENT.....	1
IV. COMPONENTS OF THE REVENUE REQUIREMENT.....	3
A. RATE BASE	3
B. INCOME STATEMENT	6
C. NEW RETROACTIVE REGULATORY LIABILITY	14
D. RETURN ON EQUITY	15

SURREBUTTAL TESTIMONY OF CHARLOTTE T. EMERY
LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP. D/B/A LIBERTY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. GR-2024-0106

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Charlotte T. Emery. My business address is 602 South Joplin Avenue,
4 Joplin, MO 64801.

5 **Q. Are you the same Charlotte T. Emery who provided direct and rebuttal testimony**
6 **in this matter on behalf of Liberty Utilities (Midstates Natural Gas) Corp.**
7 **(“Liberty” or the “Company”)?**

8 A. Yes.

9 **II. PURPOSE**

10 **Q. What is the purpose of your surrebuttal testimony in this proceeding?**

11 A. I will address the Company’s various concerns with the rebuttal testimony filed by the
12 Staff of the Missouri Public Service Commission (“Staff”) as it relates to the
13 Company’s proposed revenue requirement.

14 **III. LIBERTY’S REVISED SURREBUTTAL REVENUE REQUIREMENT**

15 **Q. What revised revenue requirement does the Company present via its surrebuttal**
16 **testimony?**

17 A. The Company proposes an overall revenue requirement of \$45,166,026, which is a
18 \$14,188,738 increase in the annual revenue requirement compared to its currently
19 effective general base rates. Please refer to my **Surrebuttal Schedule CTE-1** for a

1 summary of the Company’s consolidated Surrebuttal Revenue Requirement
2 calculation.

3 **Q. How did the Company arrive at its new surrebuttal position?**

4 A. The Company arrived at its surrebuttal position by taking its position as presented in
5 my rebuttal testimony and then revising certain adjustments proposed by Staff with
6 which the Company now agrees. These adjustments will be addressed in further detail
7 later in my testimony. Additionally, the Company identified a calculation issue and
8 has revised its depreciation expense annualization.

9 **Q. What continues to be the primary differences between Staff and the Company’s**
10 **rebuttal positions?**

11 A. The difference between the Company’s rebuttal position and Staff’s rebuttal testimony
12 position is primarily attributable to differences in Administrative and General
13 expenses, depreciation, amortization and Taxes Other Than Income Taxes. Please refer
14 to Figure – 1 below for a more detailed view of the differences.

Figure – 1

Expense Category	Staff True-Up GR-2018-0013	Staff Rebuttal Testimony GR-2024-0106	Company Surrebuttal Testimony GR-2024-0106	Difference Between Company Surrebuttal and Staff Rebuttal	Difference Between Staff 2018 True-Up and Staff 2024 Rebuttal Testimony
Total Other Operating Revenues	25,617,641	39,466,977	45,166,026		
Total Gas Supply Expenses	-	-	-		-
Total Natural Gas Storage Expense	-	-	-		-
Total Transmission Expenses	-	-	-		-
Total Production Expenses	-	-	-		-
Total Maintenance Expense	-	-	52,469	(52,469)	-
Total Distribution Expenses	2,312,389	4,473,814	4,441,064	32,750	2,161,425
Total Customer Accounts Expense	2,253,695	2,461,544	2,603,539	(141,995)	207,849
Total Customer Service & Info. Exp	178,868	140,825	140,824	1	(38,043)
Total Sales Expenses	2,466	7,115	9,281	(2,166)	4,649
Total Admin. & General Expenses	6,710,987	4,429,968	6,846,052	(2,416,084)	(2,281,019)
Interest On Customer Deposits	-	-	188,547	(188,547)	-
Total Depreciation Expense	6,966,010	9,137,725	9,621,505	(483,780)	2,171,715
Total Amortization Expense	118,870	70,913	647,795	(576,882)	(47,957)
Total Other Operating Expenses	1,998,028	2,743,085	2,965,626	(222,541)	745,057
Total Operating Expense	20,541,313	23,464,989	27,516,702	(4,051,713)	2,923,676

16

1 **Q. Do you believe the level of expenses Staff is currently recommending in their**
2 **rebuttal cost of service is reasonable and appropriate?**

3 A. No. I continue to believe the amount of expenses Staff is including in their proposed
4 Cost of Service is inappropriate and does not properly reflect the costs to serve the
5 Company's Missouri customers.

