

DIRECT TESTIMONY

of

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ACCOUNTANT

Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Proposed General Increase in Gas Rates

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

Docket No. 14-0371

August 7, 2014

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ATTACHMENT

Attachment A LU Response to Staff Data Request JMO 3.03

1 **Witness Identification**

2 **Q. Please state your name and business address.**

3 A. My name is Mike Ostrander. My business address is 527 East Capitol
4 Avenue, Springfield, Illinois 62701.

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

6 A. I am currently employed as an Accountant in the Accounting Department
7 of the Financial Analysis Division of the Illinois Commerce Commission
8 (“ICC” or “Commission”).

9 **Q. Please describe your background and professional affiliations.**

10 A. I received a Bachelor of Business Administration in Accounting from the
11 University of Notre Dame. I am a Certified Public Accountant and a
12 Certified Internal Auditor. I joined the Commission Staff (“Staff”) in March
13 2006. Prior to joining the Commission, I was employed for three years as
14 a Staff Accountant in public accounting, seventeen years in private
15 industry with positions ranging from Accounting Manager to Corporate
16 Officer encompassing all areas of accounting and internal auditing, and
17 three years as Controller of a law firm and software company.

18 **Q. Have you previously testified before this Commission?**

19 A. Yes, I have testified before the Commission on several occasions.

20 **Q. What is the purpose of your testimony in this proceeding?**

21 A. The purpose of my testimony is to:

- 22 1) propose adjustments to Liberty Utilities (Midstates Natural
23 Gas) Corp.'s ("Liberty", "LU" or the "Company") operating
24 statement and rate base concerning utility plant in service,
25 accumulated depreciation, accumulated deferred income
26 taxes, budget payment plans, rate case expenses and
27 depreciation expense;
- 28 2) propose an original cost determination for the Company;
- 29 3) identify issues which are related to allocations from affiliates
30 due to outstanding responses to Staff data requests; and
- 31 4) comment on the Company's rate case management.

32 **Schedule Identification**

33 **Q. Are you sponsoring any schedules as part of your testimony?**

34 A. Yes. I prepared the following schedules, which show data as of, or for the
35 future test year ending, December 31, 2015:

Schedule 2.01	Net Plant
Schedule 2.02	Accumulated Deferred Income Taxes
Schedule 2.03	Budget Payment Plans
Schedule 2.04	Rate Case Expenses
(Confidential and Public)	
Schedule 2.05	Depreciation Expense

36 **Net Plant**

37 **Q. Please describe Schedule 2.01, Net Plant.**

38 A. Schedule 2.01 presents the adjustments I consider necessary to establish
39 the rate base components of utility plant in service and accumulated
40 depreciation, or net plant, as an average balance rather than as a year-end
41 balance as proposed by the Company. An average rate base better
42 matches the level of rate base investment with the revenues and expenses
43 for a future test year than does a year-end rate base. Schedule 2.01 also
44 includes adjustments to accumulated depreciation to reclassify allocated
45 plant accumulated depreciation erroneously netted against utility plant in
46 service¹ and to reflect the impact of the correction of test year depreciation
47 expense as discussed in Schedule 2.05, Depreciation Expense.

48 **Q. Please explain why an average rate base better matches the level of**
49 **rate base investment with the revenues and expenses for a future**
50 **test year.**

51 A. A test year is a time period used to develop costs representative of the first
52 year in which rates being set will be in effect. Under the Commission's
53 rules, utilities may select a historical test year or a future test year.² The

¹ Attachment A - LU Response to Staff Data Request JMO 3.03.

² 83 Ill. Admin. Code, Part 287, Rate Case Test Year, Section 287.20 (A utility, at its option, may propose either one of the following periods as its proposed test year:

- a) Historical. Any consecutive 12 month period, beginning no more than 24 months prior to the date of the utility's filing, for which actual data are available at the time of filing new tariffs; or

54 Company selected a future test year ending December 31, 2015. A future
55 test year is forward looking in that it largely relies upon projected costs.

