Exhibit No.:	
Issue:	*Cash Working Capital; Retail Revenue; Uncollectibles Expense; Pension and OPEB Expenses*
Witness:	*Kofi A. Boateng*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
Case No.:	*GR-2014-0152*
Date Testimony Prepared:	*July 30, 2014*

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

UTILITY SERVICES - AUDITING

REBUTTAL TESTIMONY

OF

KOFI A. BOATENG

LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP.
d/b/a LIBERTY UTILITIES

CASE NO. GR-2014-0152

Jefferson City, Missouri
July 2014

REBUTTAL TESTIMONY

OF

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CASE NO. GR-2014-0152

Q. Please state your name and business address.

A. Kofi A. Boateng, 111 N. 7th Street, Suite 105, St. Louis, MO 63101.

Q. By whom are you employed and in what capacity?

A. I am a Utility Regulatory Auditor with the Missouri Public Service Commission ("Commission").

Q. Are you the same Kofi A. Boateng that was responsible for certain sections of the Staff's Revenue Requirement Cost of Service Report (Staff Report) filed in this rate case of Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty Utilities (Liberty Utilities or Company) on June 6, 2014?

A. Yes, I am.

EXECUTIVE SUMMARY

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to respond to the positions espoused in the direct testimony of Liberty Utilities witness James Fallert regarding cash working capital ("CWC"), annualized pension expense, other post-employment benefits ("OPEBs") expense, and uncollectible expense, particularly the issue of a bad debt "factor-up." I also address

Liberty Utilities witness Christopher D. Krygier's direct testimony regarding the billing determinants used to develop Liberty Utilities' retail revenues.

CASH WORKING CAPITAL

Q. What amount of cash working capital does Liberty Utilities propose to include in rates as part of this case?

A. The Company has calculated for inclusion in its cost of service approximately $1.25 million, based upon what Company witness Fallert terms a "1/8 rule" methodology, which "multiplies the operating expenses (excluding gas costs, depreciation, and taxes) in a case by 1/8 to produce an estimated cash working capital adjustment."

Q. Is Staff aware of any jurisdiction where this methodology is utilized to calculate cash working capital for inclusion in rates?

A. This formula has been utilized in the past in utility regulation by other state jurisdictions. In fact, this was one of the few methodologies that the Staff of the Commission used in Missouri for determining utilities' cash working capital requirement as far back as the 1930s. This method was used prior to the introduction of the lead/lag study in the 1970s as the accurate way of measuring cash working capital.

Q. Does Staff believe use of a "1/8 rule" methodology is the appropriate way to calculate or measure cash working capital, and why?

A. No. The "1/8 rule" methodology in essence assumes that a utility has to wait 45 days on average to collect revenues from customers it is owed for services rendered, and that a utility has to pay all of its cash expenses on average at the point service is rendered to it (i.e., the utility is assumed to not to be able to pay vendors on "credit.") In contrast, a lead/lag study is intended to measure the actual lag between collection of revenues from customers and utility service rendered to them, and the actual lag between the utility incurring expenses related to provision of goods and services to it and making payment to the vendor providing the goods and services. Staff believes that the lead/lag methodology provides a more reliable analysis for the determination of cash working capital for inclusion in utility rates than any other CWC measuring tool.

Q. Did Mr. Fallert provide an explanation for why Liberty Utilities did not perform a lead/lag study in this rate case?

A. Yes. At page 16, lines 1 through 6, of witness Fallert's direct testimony, Liberty Utilities cites a number of reasons why it did not perform a lead/lag study. Mr. Fallert states:

> No, we have not. As mentioned earlier, Liberty's billing and collection practices have been evolving since purchase of the properties in August 2012. Additionally, the test period in this case was billed under two different billing systems since billing was handled by Atmos until March 1, 2013. Under the circumstances, we were concerned that performing a full cash working capital study would not provide results that could reasonably be expected to be indicative of normal operations going forward.

