Exhibit No.:
Issue: Uncollectible Expense, Rate Case Expense, Capitalized Depreciation, Dues and Donations
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities
Case No: GR-2018-0013
Date Testimony Prepared: April 2018

Before the Public Service Commission
of the State of Missouri

Rebuttal Testimony

of

Charles Evans

On behalf of

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

April 2018

Liberty Utilities

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

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REBUTTAL TESTIMONY OF

CHARLES EVANS

LIBERTY UTILITIES

BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION

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I. WITNESS IDENTIFICATION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q. ARE YOU THE SAME CHARLES EVANS WHO PREVIOUSLY FILED DIRECT TESTIMONY IN THIS PROCEEDING ON BEHALF OF LIBERTY UTILITIES?

A. Yes, I previously submitted direct testimony on behalf of Liberty Utilities in this case.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. The purpose of my rebuttal testimony is to address a number of the recommendations made or positions taken by witnesses for the Staff of the Missouri Public Service Commission ("Staff") on a number of discrete issues. These include recommendations that have been made regarding uncollectible expense, rate case expense, annualized revenue, and industry related dues.

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

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

III. RESPONSE TO SPECIFIC ISSUES

A. Uncollectible Expense

Q. WHAT IS YOUR UNDERSTANDING OF THE RECOMMENDATIONS BEING MADE BY THE STAFF RELATING TO UNCOLLECTIBLE EXPENSE?

A. According to Staff's direct Cost of Service ("COS") Report "Staff traditionally determines the amount of uncollectable expense to include in rates by analyzing the actual net write-offs over a period of time." In this case, Staff has made an adjustment to reflect the actual net write-offs that occurred in the 12 months ending December 31, 2017. Staff also suggested that they disagree with the proposed bad debt expense tracker discussed in the direct testimony of Robert B. Hevert.

Q. WHAT IS THE COMPANY'S POSITION REGARDING STAFF'S RECOMMENDATION?

A. The Company believes Staff should use a longer period of time than 12 months in order to annualize uncollectible expense. Staff is proposing an annualized level of uncollectible expense of $161,123. Staff's own analysis, however, shows that using a 2 year and 3 year average would result in uncollectible expense of $269,932 and $363,721, respectively. The Commission recently expressed the view (in the Spire rate cases) that a longer period of time to measure uncollectible expense was more appropriate than the kind of relatively short period of time being recommended by the Staff in this case. As the Commission stated at page 130 of its March 7, 2018 Amended Order in those cases: “A twelve-month period is not long enough to fairly represent bad debt write-off trends and to fairly project future expense. An average over at least three years normalizes unusual variances that can occur in a shorter period such as twelve months.” Accordingly, I would recommend a level of uncollectible expense that, like the one proposed by the Company, is much closer to the 3 year average and that also includes a factor-up for an increase granted in this case. Furthermore, the Company continues to believe that the fluctuation of costs in this account illustrate the need for a bad debt expense tracker as proposed in the direct testimony of Robert B Hevert. Company witness, Timothy Lyons will further address the Company’s need for a bad debt expense tracker. Additionally, it is the Company’s understanding that the Staff will address the trackers the Company has proposed in more detail in Staff rebuttal testimony. Accordingly, the Company reserves its right to respond in surrebuttal testimony to Staff’s arguments on this issue once Staff articulates them.

B. Rate Case Expense

Q. WHAT IS THE SECOND STAFF RECOMMENDATION THAT YOU WOULD LIKE TO ADDRESS?

A. In its COS Report, Staff proposed a level of rate case expense to include in its cost-of-service calculation based on costs incurred through December 31, 2017. Staff proposes to update such expenses as they are incurred through the briefing process and normalize them over four years. Furthermore, Staff proposes a sharing of rate case expense between shareholders and customers according to the percentage of the utility's rate increase that is ultimately awarded by the Commission.

Q. WHAT IS THE COMPANY'S POSITION REGARDING THE SHARING MECHANISM?

A. The Company does not believe there is any basis upon which it should be required to absorb any portion of the rate case expense it has incurred to conduct this proceeding.

Q. HAS THE STAFF OR ANY OTHER PARTY ALLEGED THAT THE LEVEL OF RATE CASE EXPENSE INCURRED FOR THIS CASE IS EXCESSIVE OR UNREASONABLE?

A. No. There has been no such assertion. Nor has any party alleged that the Company has, in any way, been imprudent in how it has managed its rate case expenses. Instead, the Staff is proposing that the Company simply be required to absorb a portion of its rate case expenses because such an approach is consistent with Staff's view of a Commission policy that has never been reflected in any Commission rule and that, based on the background provided by Staff's in own COS Report (see pages 70 – 71) seems to change from case to case.

Q. ARE THERE UNIQUE REASONS THAT MAKE THE APPLICATION OF AN EXPENSE "SHARING" PROPOSAL PARTICULARLY INAPPROPRIATE IN THE CASE OF LIBERTY UTILITIES?

