

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2012-0129, Liberty Energy (MidStates) Corporation

FROM: Phil Lock, Regulatory Auditor - Procurement Analysis
Kwang Choe, Ph.D., Regulatory Economist - Procurement Analysis
Lesa Jenkins, P.E., Regulatory Engineer - Procurement Analysis

/s/ David M. Sommerer 10/03/13 /s/ Bob Berlin 10/03/13
Project Coordinator/ Date Staff Counsel's Office/ Date

/s/ Lesa Jenkins P.E., 10/03/13
Utility Regulatory Engineer II/ Date

SUBJECT: Staff's Recommendation in Case GR-2012-0129, Liberty Energy (Midstates)
Corporation 2011-2012 Actual Cost Adjustment Filing (formerly Atmos Energy
Corporation)

DATE: October 3, 2013

Procurement Analysis (Staff) has reviewed Liberty Energy (Midstates) Corporation 2011-2012 Actual Cost Adjustment (ACA) filing. This filing was made on October 17, 2012, for rates to become effective on November 1, 2012, in all areas served in Missouri. This filing was docketed as Case No. GR-2012-0129.

On August 1, 2011, Atmos Energy and Liberty Energy (Midstates) filed a joint application for authority to sell its regulated natural gas utility assets in Missouri, Illinois and Iowa to Liberty Energy (Midstates) Corporation (Joint Application of Atmos Energy Corporation and Liberty Energy (Midstates) Corporation – Case No. GM-2012-0037). The sale of the properties was contingent upon approval from the regulatory commissions in Missouri, Illinois and Iowa.

On March 14, 2012, Case No. GM-2012-0037, the Missouri Public Service Commission (Commission) issued its Order Approving Unanimous Stipulation and Agreement authorizing Liberty Energy (Midstates) Corporation to purchase the assets of Atmos' Missouri service areas, including the issuance of new certificates of convenience and necessity.

Section 15, paragraph f. of the Unanimous Stipulation and Agreement requires that "Atmos shall transfer to Liberty-Midstates copies of all records and documents related to PGA/ACA cases."

Liberty-Midstates, now known as Liberty Utilities (Liberty), is the successor in interest to Atmos' previously filed PGA/ACA cases. However, for the purposes of this Memorandum,

**** Denotes Highly Confidential Information ****

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Appendix A

Staff will refer to Atmos because Atmos made the decisions for much of the current ACA. Liberty has adopted Atmos' tariffs and is now administering Atmos' ACA filings.

This memorandum is organized into four sections. Each section contains detailed explanations of Staff's concerns and recommendations. The four sections are:

- I. Billed Revenue and Actual Gas Costs
- II. Reliability Analysis and Gas Supply Planning
- III. Hedging
- IV. Recommendations

Staff's analysis consisted of:

1. A review and evaluation of the Company's billed revenues and its natural gas costs for the period of September 1, 2011, to August 31, 2012. A comparison of billed revenue recovery with actual costs will yield either an over-recovery or under-recovery of the ACA costs.

2. An examination of the Company's gas purchasing practices to determine the prudence of the Company's purchasing decisions.

3. A hedging review to determine the reasonableness of the Company's hedging plans for this ACA period.

4. A reliability analysis of the Company's estimated peak day requirements and capacity levels to meet those requirements.

Atmos' (Liberty's) Missouri service territory

Atmos serves the following areas: West, Kirksville, Northeast and Southeast. A more detailed description, with the associated interstate pipelines serving these areas, follows.

The West area includes Butler which is served by Panhandle Eastern Pipe Line Co., LP (PEPL) and the former Rich-Hill/Hume service area which is served by Southern Star Central Gas Pipeline, Inc. (SSCGP). The West area is served by an average of 3,961 firm sales customers.

The Kirksville area, served by ANR Pipeline Co. (ANR), has an average of 5,529 firm sales customers.

The Northeast area, served by Panhandle Eastern Pipe Line Co., LP (PEPL), serves an average of 13,218 firm sales customers in Hannibal-Canton, Bowling Green and Palmyra.