6 **Q. Are there specific adjustment topics which Staff continues to propose in their**
7 **rebuttal testimony that is leading to such significant differences in expenses?**

8 A. Yes. As I mentioned in my rebuttal testimony, the primary difference outside of
9 depreciation and amortization expense is due to differences in payroll and other payroll
10 costs. I provide further details pertaining to my concerns with Staff's balances
11 concerning payroll and other payroll costs later in my surrebuttal testimony.

12 **IV. COMPONENTS OF THE REVENUE REQUIREMENT**

13 **A. RATE BASE**

14 **Q. Are there rate base adjustments/balances since the Company's filed rebuttal**
15 **position on which both Staff and the Company are now in agreement?**

16 A. Yes, only one. The Company and Staff now agree on the Regulatory Assets for Energy
17 Efficiency and Low-Income programs. See RB ADJ 8, which is contained within the
18 Company's surrebuttal revenue requirement calculation.

19 **Q. Please describe the specific rate base adjustments/balances proposed by Staff that**
20 **the Company continues to take issue with within your surrebuttal testimony.**

21 A. Table CTE-1 below outlines the various rate base topics proposed by Staff that I
22 disagree with. I will address each of these issues/balances in more detail within my
23 surrebuttal testimony.

1

Table CTE-1

Witness	Adj. No	Adjustment Description
Lisa Ferguson	STAFF RB 2	Remove Depreciation Reserve Associated with Capitalized Transition Costs
Jane Dhority	STAFF RB 13	Pension and OPEB Asset
Paul Amenthor	STAFF RB 6	Cash Working Capital
Lisa Ferguson	N/A	Property Tax Tracker
Various	N/A	Other Rate Base Items

2 **Q. Does Staff’s rebuttal revenue requirement calculation continue to include the**
3 **removal of capitalized transition costs to comply with the Stipulation and**
4 **Agreement in Case Nos. GM-2012-0037, GR-2014-0152 and GR-2018-0013?**

5 A. Yes, the Company continues to disagree with exclusion of these balances. These
6 balances reflect actual incurred costs that are recoverable. Please refer to my rebuttal
7 testimony for further discussion on why this Staff’s proposed adjustment is not
8 appropriate.

9 **Q. Does the Company agree with Staff’s proposed adjustment to the Pension and**
10 **Other Post Employment Benefits (“OPEB”) balances?**

11 A. No, the Company continues to take issue with Staff’s Pension and OPEB balances as
12 further discussed in the surrebuttal testimony of Company witness James Fallert.

13 **Q. Does the Company agree with Staff’s proposed balance as it relates to cash**
14 **working capital?**

15 A. No, the Company continues to disagree with Staff’s methodology regarding lead days
16 for federal and state income taxes within their cash working capital calculation. The
17 Company outlined its concerns with Staff’s approach in the rebuttal testimony of

1 Company witness Timothy S. Lyons, and Staff’s rebuttal testimony did not address the
2 issue.

3 **Q. Has Staff changed its position on the new property tax tracker statute within its**
4 **rebuttal revenue requirement calculation.**

5 A. No.

6 **Q. Do you continue to disagree with Staff’s position related to the new property tax**
7 **tracker?**

8 A. Yes. Please refer to my rebuttal testimony pages 7 – 10 where I explain the
9 inappropriateness of Staff’s direct position regarding its treatment of the Company’s
10 proposed property tax tracker balance. Staff’s rebuttal testimony did not further explain
11 their position on the issue.

