

Exhibit No.:
Issue: Operating Revenue and Expense
Adjustments
Witness: Charlie Evans
Type of Exhibit: Direct Testimony
Sponsoring Party: Liberty Utilities
(Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Case No.: GR-2018-0013
Date Testimony Prepared: September 26, 2017

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

Direct Testimony

of

Charlie Evans

On behalf of

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

September 2017



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

1 **INTRODUCTION**

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

3 A. My name is Charlie Evans. My business address is 602 South Joplin Avenue, Joplin,
4 MO 64802.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Liberty Utilities Services Corp. as the Manager of Special Projects
7 for the Liberty Utilities Central Region, which includes Liberty Utilities (Midstates
8 Natural Gas) Corp. d/b/a Liberty Utilities.

9 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

10 A. I am testifying on behalf of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a
11 Liberty Utilities (“Liberty Utilities” or “Company”).

12 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
13 **BACKGROUND.**

14 A. I received a Masters and Bachelor of Science in Business Administration degree in
15 accounting from Southeast Missouri State University, Cape Girardeau, Missouri. I
16 was employed as an accountant in the hospitality industry from 2005 until late 2013
17 when I joined Liberty Utilities. During my tenure with Liberty Utilities, I have
18 served as a Plant Accountant, Accounting Manager, and Special Projects Manager.

19 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC**
20 **SERVICE COMMISSION OR ANY OTHER REGULATORY AGENCY?**

1 A. No.

2 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
3 **PROCEEDING?**

4 A. The purpose of my Direct Testimony is to provide an overview of certain Operating
5 Income and Expense adjustments included in the Company's revenue requirement.

6 **Q. ARE YOU SPONSORING ANY SCHEDULES WITH YOUR TESTIMONY?**

7 A. Yes. I am sponsoring the following adjustment schedules: WP ADJ 10 Merit
8 Increases, WP ADJ 11 Normalized Revenue, WP ADJ 12 Vacant Positions, and WP
9 ADJ 17 Corrected Revenue Adjustments.

10 **A. ADJUSTMENTS TO OPERATING REVENUES**

11 **Q. WHAT IS THE PURPOSE OF THE WEATHER NORMALIZATION**
12 **ADJUSTMENT?**

13 A. Weather normalization is the process of determining what historical consumption
14 would have been if normal weather conditions existed. Because the customer base of
15 all three of the Company's current rate districts primarily consist of Residential and
16 Small to Medium General Service space heating customers, weather plays a major
17 role in the level of revenues and gas costs incurred on an annual basis. Therefore, test
18 year margin revenue must be adjusted to a weather normalized basis.

19 **Q. HOW DOES THE COMPANY DEFINE NORMAL WEATHER?**

20 A. The National Oceanic and Atmospheric Administration ("NOAA") computes daily
21 heating degree days ("HDDs") relative to a base temperature of 65 degrees for nearly
22 200 major weather stations in the United States. The Company uses the NOAA 30-
23 year average HDDs for weather stations located in Cape Girardeau, Kirksville, and
24 Kansas City to calculate normal HDDs for its Missouri rate districts.

1 **Q. PLEASE EXPLAIN THE WEATHER NORMALIZATION ADJUSTMENT TO**
2 **OPERATING REVENUES.**

3 A. The weather normalization adjustment reflected on WP ADJ 11 compares the
4 calculated normalized revenues, based on NOAA 30-year average HDDs, to the
5 operating revenues earned during the test year for the residential class and each
6 general service customer class.

7 **Q. HOW WAS THE WEATHER NORMALIZATION ADJUSTMENT**
8 **CALCULATED?**

9 A. In order to adjust actual sales to reflect normal weather conditions, the Company
10 performed a regression analysis on test year data by comparing HDDs and sales for
11 the approximate 10-year period from October 2007 through June 2017, and
12 normalized to reflect an average year based on the 30-year NOAA average HDDs.

13 **Q. WHAT WERE THE RESULTS OF THE COMPANY'S WEATHER**
14 **NORMALIZATION ADJUSTMENT?**

15 A. The weather normalization adjustment calculated on WP ADJ 11 and included in the
16 Company's revenue requirement on WP-1 Operating Income Adjustments, Column
17 (j) reflects an increase in revenues of \$1,500,220.

18 **Q. PLEASE EXPLAIN THE CORRECTED REVENUE ADJUSTMENT.**

19 A. WP ADJ 17 reflects an adjustment to test year margin revenue, to reflect corrected
20 and annualized revenues for a large general service customer in the Company's
21 NEMO rate district. Because the customer was new during the test year, the test year
22 revenues do not reflect the revenues that the Company reasonably expects to receive
23 on an annual basis.