A. Yes. It should be recognized that the approach taken by Liberty Utilities to address many of its rate case needs is to hire outside experts and counsel to prepare and submit the testimony, accounting schedules, pleadings, and to otherwise carry out the various tasks necessary to conduct a rate case. This is done in lieu of retaining in-house employees year-round to perform such services.

Q. DO YOU BELIEVE THIS APPROACH TO MANAGING RATE CASE EXPENSE IS REASONABLE AND PRUDENT?

A. Absolutely. While I recognize that there are different philosophies and strategies relating to how the resources needed for a rate case should be satisfied, we believe that the approach Liberty Utilities has taken over the years is economical, efficient and right for us.

Q. WHAT KIND OF IMPACT DOES THE STAFF'S SHARING PROPOSAL HAVE ON A COMPANY LIKE LIBERTY UTILITIES?

A. Because the approach taken by Staff defines rate case expense as costs incurred for outside experts and witnesses, as opposed to in-house experts and witnesses, it effectively penalizes the Company for managing its rate case resources in this way. Put another way, if the Company met these resource needs with its own in-house employees, it would be permitted to recover all of the costs it incurs for managing a rate case, but because it chooses to use outside personnel for this purpose it is effectively penalized and required to absorb half of the cost.

Q. CAN YOU CONCEIVE OF ANY REASON WHY SUCH DISPARATE TREATMENT IS APPROPRIATE?

A. No. Such an approach simply and unreasonably discriminates against utilities like the Company based on artificial distinctions that bear no relationship to the reasonableness and prudence of the costs it is incurring to manage its rate case activities. Even worse, such an approach effectively dictates to the Company that it must follow the in-house approach to resourcing rate cases or face a significant penalty for not doing so. I do not believe it is appropriate for the Staff or the Commission to substitute its judgment for the Company's on such a critical and sensitive strategy decision. The Company would never presume to tell the Commission Staff how it most resource personnel it uses on rate cases and I do not believe the Staff should effectively dictate such matters to the Company through the imposition of penalties when it chooses one approach over another.

Q. IN ADDITION TO THESE CONCERNS ABOUT THE OVERALL MERITS OF STAFF'S PROPOSAL AS IT APPLIES TO THE COMPANY, DO YOU HAVE ADDITIONAL CONCERNS REGARDING HOW STAFF CALCULATED ITS ADJUSTMENT?

A. Yes, Staff's current calculation using the sharing mechanism has a number of flaws. Because it is based on a ratio of the amount of rate increase requested versus the amount granted by the Commission, Staff's calculation as it currently stands penalizes the Company for the change in the corporate federal income tax recently signed into law. The calculation should be adjusted for any effect these or other tax effects from this law has on the Company's original revenue requirement or Staff's alternative proposal for a 50/50 sharing should be used, if any adjustment at all is made despite the Company's objections.. Furthermore, Staff's calculation needs to be adjusted to reflect the actual revenue requirement increase proposed. The calculation provided in Staff's current work papers uses an incorrect amount.

Finally, Staff has appropriately excluded the cost of the required depreciation study and the lead/lag study that was agreed to in the stipulation and agreement in the prior case, Case No. GR-2014-0152 from the sharing mechanism. However, Staff did not exclude from the sharing mechanism the cost of the Class Cost of Service Study ("CCOS") which was also agreed to and approved by the Commission in Case No. GR-2014-0152. (See Revised Second Partial Stipulation And Agreement As To Certain Issues, p. 4, ¶ 5e. (filed September 20, 2014). The Company believes the cost of the CCOS study should also be excluded from any sharing mechanism, if ordered by the Commission.

C. Capitalized Depreciation

Q. WHAT IS YOUR UNDERSTANDING OF THE RECOMMENDATIONS BEING MADE BY THE COMMISSION STAFF REGARDING CAPITALIZED DEPRECIATION?

A. In the Company's prior rate case (Case No. GR-2014-0152), the Commission authorized the capitalization of depreciation on certain accounts that contain equipment used for capital work.

Q. HAD LIBERTY UTILITIES PREVIOUSLY CAPITALIZED DEPRECIATION ON SUCH ASSETS?

A. No, in fact it was the Staff that raised the issue in Case No. GR-2014-0152 and recommended that the Company capitalize the depreciation on those assets used to perform capital work. In addition to recommending that the Company capitalize the depreciation on these assets going forward, the Staff also calculated the amounts that it believed should have been capitalized since Liberty Utilities' retained ownership of the assets in August 2012 and restated the Company's plant in service and associated accumulated depreciation reserve balances. In addition, Staff removed a portion of the annualized depreciation expense related to the transportation and power-operated equipment in order to reflect the portion of the expense that was to be capitalized. (See page 74 of the Staff's Revenue Requirement Report in Case No. GR-2014-0152).