12 **Q. Are there other differences between Staff and Company regarding the total rate**
13 **base value?**

14 A. Yes, the Company notes several differences with Staff regarding several rate base
15 components. These differences specifically relate to the following balances: (1)
16 Prepayments (2) Customer Deposits (3) Customer Advances (4) Materials & Supplies
17 and (5) Accumulated Deferred Income Taxes (“ADIT”). Staff does not include
18 Prepayments in rate base within their rebuttal position. Additionally, some minor
19 differences in calculations exist regarding Customer Deposits, Customer Advances and
20 Materials & Supplies. Additionally, there are differences between Staff and Company
21 regarding ADIT. The Commission should include the Company’s balances within its
22 determination of rate base as the Company’s proposed balances are derived from the
23 Company’s actual books and records and generally are calculated using a thirteen-
24 month average which has been a commonly accepted methodology to arrive at a normal

1 level for these respective balances. However, for further discussion on the ADIT
2 difference please refer to the testimony of Company witness Michael McCuen.

3 **B. INCOME STATEMENT**

4 **Q. Are there income statement adjustments since the Company's rebuttal position**
5 **that has been proposed by Staff with which the Company now agrees or is willing**
6 **to accept to reduce the number of issues within the case?**

7 A. Yes, Table CTE-2 below summarizes the additional income statement
8 adjustments/balances that the Company does not oppose and are reflected in the
9 Company's surrebuttal revenue requirement calculation.

10 **Table CTE-2**

Witness	Adj. No.	Adjustment Description
Paul Amenthor	STAFF REV 2	Removal of Unbilled Revenue
Jane Dhority	STAFF EXP 3	Remove Incentive Compensation Expense
Blair Hardin	STAFF EXP 6	Annualize Insurance Expense
Jane Dhority	STAFF EXP 12	Property Tax Expense
Blair Hardin	STAFF EXP 24	Annualize Workman's Compensation Expense
Jane Dhority	STAFF EXP 31	Include 5-year Amortization of Depreciation Study Costs

11 **Q. Does the Company accept Staff witness Dhority's proposed adjustment to remove**
12 **Incentive Compensation Expense?**

13 A. The Company firmly disagrees that incentive compensation should be removed from a
14 Cost of Service, as these costs are appropriate and prudent. However, for this case
15 only, the Company in an effort to reduce issues will accept Staff's proposed adjustment
16 to remove a portion of incentive compensation.

17 **Q. Does Liberty accept Staff's rebuttal calculation of the Company's Property Tax**
18 **Expense?**

1 A. The Company does not agree with Staff’s approach to calculate property tax expense,
2 however to reduce issues in this case, the Company has accepted Staff’s property tax
3 expense adjustment and has incorporated it into its surrebuttal revenue requirement
4 calculation.

5 **Q. Please specify which income statement adjustments proposed by Staff which the**
6 **Company continues to disagree that you describe in more detail in surrebuttal**
7 **testimony.**

8 A. Table CTE-3 below provides an overview of the income statement topics I will describe
9 further in my surrebuttal testimony.

Table CTE-3

Witness	Adj. No.	Adjustment Description
Marina Stever; Justin Tevie	STAFF REV 5	Adjust Revenue for the update period
Marina Stever	STAFF REV 6	Adjust Revenue for Weather, Days, Rate Switchers
J. Luebbert	STAFF REV 8	Adjust for Special Contract
Paul Amenthor	STAFF EXP 1	To Remove PGA Expense
Jane Dhority	STAFF EXP 5	Include Normalized Rate Case Expense
Blair Hardin	STAFF EXP 7	Remove Miscellaneous Exp
Benjamin Burton	STAFF EXP 8	Annualize Payroll
Blair Hardin	STAFF EXP 13	Interest on Customer Deposits
Lisa Ferguson	STAFF EXP 14	Annualize Customer First Operations & Maintenance Expense
Benjamin Burton	STAFF EXP 16	Payroll Tax Capitalization Adjustment
Jane Dhority	STAFF EXP 19	Employee Benefits Capitalization Adjustment
Lisa Ferguson	STAFF EXP 20	Remove Allocated Test Year Costs
Jane Dhority	STAFF EXP 26	Annualize Employee Benefits
Jane Dhority	STAFF EXP 27	Include Annualize level of 401(k) Match Expense
Paul Amenthor	STAFF EXP 29	Annualize Rents and Leases Expense
Benjamin Burton	STAFF EXP 33	Annualize Payroll Taxes