56 An average rate base by definition represents investments throughout the
57 year whereas investment estimates from a single point in time (e.g., year-
58 end), by definition, do not represent investments incurred throughout the
59 year. Thus, it is more appropriate to use an average rate base than a
60 year-end rate base when using a future test year.

61 The year-end 2015 rate base proposed by the Company reflects the level
62 of rate base investment at the end of the test year, rather than the average
63 level during the test year. Under the Company's proposal, the revenues
64 and expenses throughout 2015 would represent a level of investment that
65 would not exist until the end of the test year. Using an average rate base
66 would result in revenues and expenses that are expected to occur
67 throughout 2015 and correspond with the level of investment throughout
68 the test year.

69 **Q. Would using a year-end rate base be more representative of the rate**
70 **base that will exist when the proposed rates will be in effect than**
71 **would an average rate base?**

72 A. No. A year-end rate base is not more representative of the rate base that
73 will exist when the proposed rates will be in effect due to the date on which

b) Future. Any consecutive 12 month period of forecasted data beginning no earlier than the date new tariffs are filed and ending no later than 24 months after the date

74 the proposed tariffs would become effective. The Company has proposed
75 using the projected rate base at December 31, 2015 and the projected
76 revenues and expenses at the end of 2015. However, rates from this case
77 would become effective around March 1, 2015. Thus, under the
78 Company's proposal, ratepayers would be paying a return on plant
79 investments that the Company will not have made for ten months after the
80 rates' effective date. Using an average rate base, as I am proposing,
81 properly derives rates that match the rate base more closely with the
82 associated revenue and expenses.

83 In contrast, using a year-end rate base as proposed by the Company fails
84 to take into account the fact that a future test year is based on financial
85 projections and, therefore, is already forward-looking.

86 **Q. Has the Commission previously addressed the issue of when to use**
87 **year-end rate base in a traditional rate case?**

88 A. Yes. As far as I am aware, the Commission has only approved the use of
89 a year-end rate base with a historical test year. In the instant case, the
90 Company has proposed a future test year using projected data for twelve
91 months of revenues and expenses for 2015 and a projected year-end rate
92 base at December 31, 2015.

93 **Q. Has the Commission previously rejected the use of a year-end rate**
94 **base with a future test year in a traditional rate case?**

95 A. Yes. In Docket No. 90-0072, Central Illinois Public Service Company
96 (“CIPS”) proposed a future test year with a year-end rate base. CIPS,
97 based on year-end figures as of December 31, 1989, used a future test
98 year consisting of the 12 months ending December 31, 1990. With the
99 Final Order dated November 29, 1990, new rates would have gone into
100 effect in December of 1990, the test year. The Commission, however,
101 ruled that an average rate base should be used because an average rate
102 base generally provides a better matching of test year rate base with
103 operating revenues and expenses. The Commission further concluded
104 that if utilities wanted more “forward looking” rate bases, the utilities have
105 the option of making the rate case filing based on more “forward looking”
106 test years.

107 The Commission believes that the question of whether an
108 average or year end rate base should be used in the instant
109 proceeding is a close issue. Although CIPS has presented
110 several well articulated arguments in support of its position,
111 the Commission agrees with Staff that an average rate base
112 should be used. As suggested by Staff, an average rate
113 base generally provides a better matching of test year rate
114 base with operating revenues and expenses, and recent
115 forecast test year rate proceedings have consistently used
116 average rate bases. The Commission also notes that utilities
117 which want to use more forward looking rate bases have the
118 option of making rate filings based on more forward looking
119 test years than those which correspond to the pendency of
120 the proceeding. (Order, 6-7, Docket No. 90-0072,
121 November 28, 1990.)

122 Also, in Docket No. 04-0779, Northern Illinois Gas Company proposed a
123 future test year with a year-end rate base. The Commission rejected this

124 approach because the average rate base more accurately reflects the cost
125 of service for the test year because it better matches the level of test year
126 rate base with the test year revenues and expenses.