Q. Could Liberty Utilities have adopted the lead/lag study calculated in Atmos' 2010 rate case?

A. Yes. Staff practice is to conduct a lead/lag study for cash working capital requirement, but the alternative in cases where a lead/lag study is not possible is to adopt the most recent lead/lag study that closely relates to the utility in question. In fact, in several past rate cases, both Staff and some utility companies have adopted cash working capital lead/lag analyses from past utility rate cases before this Commission when appropriate.

Q. Has the Company provided an explanation as to why they are not adopting the previous cash working capital lead/lag study from Atmos Energy Corporation's 2010 rate case, No GR-2010-0192?

A. Yes. Atmos was the previous owner of Liberty Utilities' Missouri gas properties. Liberty Utilities states at page 16, lines 8 to 10, of witness Fallert's direct testimony that:

> While it is not uncommon to use lags calculated in a previous study, we believe that it would be problematic to do so in this case because of the numerous changes in systems and practices associated with a change-over in ownership.

Q. Did Liberty Utilities adopt any calculations from the Atmos' 2010 rate case in regards to other issues?

A. Yes. Liberty Utilities, for lack of confidence in its own data, adopted the normalized bad debt expense level that was calculated for Atmos' cost of service in Case No. GR-2010-0192.

Q. Why does Staff believe a lead/lag methodology should be used in this case?

A. Staff believes that a lead/lag study is the best measurement of the timing of when a utility prepares and sends out a customer bill to the time the company receives payment from that customer, as well as the time the company receives and pays for services.

Q. What amount of cash working capital has Staff proposed to include in rates as part of this case?

A. In the Staff's initial cost of service report, Staff's proposed cash working capital requirement on a total Company basis for inclusion in rates was ($230,264). This amount has changed given that Staff has made certain revisions to its cost of service calculations subsequent to the filing of the Staff Report; therefore, at rebuttal, Staff's proposed cash working capital requirement on a total Company basis for inclusion in rates is ($219,096)

Q. Did Staff perform a lead/lag study in this case, and if not, how did the Staff determine its cash working capital requirement?

A. Staff's preference is to conduct a lead/lag study when reliable, usable data is available. In this instance, Staff did not have a reliable full test year of billing and collection data required from Liberty Utilities in order to perform a lead/lag study in this rate case. Therefore, Staff adopted the lead/lag study in Atmos' 2010 rate case as indicated at page 39 of the Staff Report. Again, it is not uncommon for utilities to adopt lead/lag studies developed for other utilities under this Commission's jurisdiction, when circumstances are such that a lead/lag study could not be conducted in a timely manner. As a result, Staff utilized the lead/lags from Case No. GR-2010-0192 and applied Liberty Utilities' adjusted test year dollar amounts to calculate the cash working capital revenue requirement. Staff's recommended level of cash working capital is much more indicative of Liberty Utilities' actual cash working capital requirements than the proxy calculation achieved through the application of the "1/8 rule".

RETAIL REVENUE

Q. Please summarize the changes calculated since Staff's direct filing in regards to retail revenue.

A. Staff has received additional and revised data that has allowed for inclusion of the impact of customer growth/decline as part of Staff's revised calculation of Liberty Utilities' revenue amounts. Staff has now made customer loss adjustments to test year volumetric Mcf sales and rate revenue to reflect the normal volume sales and rate revenue that would have occurred if the number of customers taking service at the end of the test year had existed throughout the entire test year.

Q. Why did Staff update the retail revenue calculation?

A. On page 51 of the Staff's Revenue Requirement Cost of Service Report ("Staff Report") filed in this case, Staff indicated that,

> Because of a number of deficiencies identified in Liberty Utilities' billing data since it assumed ownership of the Missouri properties ... Staff was unable to normalize base tariff customer level or volumetric energy usage to reflect "normal" weather. Therefore, Staff calculated annualized revenues, utilizing update period customer level and the volume of gas sold or distributed for the twelve ending March 31, 2014, and by applying the existing base tariff rates for the each of Liberty Utilities' rate classes.

Staff anticipated the receipt of revised and additional revenue data from Liberty Utilities in time to file revised calculations in Supplemental Direct scheduled to be filed on June 18, 2014; however, Staff did not receive all the data required to make its calculations until July 18, 2014. Staff believes that this new set of billing data is more consistent with the historical trend for the service territories of Liberty Utilities than the information provided previously.