Q. DID THE COMPANY SUBSEQUENTLY CAPITALIZE THE DEPRECIATION ON THE ASSETS USED TO PERFORM CONSTRUCTION WORK?

A. Yes. Pursuant to its agreement to adopt this accounting treatment, the Company continued to capitalize depreciation on the assets used to perform capital work. . In addition to the equipment used to perform capital work, the Company also capitalized the depreciation on the facilities used to house the equipment for which depreciation had been capitalized. In this case, Staff is suggesting that the Company has capitalized too much depreciation rather than too little, and is proposing to remove the capitalization of depreciation on the buildings. .

Q. WHAT IS THE COMPANY'S POSITION REGARDING THE STAFF'S PROPOSAL TO ELIMINATE THE CAPITALIZATION OF THE DEPRECIATION ON BUILDINGS USED TO HOUSE EQUIPMENT THAT HAS RECEIVED SIMILAR TREATMENT?

A. The Company disagrees with Staff's adjustment. It strongly believes that the very same theory which justifies capitalizing the equipment used to perform capital work also justifies capitalization of the depreciation expense on the buildings housing that equipment. . Specifically, by housing equipment used for capital work, the building, just like the equipment, plays a critical role in prolonging the life of these assets. This capitalization of depreciation expense is also consistent with the capitalization of other expenses, including wages, salaries and benefits that are incurred by employees who work on capital projects. In effect, such an approach is a more complete way of allocating all of the overheads, including building structure depreciation expenses that are incurred in connection with capital work. The Company believes such a wholistic approach is entirely reasonable, and there is no logical basis for excluding the depreciation component of such costs.

Q. IS THERE A VALID BASIS FOR CAPITALIZING THE DEPRECIATION EXPENSE OF ONE ASSET, NAMELY EQUIPMENT, THAT PERFORMS THIS KIND OF FUNCTION, BUT NOT ANOTHER ASSET, THE BUILDING, THAT ALSO PERFORMS THIS FUNCTION?

A. I do not believe so. In fact, I believe drawing such artificial distinctions is inconsistent with how the Commission's generally expects the costs of performing a particular function to be calculated. For example, under the Commission's affiliate transactions rule, utilities are required under most circumstances to price out services or products based on the "fully distributed cost" incurred to produce such services or products. This fully distributed cost concept, in turn, requires "recognition of all costs incurred directly or indirectly used to produce a good or service". This comprehensive approach to recognizing all costs of the costs relating to performing a particular function is also reflected as a basic allocation principle in cost allocation manuals and other protocols used to allocate costs.

Q. IS THE COMPANY'S CAPITALIZATION OF DEPRECIATION EXPENSE ON THE BUILDINGS THAT ARE MAINTAINED TO HOUSE THE EQUIPMENT USED ON CAPITAL PROJECTS CONSISTENT WITH THIS FULLY DISTRIBUTED COST PRINCIPLE?

A, Yes, it is. Staff's approach, on the other hand, capitalizes depreciation expense only for a portion of the costs incurred to perform this capital work, rather than all costs. I do not see a basis for taking such an incomplete approach for determining what depreciation expenses should be included and ultimately capitalized in connection with performing the same capital-related function of prolonging the life of other assets. Accordingly, I believe Staff's adjustment should be rejected.

D. Certain Dues & Membership Disallowances

Q. ARE THERE ANY OTHER STAFF RECOMMENDATIONS YOU WOULD LIKE TO ADDRESS?

A. Yes. Staff proposed certain disallowances to FERC 930.2 that we feel are inappropriate. These are costs associated with the Missouri Energy Development Association and the American Gas Association.

Q. WHY DOES THE COMPANY BELIEVE THESE COSTS SHOULD BE INCLUDED?

A. Staff made an adjustment to disallow 100% of MEDA costs on the basis that it is for lobbying. As mentioned in the rebuttal testimony of Jill Schwartz, when the amount pertaining to MEDA is expensed, the portion related to lobbying is booked below the line. The portion that is booked to 930.2 is the portion not related to lobbying and should be allowed for recovery. Staff also made an adjustment to dues paid to the American Gas Association. While the Company agrees that an adjustment should be made for the lobbying portion of AGA dues, we would seek clarification on the support for the proposed disallowance of 5.39% and reserve the right to address this issue in surrebuttal testimony once such clarification is received.

Q. **DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

A. Yes, it does.

AFFIDAVIT OF CHARLIE EVANS

STATE OF MISSOURI)
) ss
COUNTY OF CAPE GIRARDEAU)

On the 11th day of April, 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 Utilties – 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 11th day of April, 2018.

Gena G. Welker
Notary Public

My commission expires: 5-02-2020.

GENA G WELKER
Notary Public – Notary Seal
State of Missouri, Bollinger County
Commission # 12335397
My Commission Expires May 2, 2020