127 The Commission agrees with Staff that an average rate
128 base methodology does not identify particular rate base
129 items that are imprudent, unreasonable, or unnecessary.
130 The Commission also finds that the Company's net plant
131 balance has been increasing in recent years and that the
132 total rate base increased during the test year. However, the
133 Commission must also consider the nature of the test year
134 chosen by the Company. The Company selected a
135 forecasted, future test year that already reflects the
136 Company's increasing investment on a forward-looking basis
137 relative to when the Company filed its case. As Staff noted,
138 the Commission gives utilities sufficient flexibility to make
139 their rate cases forward looking. In light of the forward
140 looking test year selected by the Company, the facts in this
141 case do not support using a year-end rate base with a future
142 test year. The average rate base proposed by Staff more
143 accurately reflects the cost of service for the test year
144 because it better matches the level of rate base during the
145 test year with the revenues and expenses during the test
146 year. The Commission finds that the average rate base
147 proposed by Staff is more appropriate than the year-end rate
148 base proposed by the Company, given the future test year
149 selected by the Company. (Order, 8, Docket No. 04-0779,
150 September 20, 2005.)

151 **Q. In recent traditional rate cases that have based the revenue**
152 **requirement on a future test year, has the Commission approved an**
153 **average or year-end rate base?**

154 A. The Commission has approved an average rate base with a future test
155 year rather than a year-end rate base in the following traditional rate cases:

- 156 • Docket No. 08-0363, Northern Illinois Gas Company, filed June
157 4, 2008;

- 158 • Docket Nos. 09-0166/0167 (cons), The Peoples Gas Light and
159 Coke Company and North Shore Gas Company, filed March
160 25,2009;
- 161 • Docket No. 09-0319, Illinois-American Water Company, filed
162 July 8, 2009;
- 163 • Docket Nos. 11-0280/0281 (cons), The Peoples Gas Light and
164 Coke Company and North Shore Gas Company, filed March 23,
165 2011;
- 166 • Docket No. 11-0282, Ameren Illinois Company, filed March 23,
167 2011;
- 168 • Docket No. 11-0767, Illinois-American Water Company, filed
169 December 7, 2011; and
- 170 • Docket Nos. 12-0511/0512 (cons), The Peoples Gas Light and
171 Coke Company and North Shore Gas Company, filed
172 September 6, 2012.

173 **Accumulated Deferred Income Taxes**

174 **Q. Please describe Schedule 2.02, Accumulated Deferred Income Taxes.**

175 A. Schedule 2.02 presents the adjustments I consider necessary to establish
176 the rate base component of accumulated deferred income taxes (“ADIT”)
177 as an average balance rather than as a year-end balance as proposed by
178 the Company. My discussion on the basis of using an average rate base
179 on Schedule 2.01 Net Plant applies here as well and will not be repeated.

180 Also incorporated into my proposed average balance adjustments are
181 adjustments to ADIT balances to correct the shared plant allocation factor,
182 to use a lower Illinois state income tax rate, and to include the impact of
183 the proration of ADIT.

184 **Q. Please describe your adjustment to correct the shared plant**
185 **allocation factor.**

186 A. The Company's response to Staff Data Request ("DR") JMO 3.06
187 confirmed that an incorrect shared plant allocation factor was used in the
188 ADIT calculation. Pages 2 and 3 of Schedule 2.02 utilize the correct
189 allocation factor of 28.47%.

190 **Q. Please describe the adjustment that reflects the impact of a lower**
191 **state income tax rate.**

192 A. The Company's ADIT calculation utilizes an Illinois income tax rate for
193 2015 of 9.50%, which is composed of a corporate income tax rate of 7%
194 plus a property tax replacement tax of 2.5%. For the 2015 test year, Staff
195 used a lower corporate income tax rate of 5.25%, resulting in an Illinois
196 income tax rate of 7.75%.