1 **Q. WHAT IS THE IMPACT OF THE COMPANY’S CORRECTED REVENUE**
2 **ADJUSTMENT?**

3 A. The adjustment calculated on WP ADJ 17 to correct and annualize test year revenues
4 for one of the Company’s large general service customers results in an increase to
5 operating revenues of \$60,288. This adjustment is included in the Company’s
6 revenue requirement on WP-1 Operating Income Adjustments, Column (r).

7 **B. ADJUSTMENTS TO OPERATING EXPENSES**

8 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO OPERATING EXPENSES FOR**
9 **MERIT INCREASES.**

10 A. The adjustment calculated on WP ADJ 10 reflects an increase the Company’s
11 administrative and general expenses for annual merit increases provided to
12 employees. Specifically, union employees are given a wage increase based on
13 negotiated union contracts. The merit increase for non-union employees reflects costs
14 the Company reasonably expects to incur through the end of the true up period. In
15 addition, the adjustment reflects a wage increase the Company’s union employees
16 will receive in June 2018 pursuant to the union contract.

17 **Q. HOW WAS THE ADJUSTMENT FOR MERIT INCREASES CALCULATED?**

18 A. The annual pay for each current employee was estimated as of December 31, 2017.
19 For union employees, a further adjustment was calculated to recognize the impact of
20 wage increases that will be implemented on January 1, 2018 and June 1, 2018.
21 Furthermore, an additional adjustment was calculated to account for a normal level of
22 overtime pay for union and non-union employees.

23 **Q. WHAT PERCENTAGES OF INCREASES WERE USED TO CALCULATE**
24 **THE ADJUSTMENT?**

1 A. Union employees received a wage increase on June 1, 2017 pursuant to the negotiated
2 union contract currently in effect. The union contract also provides for additional
3 increases on January 1, 2018 and June 1, 2018. Non-union employees receive
4 varying merit increases. The adjustment reflects a 5.2 percent increase, which
5 represents the average anticipated increase for non-union employees.

6 **Q. WHAT IS THE IMPACT TO THE COMPANY'S REVENUE**
7 **REQUIREMENT FOR THE MERIT INCREASE ADJUSTMENT?**

8 A. WP ADJ 10 reflects the increased costs associated with annual merit increases,
9 including an estimate for wages, benefits and associated payroll taxes. The
10 adjustment to operating expenses is included in the Company's revenue requirement
11 on WP-1 Operating Income Adjustments, Column (i), and represents an increase of
12 \$199,363. The rate base adjustment to reflect the increased capitalized labor and
13 offsetting accumulated depreciation is reflected on WP-1 Rate Base Adjustments,
14 Column (f) and totals \$176,569.

15 **Q. PLEASE EXPLAIN THE EXPENSE ADJUSTMENT FOR VACANT**
16 **POSITIONS.**

17 A. WP ADJ 12 reflects an adjustment to test year operating expenses for costs associated
18 with three positions which were vacant during the test year. The cost of the three
19 vacant positions includes an estimate for wages, benefits and payroll taxes. WP ADJ
20 12 also includes a calculation to account for the capitalized portion of employees'
21 labor costs, based on a capitalization rate reflective of the vacant positions, as well as
22 the derivative accumulated depreciation and depreciation expense.

23 **Q. WHAT IS THE RESULT OF THE ADJUSTMENT FOR VACANT**
24 **POSITIONS?**

1 A. The adjustment to operating expenses for vacant positions calculated on WP ADJ 12
2 is included in the Company's revenue requirement on WP-1 Operating Income
3 Adjustments, Column (o), and totals \$78,035. The adjustment to increase rate base
4 for the capitalized labor amount and offsetting accumulated depreciation is included
5 on WP-1 Rate Base Adjustments, Column (g), and totals \$132,903.

6 **Q. ARE THESE ADJUSTMENTS REASONABLE AND APPROPRIATE TO**
7 **INCLUDE IN RATES?**

8 A. Yes. The adjustments for weather normalization, corrected revenues, merit increases
9 and vacant positions reflect known and measurable changes to operating revenues and
10 expenses that the Company reasonably expects to incur during a twelve month period.

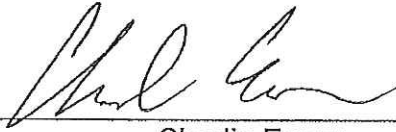
11 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

12 A. Yes.

AFFIDAVIT OF CHARLIE EVANS

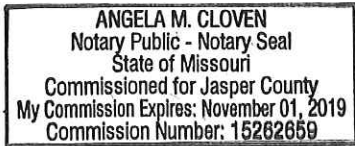
STATE OF MISSOURI)
) ss
COUNTY OF JASPER)


On the 26th day of September, 2017, 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 26 day of September, 2017.





Notary Public

My commission expires: 11/01/2019.