Q. Did Staff calculate customer growth/loss on all of Liberty Utilities rate classes?

A. No. During the audit process for retail revenues, Staff reviewed all retail customer classes, with the exception of large general service and transportation customer classes, to determine if there was a significant change in the number of customers in each of Liberty Utilities' rate classes. Staff looked for increases and decreases in each of the classes to determine if Staff should include the class in its customer growth/loss adjustment. In this instance, Staff observed that Liberty Utilities has experienced continuous decline in its overall customer levels, particularly for the residential customer class. Therefore, Staff recommends a customer loss adjustment for the residential customer class in a manner consistent with Liberty Utilities' treatment of this rate class. Staff does not believe adjustments to any of the other rate class reviewed by Staff related to customer growth/loss are warranted at this time.

Q. Please explain why Liberty Utilities large general service customer class is not included in Staff's growth adjustment for Liberty Utilities.

A. Energy consumption and revenue patterns vary significantly across large general service customers, making it necessary to examine the history of each customer on an individual basis. Staff witness Kim Cox further addresses the large general and transportation customers in her rebuttal testimony.

UNCOLLECTIBLES

Q. What is an uncollectible (or bad debt) "factor up" and why does Staff disagree with this approach?

A. An uncollectible factor up in essence is the belief that it is necessary to match the level of bad debt expense established in a rate case with the amount of revenue requirement increase that will be determined by the Commission in that case. This additional amount of bad debt expense, if the factor up is granted, will be calculated and added to the annualized and normalized level of bad debt expense found reasonable for inclusion in the utility's revenue requirement. The amount of any ordered bad debt factor up will be derived by applying the bad debt ratio to the expected revenue requirement increase granted by the Commission.

Liberty Utilities has proposed an adjustment for bad debt expense associated with the revenue requirement increase (or decrease) that will be determined in this rate proceeding. At page 9 of witness Fallert's direct testimony, lines 17 through 21, he states that the Company "included an adjustment to include the impact of the additional revenue requirement requested in this case on write-offs." Liberty Utilities' proposed use of a bad debt factor up is based on the assumption that any amount of increased revenues resulting from this case will cause bad debt expense to increase proportionally as well, all things being equal. However, while Staff believes that this view may seem reasonable on a theoretical basis, Staff has found from a practical point of view that this theory seldom holds true in reality. In other words, use of a bad debt factor up means it is a virtual certainty that with each rate increase, bad debts will go up. This is not a realistic view. In order for this bad debt factor up to be justified, an analysis would be needed to demonstrate a correlation between revenue levels and bad debt levels.

Q. How has the Commission treated this uncollectible factor up in rate case proceedings?

A. The Commission treats this issue on a case-by-case basis. In its Report and Order in Case No. ER-2001-299, the Commission found and ordered as follows:

> Whether a direct correlation between revenue levels and bad debts for a utility exists is dependent upon case-by-case circumstances. (GR-96-285, 5 Mo. P.S.C. 3d, p. 447.) Empire's witness Gipson testified that in six of the last eight years Empire's bad debt expense has increased as its revenues have increased. However, Staff witness Boltz testified that the relationship between revenues and bad debt write-offs at Empire in the last five years have varied greatly. Mr. Boltz also stated that in any given year, revenues and customers may increase but bad debt expense and actual write-offs may decrease....
>
> Whether the bad debt will increase as a result of a rate increase and the amount of the increased revenues is a matter of speculation. The Commission finds that the evidence in this case does not persuasively show a reliable correlation between revenues and bad debt expense. The Commission finds that Empire's bad debt expense should not be adjusted to reflect the additional revenues resulting from this proceeding.

Q. Has Liberty Utilities provided any analysis supporting its recommendation to include an additional level of bad debt expense associated with any increase in revenue requirement that would be ordered in this case?