197 **Q. Why did Staff use a lower Illinois income tax rate in calculating**
198 **ADIT?**

199 A. Currently, the corporate income tax rate for tax years prior to January 1,
200 2015 is 7%. This temporary tax increase is slated after December 31,

201 2014 to be reduced back to 5.25%.³ The Illinois state legislature
202 adjourned May 31, 2014 without taking any action with regard to state
203 income taxes. Therefore, Staff used the statutory corporate income tax
204 rate of 5.25% for the 2015 revenue requirement test year.

205 **Q. What is your response to the Company's reasoning for using the**
206 **higher corporate income tax rate of 7% in calculating ADIT?**

207 A. It is invalid and inconsistent with information it provided to Staff. The
208 Company agreed in its response to Staff DR 6.07 that, as the rate case
209 progresses, if there is no extension to the temporary tax increase by the
210 Illinois state legislature, that the lower corporate income tax rate should be
211 used in the 2015 ADIT calculation.

212 **Q. Please describe the adjustment that reflects the impact of the**
213 **proration of ADIT.**

214 A. Schedule G-7 of Part 285 instructs the Company to provide the calculation
215 for the proration of ADIT attributable to the accelerated depreciation of
216 utility plant in service pursuant to Section 168 (i)(9)(B) of the Internal
217 Revenue Code (26 USC 168(i)(9)(B)). Both the initial filed Schedule G-7
218 and the Schedule G-7 filed in response to the Part 285 Deficiency Letter
219 failed to provide the proration calculation. Staff's adjustment calculates the
220 pro rata increase in ADIT from the date rates go into effect (approximately

³ 35 ILCS 5/201((a)(10), (a)(11)).

221 March 1, 2015) to the end of the test year, December 31, 2015, as
222 required by the Internal Revenue Code.

223 **Budget Payment Plans**

224 **Q. Please describe Schedule 2.03, Budget Payment Plans.**

225 A. Schedule 2.03 presents the adjustment I consider necessary to reflect the
226 Company's revised 13-month average of the account balances for the test
227 year. The inclusion in rate base of the average balance of the Company's
228 budget payment plans will reduce the Company's rate base by the average
229 over-collection associated with the budget payment plans. Based on its
230 own forecasts, the Company will over-collect from its customers for the
231 test year.⁴ This over-collection represents a ratepayer funded source of
232 capital. These ratepayer supplied funds are projected to be available for
233 the Company's use and should be deducted from the rate base on which
234 the Company is expected to earn a return.

235 **Q. Why did the Company revise its forecast of budget payment plan**
236 **balances?**

237 A. In its initial Part 285 filing, the Company used a different time period than
238 the required December 2014 through December 2015 period to calculate

⁴ LU Schedule B-14 (Part 285 Deficiency Response).

239 the 13-month average of the account balances for the test year. This error
240 was corrected through the Company's Part 285 deficiency filing.⁵

241 **Rate Case Expenses (Confidential and Public)**

242 **Q. Please describe Schedule 2.04, Rate Case Expenses (Confidential**
243 **and Public).**

244 A. Schedule 2.04 presents the adjustment I consider necessary to remove the
245 remaining estimated expenses that the Company included in rate case
246 expense for its ADIT consultant, Mr. Bourassa. The Company anticipates
247 that Mr. Bourassa's work is materially complete.⁶ In addition, I propose the
248 recovery of the actual cost of the initial Part 285 consultant, Mr. Schmidt.
249 The cost of Mr. Schmidt's service was not included in the Company's rate
250 case expense estimate.⁷

251 **Q. Section 9-229 of the Public Utilities Act ("Act") requires the**
252 **Commission to expressly address in its final order the justness and**
253 **reasonableness of any amount expended by a public utility to**
254 **compensate attorneys or technical experts to prepare and litigate a**
255 **general rate case filing. (220 ILCS 5/9-229) Has the Company**
256 **provided documentation to support the justness and reasonableness**
257 **of actual rate case expenses incurred through May 31, 2014?**

⁵ LU Schedule B-14 (Part 285 Deficiency Response).