The Southeast area (SEMO) includes Jackson, served by Natural Gas Pipeline Co. of America (NGPL), Piedmont, served by Mississippi River Transmission Corp. (MRT), and the Southeast Missouri Integrated system, served by Texas Eastern Transmission, LP (TETCO) and Ozark Gas Transmission, LLC. The Southeast area also includes the former Neelyville service area which is served by Natural Gas Pipeline Co. of America (NGPL) and TETCO. Together they served an average of 32,603 firm sales customers.

Based on its review, Staff recommends the following adjustments to the Company's filed (over)/under-recovered ACA balances:

ALL AREAS (+) Under-recovery (-) Over-recovery	Filed Balances for 2011-2012 (Ending 8-31-12)	Staff Adjustments	Staff Balances for 2011-2012 (Ending 8-31-12)
Southeast Area:			
Demand ACA	\$466,598	\$0	\$466,598
Commodity ACA	(\$1,695,598)	(\$4,203)	(\$1,699,801)
Kirksville Area:			
Demand ACA	\$51,206	\$0	\$51,206
Commodity ACA	(\$207,629)	(\$108)	(\$207,737)
West Area:			
Demand ACA	\$55,371	\$0	\$55,371
Commodity ACA	(\$129,885)	\$0	(\$129,885)
Northeast Area:			
Demand ACA	\$226,152	\$0	\$226,152
Commodity ACA	(\$399,415)	(\$2,772)	(\$402,187)

Summary of Recommendations

The Staff recommends that the Commission issue an order requiring Liberty to:

1. Respond to Staff's recommendations in Section I – Billed Revenues and Actual Gas Costs.
2. Respond to the issues in Section II - Reliability Analysis and Gas Supply Planning. (There is no financial adjustment related to Reliability or Supply Planning for this ACA review period.)
3. Respond to Staff's comments in Section III - Hedging. (There is no financial adjustment related to Hedging).

STAFF TECHNICAL REPORT AND ANALYSIS

I. BILLED REVENUE AND ACTUAL GAS COSTS

Bid Process – Total Company

Atmos was Liberty's agent for gas supply procurement during this ACA. As such, Liberty adopted the same bid evaluation policy that was used by Atmos during this ACA review period. Part of the Staff's review of the bid process is to note the level of responses received by service area. Some areas continue to receive few responses resulting in a small pool of bidders. This is a continued concern of Staff.

The Stipulation and Agreement in Case No. GM-2012-0037 contained a provision that states that Liberty-Midstates shall develop a plan to increase vendor participation in bid responses to gas-supply Requests for Proposals (RFPs). The Staff recommends that Liberty continually evaluate reasonable alternatives to improving qualified bidder participation and document these efforts for subsequent review.

Cash-out Provisions

Scheduling Fee Adjustment

The Company's PGA tariffs (Sheet 52) include a monthly cash-out provision for its transportation customers. Imbalances are cashed-out (priced out) on a monthly basis thereby reconciling the imbalances on a monthly basis. Effective April 1, 2007, Atmos added a provision in its transportation tariffs that provides for a daily scheduling fee to be assessed for

any daily transportation imbalance in excess of 10% of the customers' daily confirmed nomination. The annual storage demand charges and storage capacity charges (for all pipelines) along with the average storage injection and withdrawal fees are combined to calculate daily scheduling fees. These tariff provisions are intended to compensate Atmos' firm sales customers for the cost of storage used in providing balancing services to its transportation customers. Staff found that the scheduling fee of \$.0425 billed to various transportation customers was not properly calculated during the month of December 2011. The proper scheduling fee for December 2011 is \$.4025. Staff's adjustment includes the revised scheduling fees of transportation customers on the PEPL, NGPL, ANR and TETCO pipelines. The revised calculation shows that scheduling fees were undercharged to Atmos' transportation customers. This results in a refund to firm sales customers and a corresponding increase in gas costs to transportation customers in the following service areas: Kirksville (\$108), Northeast (\$2,772) and SEMO (\$4,203).

II. RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

As a regulated gas corporation providing natural gas service to Missouri customers, the Local Distribution Company (LDC) is responsible for: 1) conducting reasonable long-range supply planning, and 2) the decisions resulting from that planning. One purpose of the ACA process is to review the Company's planning for gas supply, transportation, and storage to meet its customers' needs. For this analysis, Staff reviewed the LDC's plans and decisions regarding estimated peak day requirements and the capacity levels to meet those requirements, peak day reserve margin and the rationale for this reserve margin, and natural gas supply plans for various weather conditions.

Staff has no proposed financial adjustments for the 2011/2012 ACA period related to Reliability Analysis and Gas Supply Planning section.

Staff's review produced the following comments and concerns:

Contract changes

Many of the decisions related to this ACA period were made by the previous owner, Atmos. In transfer of the properties, many of the pipeline contracts were assigned to Liberty. There were a few contracts that were renegotiated due to expiration.

Staff has noted some pipeline contracts are expiring as early as March 31, 2014, and thus Liberty may have already negotiated some of the contract changes and others may be coming due for negotiation. Staff will review Liberty's evaluation of the pipeline capacity requirements and decisions in the relevant ACA periods.

Peak Day Demand Studies

Liberty has provided Staff with a peak (design) day study for the 2011/2012 ACA period.

Per the GM-2012-0037 Unanimous Stipulation and Agreement order effective March 24, 2012, Liberty provided its 2012/2013 Peak Day Demand (Design Day) study in the October 26, 2012 EFIS filing in that case. As per the Unanimous Stipulation and Agreement, the Peak Day Demand Study is due for each of its areas for the 2013/2014 ACA period and is to be filed no later than May 15 in EFIS under case number GM-2012-0037.

After that filing, the Stipulation and Agreement, section II, 15, g, indicates Liberty may file the peak day demand studies no less than every three years. Liberty's comprehensive peak day demand study is to be conducted for each Missouri natural gas service area, estimating projected peak day (coldest day) requirements for the next five years and the capacity available to meet such requirements. Staff recommends the peak day demand studies include the Company's estimate of capacity reserve margins and include an explanation of the Company's assumptions for growth or decline to the estimates of the peak day requirements for future years.

Staff also reminds Liberty that if it revises the transportation or storage capacity from that identified in the peak day demand study, Liberty is to prepare an addendum to the peak day demand study within six-months of making such changes, explaining the changes and the rationale for the changes, and provide the addendum to Staff and OPC and file the addendum in EFIS under the case number GM-2012-0037.

Supply Plans

For the 2011/2012 winter, the company (then Atmos) had a supply agreement that covered the Hannibal/Canton/Palmyra and the Bowling Green service areas.

Staff has had several discussions with Liberty regarding the volumes of the supply agreement, how the supply would flow on the various transportation contracts, and how the supply volumes are broken out for the various delivery points which have helped in clarifying how the transportation contracts, storage contract, and supply agreement can be used to flow gas when needed for a peak day.

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III. HEDGING

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While Staff reviews the prudence of a Company's decision-making based on what the Company knew at the time it made its hedging decisions, the Company's hedging planning should be flexible enough to incorporate changing market circumstances, though Staff is not suggesting that the Company should or could design its hedging strategy in order to beat the market.

The Company should evaluate its hedging strategy in response to changing market dynamics to balance the cost of hedging against the goal of price stabilization, and thus to achieve a cost effective hedging outcome. For example, the Company should evaluate whether the swaps and the volumes associated with them are appropriate under the current market where the market prices have become less volatile. **

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____ ** Staff recommends the Company be aware of any fundamental shifts in the market dynamics while being cautious on the market views.

Staff also recommends the Company continue to assess and document the effectiveness of its hedges for the 2012-2013 ACA and beyond. ** _____

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IV. RECOMMENDATIONS

The Staff recommends that the Commission issue an order requiring Liberty to:

1. Adjust the ACA account balances in its next ACA filing to reflect the following Staff adjustments and to reflect the (over)/under-recovered ACA balances in the “Staff Balances” column of the following table:

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TABLE 1

ALL AREAS (+) Under-recovery (-) Over-recovery	Filed Balances for 2011-2012 (Ending 8-31-12)	Staff Adjustments	Staff Balances for 2011-2012 (Ending 8-31-12)
Southeast Area: Demand ACA	\$466,598	\$0	\$466,598
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Northeast Area: Demand ACA	\$226,152	\$0	\$226,152
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2. Respond to Staff's recommendations in Section I – Billed Revenues and Actual Gas Costs.
3. Respond to Staff's recommendations in Section II – Reliability Analysis and Gas Supply Planning.
4. Respond to Staff's recommendations in Section III – Hedging.
5. Respond to recommendations included herein within 30 days.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Atmos Energy Corporation's)
Purchased Gas Adjustment Tariff Filing)

Case No. GR-2012-0129

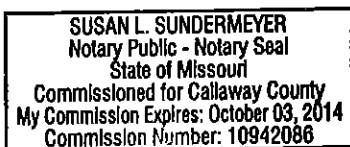
AFFIDAVIT OF KWANG Y. CHOE

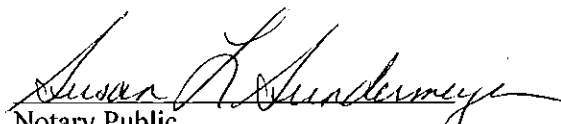
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Kwang Y. Choe, being of lawful age, on his oath states: that as a Regulatory Economist II in the Procurement Analysis Unit of the Utility Services Department, he has participated in the preparation of the foregoing memorandum consisting of 9 pages to be presented in the above case; that he has knowledge of the matters set forth in the Memorandum pertaining to *Hedging*; and that such matters are true and correct to the best of his knowledge and belief,


Kwang Y. Choe

Subscribed and sworn to before me this 2nd day of October, 2013.




Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

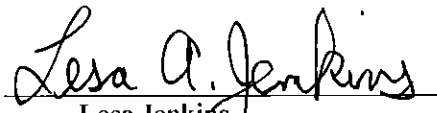
In the Matter of Atmos Energy Corporation's)
Purchased Gas Adjustment Tariff Filing)

Case No. GR-2012-0129

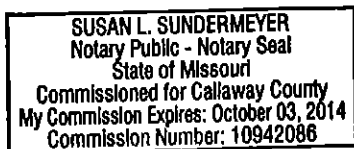
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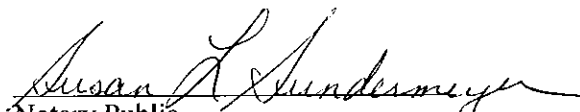
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Lesa Jenkins, being of lawful age, on her oath states: that as a Utility Regulatory Engineer II in the Procurement Analysis Unit of the Utility Services Department, she has participated in the preparation of the foregoing memorandum consisting of 9 pages to be presented in the above case; that she has knowledge of the matters set forth in the Memorandum pertaining to *Reliability Analysis and Gas Supply Planning*; and that such matters are true and correct to the best of her knowledge and belief,


Lesa Jenkins

Subscribed and sworn to before me this 2nd day of October, 2013.




Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

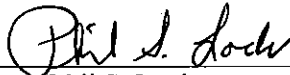
In the Matter of Atmos Energy Corporation's)
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AFFIDAVIT OF PHIL S. LOCK

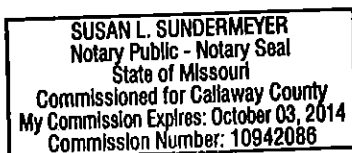
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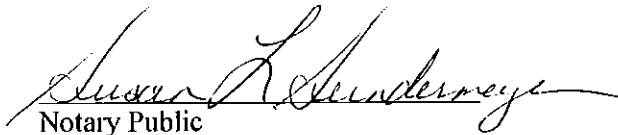
Phil S. Lock, being of lawful age, on his oath states: that as a Utility Regulatory Auditor III in the Procurement Analysis Unit of the Utility Services Department, he has participated in the preparation of the foregoing memorandum consisting of 9 pages to be presented in the above case; that he has knowledge of the matters set forth in the Memorandum pertaining to *Billed Revenues and Actual Gas Costs*; and that such matters are true and correct to the best of his knowledge and belief,



Phil S. Lock

Subscribed and sworn to before me this 2nd day of October, 2013.





Notary Public