



Liberty Utilities

Case No. OO-2025-0233

Missouri Public Service Commission Data Request - 0059

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Request No. 0059

Witness/Respondent: Sean Borden

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REQUEST:**This data request applies to all Empire/Liberty utilities.**

Last year (2024), Liberty indicated that, for some customers, there was a need for sales tax and franchise fee investigations because of the third-party software that the new system uses to verify rates. For each company, please answer the following questions:

1. Please provide a full explanation of the problem(s) regarding sales tax and franchise fees that occurred after the Customer First transition.
2. The Liberty companies that transitioned to Customer First in April 2024 were aware that there would be issues with sales tax and franchise fees from the prior Liberty Midstates transition, if not earlier. Please explain why these issues were not handled in advance of the transition or, at the latest, prior to the first bill sent to affected customers after the transition.
3. For each customer, in what ways might Liberty become aware that there was a problem with the franchise fees and sales tax (does the system generate an error, does the customer have to call after receiving an incorrect bill, etc.)?
4. Have all sales tax and franchise fee issues been resolved? If so, please provide the date of resolution.
5. If yes to question 4, please explain how Liberty is able to state this with certainty, considering that there are cases where bills with incorrect sales tax and franchise fees were sent to customers and the customer had to contact the Company to get the issue resolved. For customers who were charged incorrectly on their bill, how would Liberty know if the customer does not notice?

RESPONSE:**Franchise Fees:**

Generally a franchise fee is a fee imposed by a local jurisdiction and is evidenced and controlled by an ordinance, a signed contract, or other document. That contract typically contains all the terms and conditions for that particular jurisdiction.

1. The franchise fee issue experienced by Liberty did not involve the actual calculation, but rather who it should apply to. With the implementation of SAP, numerous improvements were made including more granular location information for customers. Efforts were made to mirror data from the Customer Watch program to the new SAP program and identify differences.

One issue identified was that addresses in Oronogo, Missouri were being charged Webb City, Missouri franchise fees. This issue arose because of certain fields being used in Customer Watch versus what was being used in SAP. Customer Watch had a field for Town Name that could be different from the City Name. The rates between these locations happened to be the same, so there was no customer bill impact. Liberty remapped this data to the appropriate field in the legacy system and updated the impacted records.

The issue identified for Oronogo between town and city names also presented itself in other jurisdictions. These included the cities of: Alba; Webb City versus Joplin; and Airport Drive versus Joplin. These were all corrected by using the proper city zip code.

Franchise fees apply to customers who live within the city or other municipal limits of a jurisdiction, and an issue arose when Liberty was contacted by several municipalities that their revenue amounts had a significant drop. Liberty investigated and found that it was caused by the inside/outside mapping of the customer's address. For the franchise fee and/or sales tax to be determined correctly, the proper 9-digit zip code is recommended. This was not present in all customer records in the old system. Liberty updated these zip codes to correct these issues and also referenced the premises that were subject to the franchise fees in the legacy system.

2. Liberty was unaware of the franchise fee issues prior to the Customer First transition in April 2024.
3. The first indication that Liberty had for an issue with franchise fees was comparing actual returns filed with each jurisdiction to prior month or year. If there is no significant variance in either gross revenue or tax remitted by jurisdiction, it would not raise an issue. In addition to the internal review, the local jurisdiction can and do review their revenue projects and call to ask questions.

The next possible indication of a problem is generally a customer call or complaint. If a customer calls, then the issue is looked into and the various responsible internal teams would be brought in to investigate and resolve the issue.

Unlike sales tax, the franchise fee rates are static. The jurisdictional contract controls and these are usually in place for a long period of time. Whereas sales tax rate can change quarterly.

4. All known franchise fee issues have been resolved as of November 25, 2024.

In order to remit the appropriate franchise fees to each jurisdiction, Liberty relies on both the customer to provide us with their correct address and for our system to track and account for it correctly. The system provides additional controls by validating addresses to ensure accuracy. There are instances that arise when a customer informs us that their address is not showing 100% correct on their bill, which

could impact the proper rate or jurisdiction being used. These are investigated and customer account information updated as necessary. If needed, a billing adjustment would be done to correct any mistake. These corrections can only go back a certain period of time.

Understanding there can be customer address issues that lead to both franchise fee and sales tax concerns, Liberty utilizes an address validation service to confirm accurate customer address per the USPS standards.

Sales Tax:

The Missouri Department of Revenue ("MDOR") handles sales tax which is imposed on the purchase of tangible personal property or taxable services sold at retail. There are also county, city and district taxes for which Liberty is a withholding agent. These sales tax rates frequently change, and MDOR provides reports monthly of any rate changes. There are also different rates between customer classes, there are full and partial exemptions allowed per Missouri statute.