1 **Q. Are there other balances the Company does not agree with that have been used**
2 **within Staff's Cost of Service calculation?**

3 A. Yes. The Company does not agree with the balances being proposed for amortization,
4 depreciation and income tax expenses. Please refer to the surrebuttal testimony of
5 Company witness Dane Watson for discussion on issues pertaining to depreciation
6 expense.

7 **Q. Does Liberty agree with Staff's proposed normalized revenue as determined by**
8 **weather and days, and other revenue adjustments?**

9 A. No, Company witnesses Eric Fox and Timothy S. Lyons further address these issues in
10 their surrebuttal testimony.

11 **Q. Does Liberty continue to disagree with Staff's adjustment to revenue associated**
12 **with special contracts?**

13 A. Yes. Company witness Timothy S. Lyons provides additional discussion regarding this
14 issue within his surrebuttal testimony.

15 **Q. Did Staff modify its adjustment for gas costs expenses associated with the**
16 **purchased gas adjustment (PGA) within its rebuttal testimony?**

17 A. No. The Company recommends that the Commission adopt the Company's PGA
18 expense that it proposed in EXP ADJ 1 in my direct testimony. Based on a review of
19 the workpapers associated with Staff witness Paul Amenthor's adjustment to PGA
20 expense, it appears that the Staff adjustment does not include gas costs recorded in
21 Account No. 8050, Other Gas Purchase.

22 **Q. Does the Company continue to disagree with Staffs witness Dhority's proposed**
23 **adjustment to remove Incentive Compensation Expense?**

1 A. Yes, please refer to Company witness Jill Schwartz’s rebuttal testimony where she
2 addresses this issue.

3 **Q. Has Liberty revised its position related to the amount of normalized rate case**
4 **expense that it is including in its surrebuttal rate case expense?**

5 A. Yes, the Company has incorporated Staff witness Dhority’s proposal to amortize the
6 costs associated with completing the depreciation study over five years versus the
7 Company’s original proposal of three years. However, the Company disagrees with
8 applying a sharing mechanism of rate case costs as this unfairly harms Liberty. For
9 instance, the Company does not have in-house rate design or cost of service department
10 and must contract out for these services. Other larger utilities have these personnel in-
11 house and are allowed to recover those costs through rates. The Company must contract
12 for expertise when it does not have that expertise in-house. Staff has made no indication
13 that any of the Company’s rate case expense costs were imprudent, but automatically
14 disallows 50% of what they deem are “discretionary” expense based solely on that fact
15 that they are from an outside third-party; whereas, if they were internal personnel costs,
16 the Company would receive full recovery. Finally, the notion of sharing these costs
17 with shareholders is at best misapplied. Rate case expense is a cost of supplying service
18 to our customers and therefore should be included in the cost of service.

19 **Q. Did Staff propose any changes to their removal of Miscellaneous Expenses and**
20 **certain allocated test year costs in its rebuttal testimony?**

21 A. No. The Company continues to disagree with Staff as upon review it appears there is
22 overlap between Staff’s proposal to remove miscellaneous expense and proposal to
23 remove certain allocated test year costs. The Company revised its EXP ADJ 7
24 adjustment in its rebuttal testimony to reflect an adjustment in the appropriate amount

1 of \$3,782 which is to remove non-recoverable expenses. For further detail regarding
2 additional differences between Staff and the Company's calculation of Non-
3 Recoverable Expense can be found in the rebuttal testimony of Company witness Jill
4 Schwartz.