⁶ LU Response to Staff Data Request SRK 8.02.

⁷ LU Schedule C-10.

258 A. The Company has provided supporting documentation for the actual rate
259 case expenses incurred through May 31, 2014. Staff witness Rochelle
260 Phipps is in the process of reviewing the documentation supporting the
261 costs attributable to the review of the Company's cost of common equity
262 performed by Sussex Economic Advisors. I have reviewed the remaining
263 documentation not being reviewed by Ms. Phipps. However, Staff expects
264 supplemental DR responses from the Company related to actual rate case
265 expenses incurred as the rate case progresses. Staff will evaluate the
266 supplemental DR responses to determine whether the Company has
267 supported its projected rate case expense or if an adjustment for
268 unreasonable costs is warranted. If such an adjustment is warranted, Staff
269 will present its recommendation in rebuttal testimony.

270 **Q. Will you provide in rebuttal testimony a Staff recommended amount**
271 **of rate case expenses and a recommended conclusion for the**
272 **Commission to make in its final order?**

273 A. Yes. My rebuttal testimony will include a recommended conclusion for the
274 amount of reasonable rate case expense costs supported by LU. If the
275 Commission makes any adjustments to rate case expenses beyond those
276 proposed by Staff, those adjustments should also be considered in the
277 Commission's statement that sets forth the amount of rate case expense
278 included in the revenue requirement. Therefore, I will recommend in my

279 rebuttal testimony that the Order in this proceeding express a Commission
280 conclusion as follows:

281 The Commission has considered the costs expended by the
282 Company to compensate attorneys and technical experts to prepare
283 and litigate this rate case proceeding and assesses that such costs
284 in the amount of \$_____ are just and reasonable
285 pursuant to Section 9-229 of the Act (220 ILCS 5/9-229).

286 **Depreciation Expense**

287 **Q. Please describe Schedule 2.05, Depreciation Expense.**

288 A. Schedule 2.05 presents my adjustment to correct a calculation error in the
289 Company's depreciation expense schedule.⁸ The Company erroneously
290 used a depreciation rate of 2.12% for Account 365.1 Land Right of Ways.
291 The correct depreciation rate is zero, since land is not depreciable.

292 **Original Cost Determination**

293 **Q. What is the relevance of an original cost determination?**

294 A. Requirements for preservation of records are associated with an original
295 cost determination. Requirements for the preservation of specific records
296 are set forth in 83 Ill. Adm. Code 510, The Preservation of Records of Gas
297 Utilities, Appendix A. For example, the records that support journal
298 vouchers and journal entries charging plant accounts are to be maintained
299 "7 years prior to date as of which original cost of plant has been

⁸ LU Schedule C-12.

300 unconditionally determined or approved by this Commission” in an original
301 cost determination proceeding or a rate case.⁹

302 **Q. What do you recommend regarding the original cost determination?**

303 A. At this time I am unable to make a recommendation because of overdue
304 responses to data requests I have promulgated regarding support for plant
305 additions since the last rate case. Further, if such plant additions are not
306 adequately supported, reduction of utility plant in service may be
307 warranted. If such an adjustment is warranted, I will present the requisite
308 adjustment and recommendation in supplemental direct testimony.

309 **Other Outstanding Issues**

310 **Q. Are there any other issues on which you have not presented**
311 **testimony, but on which future testimony may be warranted?**

312 A. Yes. As of the writing of this testimony, I am awaiting the Company’s
313 responses to Staff DRs JMO 11.01 through 11.05 regarding incentive
314 compensation. Depending on the information presented in the Company’s
315 responses to those data requests, supplementary direct testimony and
316 further adjustments may be necessary.

317 **Comments on the Conduct of this Rate Proceeding and Recommendations**
318 **for Future Rate Case Proceedings**

319 **Q. Do you have any comments regarding the conduct of this**
320 **proceeding?**

⁹ 83 Ill. Adm. Code 510, Appendix A, 12(b)(1).