Liberty uses the Thomson Reuters OneSource Tax Determination ("OTD") software to calculate the proper amount of sales tax to apply to each customer bill.

1. OTD utilizes the USPS 9-digit zip code to determine the jurisdictional sales tax that should be applied to the customer's bills. The MDOR uses a GIS Mapping system to determine the jurisdictional sales tax that should be applied. There have been several situations where the 9-digit zip code and GIS Mapping do not align, and Liberty has investigated and adjusted OneSource coding to ensure the customer's account are taxing correctly according to MDOR.

Another issue related to customers who resided on a county line. The OTD system and the 9-digit zip code were not aligning as they should, and the wrong county sales tax was being charged. Liberty worked with OTD to make specific system overrides to adjust OTD to charge the county sales tax that the MDOR said was correct. Examples: (Stone vs Christian; Jasper vs Newton (Joplin))

Similar to the Franchise Fee issue around inside and outside city limits, the sales tax calculations were also impacted. For a customer bordering a city limit, Liberty needed to review and confirm that the proper tax was being charged. For such cases where there were differences between SAP and the legacy system, the legacy system's parameter of inside/outside was used in SAP to ensure no customer/stakeholder impact.

Due to the use of the 9-digit zip code, OTD, was taxing jurisdictions outside of Liberty's footprint. For example, there is a town close to Jay, OK that some maps show as Maysville, AR and Customer Watch had the customer listed as Maysville, OK so when the information was transferred to SAP and OTD it was picked up as Maysville, OK which is in Oklahoma City, OK and not in Liberty's service territory. We also had a similar issue with OTD picking up customer information in Tulsa, OK which is outside our service territory. So, we had to update the customer information to reflect the correct address information. Each time this occurred, a review with OTD research personnel determined that the 9-digit zip code was accurate, and that the Liberty customer information needed to be updated/corrected.

In Missouri, there are different sales tax rates for commercial/industrial customers versus residential customers. All customers with private lighting were being charged commercial sales

tax. Residential customers should have been charged the residential sales tax rate.

Liberty was contacted by customers and/or by Missouri Public Service Commission complaints that exemption certificates were not being applied correctly. Liberty researched or found the exemption certificate and corrected the system.

Assisted living customers can be partially exempt from sales tax, but the system doesn't allow a partial exemption at this time. Those assisted living customers are getting a full exemption.

2. Liberty was unaware of the issues before the Missouri Midstates Natural Gas transition, which was completed in October 2023. The complexity of the sales tax issues increased with the Customer First transition in April 2024, but Liberty put additional data quality measures in place.

During the April 2024 transition, data conversion quality checks were part of the testing process to verify issues that could result in incorrect tax determinations. To address this, Liberty updated approximately 9,000 locations to correct their zip codes and compared around 610,000 customer tax rates with the respective state tax information from MO, KS, AR, and OK Departments of Revenue. Despite these efforts, a subset of premises showed discrepancies between the state's definition of inside/outside city limits and the determinations made by OTD. This issue was only identified after the go-live date. Liberty decided to align with the state's determination rather than the tax software. Liberty then worked with OTD to override these instances and apply the inside/outside parameters based on the state's database.

3. The first step is through internal review. During the preparation of a tax return, a review of taxable sales and a calculation of tax is compared to what has been billed and what shows on our return. If there are material variances, they are researched.

In addition, Liberty uses address validation services so that when addresses are entered or modified, the addresses are validated against USPS standards, and corrected before saving entries. The latter allows Liberty to maintain accurate 9-digit zip codes, which are used for tax determination purposes.

Another opportunity to become aware of an issue is through a customer call or complaint. All calls and complaints are researched.

4. All sales tax discrepancies that arose after the 2024 transition, specifically those concerning improper assessment of sales tax based on city limits or conversion data inaccuracies, have been addressed. The final resolution was achieved on November 25, 2024.
5. The process for the tax issue resolution utilizes data from the Missouri Department of Revenue vetted by the Liberty Tax Department for verification. There are existing reports specifically designed to provide the tax amount paid by the customers. Furthermore, if required, legacy data is used to confirm historical records.

There are additional ways Liberty can confirm customers are properly taxed:

- Liberty uses a reputable 3rd party tax service provider whose business is to ensure that tax rates are regularly updated and correct.
- For inside/outside determination, Liberty cleaned up its data as per (4) above.
- Discrepancies between the MDOR and the OTD can exist, and while Liberty cannot eliminate these differences, Liberty has processes in place to modify or enforce tax rates for such cases.
- Liberty uses address validation services that allows it to maintain accurate addresses as per USPS standards.