5 **Q. Does Liberty agree with Staff's proposed rebuttal balances as it relates to payroll**
6 **related accounts?**

7 A. No. Staff's rebuttal payroll annualization, payroll capitalization, and associated payroll
8 balances produces an inadequate amount of payroll and other costs. Within their
9 approach Staff disregards the amount of payroll and associated costs included in its test
10 year and attempts to recalculate an annual amount of payroll and associated costs, in
11 doing so Staff has grossly understated the payroll and associated expense accounts.

12 **Q. Can you please demonstrate the inappropriateness of the payroll and payroll**
13 **related account balances that is being proposed by Staff?**

14 A. Yes, the next several questions and answers demonstrate the inappropriate balances of
15 payroll and payroll related accounts that are being proposed by Staff, specifically the
16 proposed balances in FERC accounts 9220 - 9229.

17 **Q. Does Staff propose an increase in payroll and payroll costs within their payroll**
18 **adjustment?**

19 A. Yes. Staff indicates that payroll and payroll related costs have increased in the amount
20 of \$1,164,514. These costs are generally recorded on the income statement in FERC
21 accounts 8700 – 9209, with the capitalization offset portion recorded in FERC accounts
22 9220 - 9229.

1 **Q. When taking Staff's proposed increase in payroll and other payroll costs into**
2 **consideration, does Staff's ending payroll and payroll reflect an increase in FERC**
3 **expense accounts 8700 – 9229?**

4 A. Partially. Staff is proposing an increase in FERC accounts 8700 – 9209 in the amount
5 of \$1,164,514. However, Staff is proposing a large adjustment in FERC accounts 9220
6 – 9229 in the amount of \$(1,789,361) for a net total decrease of \$(624,847) from the
7 Company's Test Year balances.

8 **Q. What costs are recorded in FERC accounts 9220 – 9229?**

9 A. The Company records in FERC accounts 9220 – 9229 the capitalization offset portion
10 of payroll and other payroll costs.

11 **Q. What balance is Staff proposing to include in its Cost of Service as it relates to**
12 **FERC accounts 9220 – 9229?**

13 A. Staff is proposing an annualized balance in FERC accounts 9220 – 9229 of
14 \$(4,000,367) which is an approximately 81% increase from the Company's Test Year
15 balance of \$(2,211,006). Please note this account is considered an offset/contra
16 expense account so an increase in this account actually reduces the expenses included
17 in the Cost of Service.

18 **Q. Is a 81% increase from Test Year in the capitalization offset account reasonable?**

19 A. No. Especially if there hasn't been a significant increase in capitalization rates since
20 the Test Year.

21 **Q. Did the Company's capitalization rates change significantly from its Test Year to**
22 **its Update period?**

1 A. Not significantly, the Update Period payroll capitalization ratio has slightly decreased
2 from the Test Year. Please see Table CTE-4 below which are the capitalization ratios
3 that have been provided in a Supplemental response to MPSC Data Request 0112.

4 **Table CTE-4**

Description	Test Year	Pro-Forma Update Period
Capitalization	53.61%	52.25%
O&M - Expense	46.39%	47.75%

5 **Q. Has Staff provided an explanation on why they believe it is appropriate to increase**
6 **the capitalization offset Update Period account balances so dramatically?**

7 A. No. However, it appears that perhaps they were attempting to force the balances of the
8 expense and the capitalization offset accounts to match the respective capitalization
9 ratios which results in grossly inaccurate balances. Therefore, the Commission should
10 reject Staff's payroll and other payroll balances and utilize the Company's position.
11 As an alternative, if the Commission chooses to utilize Staff's payroll adjustment, the
12 9220 - 9229 adjustments being proposed by Staff should be adjusted to be 46.39% of
13 the \$1,164,514 which would be \$(540,218) versus the \$(1,789,361).