A. No. Liberty Utilities has not provided any analysis to support the inclusion of a level of bad debt expense related to the revenue requirement increase in this case. Mr. Fallert's sole rationale for this proposal is based on the assumption that bad debt expense will increase based on the rate increase. Liberty Utilities does not have any historical data of its own which demonstrates the existence of a direct relationship between the level of bad debt and a revenue requirement increase in this rate case. For instance, because of the "evolving" nature of Liberty Utilities records, the Company had to adopt the normalized bad debt level that was calculated in Atmos Energy Corp.'s last rate case, Case No. GR-2010-0192, for inclusion in its proposed cost of service. In reference to the Company's decision to adopt the normalized bad debt level in 2010 Atmos rate case, Mr. Fallert states on page 9, lines 7 through 11, of his direct testimony,

> Liberty's billing and collection practices subsequent to the acquisition of the subject properties in August 2012 have been evolving. Therefore, we do not believe that recent bad debt write-off experience is in any way indicative of a reasonable normalized going forward. Under the circumstances, we propose the inclusion of bad debts in cost of service equal to the amount of $480,135 agreed upon in the 2010 Atmos rate case.

Q. Do you believe the lack of analytical support of the existence of direct relationship between bad debt and rate increase provides the basis for the Commission to reject this recommendation by Liberty Utilities?

A. Absolutely. Liberty Utilities has failed in its duty to provide any evidence to support why it should be allowed to factor up bad debt for a revenue requirement increase in this rate case. Liberty Utilities has not met the burden of proof and for that reason, Staff recommends the Commission reject this bad debt factor up request based on an assumption that completely lacks any factual evidence.

PENSION AND OPEB EXPENSE

Q. How did Liberty Utilities calculate the normalized amounts for pension and OPEB expense in its rate request?

A. Liberty Utilities determined the normalized pension and OPEB levels to be the accrued test year pension and OPEB expense amounts as developed by the Company's actuary, and increased by what it terms the "benefits experience rate" expressed as a percent of the expected increase in payroll. The Company holds the view that pension and other related benefit costs will generally increase as payroll increases.

Q. Does Staff agree with the Company's assertion that an increase in the level of payroll will invariably lead to an increase in pension and OPEB expense?

A. No. While an increase in the compensation level of utility employees may affect pension or OPEB level, it is not the only factor that is used in determining the amount of pension or OPEB expense that is included in a company's financial statements. Staff believes that there are other major factors and/or components that are taken into consideration in the calculation of the amount of pension or OPEB expense. The ongoing level of pension and OPEB expense would be determined by the combination of each of those components. The components that would generally affect the calculation of the net pension expense are service cost, interest cost, expected return on plan assets, amortization of unrecognized prior service costs, and amortization of deferred gain or loss. The calculation of OPEB expense would need to take into account similar components. In this respect, an increase in one level may be offset by a decrease in another component thereby affecting the overall result. Liberty

Utilities' adjustments to both Pension and OPEB expense assume that there is a direct relationship between payroll and pension expense, as well as OPEB expense, and does not recognize the other major factors which impact this relationship.

Q. Does Staff support the Company's approach to calculating the annualized level of pension and OPEB expense for inclusion in rates?

A. No. Staff does not support this methodology of calculating annualized pension and OPEB expense for ratemaking purposes. As stated at page 61 of the Staff Report "the current practice of Staff is to recommend rate recovery of pension expense in an amount equal to current or recent cash contributions by the utility to its pension trust fund." In respect to OPEBs as stated at page 62 of the Staff Report, "the current practice of Staff is to recommend rate recovery of OPEBs in an amount equal to its current level of ASC 715/FAS 106 OPEBs expense, as long as that amount is contributed to an external trust fund dedicated to future payment of OPEBs to retired employees." However, Staff has communicated to the Company that Staff is open to other acceptable ratemaking alternatives for pensions and OPEBs that have been utilized by this Commission in recent years for treatment of these costs by other utilities.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities' Tariff Revisions Designed To Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company	)))))	Case No. GR-2014-0152

AFFIDAVIT OF KOFI A. BOATENG

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Kofi A. Boateng, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Kofi A. Boateng

Subscribed and sworn to before me this 29TH day of July, 2014.

LISA K. HANNEKEN
Notary Public - Notary Seal
State of Missouri
Commissioned for Franklin County
My Commission Expires: April 29, 2016
Commission Number: 14967138

Lisa K Hanneken
Notary Public