14 **Q. In addition to the above concerns related to Staff's payroll adjustment and**
15 **respective balances, does Liberty continue to disagree with Staff's adjustment to**
16 **remove labor and non-labor costs associated with business development?**

17 A. Yes. Please refer to my rebuttal testimony, specifically pages 14 – 15, where I discuss
18 the rationale for the inappropriateness of excluding these costs from the Company's
19 cost of service calculation.

20 **Q. Does Liberty's surrebuttal position relating to payroll exclude labor costs**
21 **associated with government relations?**

1 A. Yes. The Company has removed payroll related to government relations from its
2 payroll calculations.

3 **Q. Did Staff make any revisions to their adjustment to annualize rents & leases**
4 **expense within its rebuttal position?**

5 A. No. Please refer to my rebuttal testimony for rationale on the why Staff's proposed
6 adjustment does not properly reflect the ongoing rent and lease expenses of the
7 Company.

8 **Q. Does Liberty agree with Staff regarding the calculation of Interest on Customer**
9 **Deposits?**

10 A. No, however Staff's direct testimony workpapers for the adjustment are derived from
11 the Company's response to Staff Data Request 86 which included incorrect data. The
12 correct amount of Customer Deposit Interest expense is \$188,441. The Company
13 supplemented Staff DR 86 with the correct data. Staff's surrebuttal position should
14 arrive at the same position as of the Company's Update Period December 31, 2023.

15 **Q. Does Liberty continue to disagree with Staff witness Ferguson's adjustment to**
16 **Annualize Customer First Operations & Maintenance Expense?**

17 A. Yes, the Company believes its balance is still the most appropriate to include in Cost
18 of Service as it relates to Customer First. While Staff has corrected their calculation
19 errors, some differences still exist. The difference between Staff and the Company is
20 due to Staff relying upon only Customer First costs that could be observed through a
21 limited period of time. The Company used updated agreements and budgeted
22 agreements to adjust to a normalized level of on-going Customer First O&M expense.

23 **Q. Does Liberty agree with Staff's adjustment to capitalized employee benefit**
24 **expense?**

1 A. No. Liberty recommends using the capitalized employee benefit included within its
2 surrebuttal revenue requirement calculation, specifically adjustment EXP ADJ 9 due to
3 the concerns addressed above regarding Staff's approach to payroll and other payroll
4 costs specifically concerning capitalization.

5 **Q. Does the Company continue to disagree with Staff's treatment of Open Positions**
6 **as presented in their rebuttal adjustments to payroll and benefit costs?**

7 A. Yes. Staff continues to exclude amounts for open positions, though perhaps out of
8 misunderstanding of what the open positions represent within the Company's payroll
9 adjustment. The open positions listed in EXP ADJ 8 and EXP ADJ 9 are positions that
10 were filled by December 31, 2023, but were not included on the employee list used to
11 form the Company adjustment. The Company recommends that the Commission adopt
12 the open positions adjustments it has proposed in EXP ADJ 8 and EXP ADJ 9.

13 **C. NEW RETROACTIVE REGULATORY LIABILITY**

14 **Q. Did Staff witness Lisa Ferguson revise her position as it relates to her proposal to**
15 **create a regulatory liability account associated with a stub period from January**
16 **1, 2018, through June 30, 2018?**

17 A. No. The Company continues to disagree with Ms. Ferguson. Please refer to Company
18 witness Michael McCuen rebuttal and surrebuttal testimony where he explains the
19 Company's opposition to Staff's calculation of such stub period amount.

1 **D. RETURN ON EQUITY**

2 **Q. Has the Company revised its proposed Return on Equity since it filed its rebuttal**
3 **testimony?**

4 A. No. The Company continues to propose a Return on Equity of 10%. For further
5 discussion on the appropriateness of this recommendation, please refer to the
6 surrebuttal testimony of Company witness John Cochrane.

7 **Q. Does this conclude your surrebuttal testimony at this time?**

8 A. Yes.

VERIFICATION

I, Charlotte T. Emery, under penalty of perjury, on this 19th day of September, 2024,
declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ Charlotte T. Emery