321 A. Yes, I have comments concerning the Company's management of this
322 proceeding. This proceeding is the initial Illinois jurisdictional rate case
323 filed by the Company since Liberty acquired the gas operations from
324 Atmos Energy in 2012. The Company's lack of experience with filing an
325 Illinois rate case was immediately apparent when the Part 285 information
326 was filed. Compliance with the information required by Part 285 was
327 significantly lacking, as demonstrated by ALJ Yoder's deficiency letter
328 dated May 1, 2014. This lack of timely, accurate, and necessary
329 information hampered Commission Staff's review and analysis. This
330 situation was further exacerbated due to the Company's failure to provide
331 timely and adequate responses to Staff's data requests. Of the seventy
332 data requests I issued, the Company's responses to sixty one data
333 requests, or 87%, exceeded the two-week agreed-upon deadline. In
334 addition, I am still awaiting responses to two data requests, which were
335 issued June 25th, 43 days from the issuance date to the date of filing this
336 testimony.

337 The Company's regulatory department's lack of experience is further
338 highlighted in the Company's 2013 ILCC Form 21, Annual Report of
339 Electric Utilities, Licensees, and/or Natural Gas Utilities to the Illinois
340 Commerce Commission ("Form 21 ILCC"), and FERC Form 2, Annual
341 Report of Major Natural Gas Companies submitted to the Federal Energy
342 Regulatory Commission ("FERC Form 2"). The Form 21 ILCC reflected

343 only the 2013 Illinois rate jurisdiction information rather than the whole
344 company information as required. The Commission's Manager of
345 Accounting issued a deficiency letter on May 22, 2014. The Company
346 submitted a revised Form 21 ILCC on June 23, 2014 that was prepared on
347 a total entity basis, including Illinois Missouri and Iowa rate jurisdictions.
348 The revised Form 21 ILCC contains discrepancies with the FERC Form 2
349 along with other deficiencies. I am currently working with the Company to
350 address the needed corrections with a target completion date of mid-
351 August 2014. Nonetheless, these deficiencies and discrepancies in the
352 Company's Form 21 ILCC and FERC Form 2 reports hampered a timely
353 and thorough review and analysis of LU's rate case filing.

354 **Q. Do you have any recommendations regarding LU's future rate**
355 **proceedings?**

356 A. Yes, I do. In order for the Commission to assess the Company's need for
357 a rate increase, the Commission must have confidence in the financial
358 data submitted supporting the request for a change in rates. And, in order
359 for the Company to realize that the Commission takes its reporting
360 requirements seriously, I recommend that the Commission address the
361 quality of the information supporting the rate increase submitted by Liberty
362 in this proceeding by adopting the recommendations sponsored by Staff
363 witness Steven R. Knepler, ICC Staff Exhibit 1.0 on this matter.

364 **Conclusion**

365 **Q. Does this question end your prepared direct testimony?**

366 **A. Yes.**

Liberty Utilities (Midstates Natural Gas) Corp.
Average Net Plant
For the Test Year Ending December 31, 2015

Line No.	Description	12/31/2014	12/31/2015	Amount
(a)	(b)	(c)	(d)	(e)
<u>Utility Plant in Service</u>				
1	Amount per Staff (Average)	\$ 61,745,821	\$ 65,452,477	\$ 63,599,149
2	Amount per Company (Year-End)	-	63,916,617	<u>63,916,617</u>
3	Staff Adjustment to Plant (Line 1 - Line 2)			<u><u>\$ (317,468)</u></u>
<u>Accumulated Depreciation</u>				
4	Amount per Staff (Average)	\$ (23,737,548)	\$ (26,208,676)	\$ (24,973,112)
5	Amount per Company (Year-End)	-	(24,673,695)	<u>(24,673,695)</u>
6	Staff Adjustment to Accumulated Depreciation (Line 4 - Line 5)			<u><u>\$ (299,417)</u></u>
7	Staff Average Net Plant (Line 1 + Line 4)			<u><u>\$ 38,626,037</u></u>

Sources:

Line 1 - LU Schedule B-5 (Part 285 Deficiency Response)

Lines 2 and 5 - LU Schedule B-1

Line 4, Column (c) - Staff Exhibit 2.0, Schedule 2.01, page 2 of 2, column (c), line 4

Line 4, Column (d) - Staff Exhibit 2.0, Schedule 2.01, page 2 of 2, column (d), line 4

Liberty Utilities (Midstates Natural Gas) Corp.
Average Net Plant
For the Test Year Ending December 31, 2015

Line No.	Description	12/31/2014	12/31/2015
(a)	(b)	(c)	(d)
<u>Accumulated Depreciation</u>			
1	Amount per Part 285 Deficiency Response	\$ (22,969,618)	\$ (24,673,695)
2	Shared Plant Accumulated Depreciation Reclassification	(767,930)	(1,535,860)
3	Correction of Test Year Depreciation expense Error	-	879
4	Amount per Staff (Sum of Line 1 through Line 3)	<u>\$ (23,737,548)</u>	<u>\$ (26,208,676)</u>

Sources:

- Line 1 - LU Schedule B-6 (Part 285 Deficiency Response)
- Line 2 - LU response to Staff Data Request JMO 3.03
- Line 3 - Staff Exhibit 2.0, Schedule 2.05, page 1 of 2, column (c), line 3

**Liberty Utilities (Midstates Natural Gas) Corp.
 Accumulated Deferred Income Taxes
 For the Test Year Ending December 31, 2015**

Line No.	Description	12/31/2014 Plant	12/31/2015 Plant	Amount
(a)	(b)	(c)	(d)	(e)
1	Amount per Staff (Average/Prorated)	\$ (1,083,378)	\$ (1,141,513)	\$ (1,112,446)
2	Amount per Company (Year-End)	-	(1,240,930)	<u>(1,240,930)</u>
3	Staff Adjustment (Line 1 - Line 2)			<u><u>\$ 128,484</u></u>

Sources:

Line 1, Column (c) - Staff Exhibit 2.0, Schedule 2.02, page 3 of 4, column (e), line 15

Line 1, Column (d) - Staff Exhibit 2.0, Schedule 2.02, page 4 of 4, column (e), line 18

Line 2 - LU Schedule B-1

**Liberty Utilities (Midstates Natural Gas) Corp.
 Accumulated Deferred Income Taxes
 For the Test Year Ending December 31, 2015**

Line No.	Description	Timing Difference	Tax Rate	Future Tax Impact
(a)	(b)	(c)	(d)	(e)
<u>2015 Illinois Plant ADIT (Federal)</u>				
1	Net Plant	(1,902,713)	31.68%	\$ (602,779)
2	Customer Advances for Construction	222,395	31.68%	70,455
3	Cost of Removal	857,970	31.68%	271,805
4	Total Future Federal Tax Liability - ADIT (Line 1 + Line 2 + Line 3)			<u>(260,520)</u>
<u>2015 Illinois Plant ADIT (State)</u>				
5	Net Plant	(1,902,713)	7.75%	(147,460)
6	Customer Advances for Construction	222,395	7.75%	17,236
7	Cost of Removal	857,970	7.75%	66,493
8	Total Future State Tax Liability (Line 5 + Line 6 + Line 7)			<u>(63,732)</u>
9	Total 2015 Illinois Plant Future Tax Liability - ADIT (Line 4 + Line 8)			<u>(324,252)</u>
<u>2015 Shared Plant ADIT (Federal)</u>				
10	Net Plant	(7,711,517)	31.68%	(2,443,009)
<u>2015 Illinois Plant ADIT (State)</u>				
11	Net Plant	(7,711,517)	7.75%	<u>(597,643)</u>
12	Total Shared Plant Future Tax Liability - ADIT (Line 10 + Line 11)			(3,040,651)
13	Allocation Factor			<u>28.47%</u>
14	Total 2015 Shared Plant Future State Tax Liability Allocated to Illinois - ADIT (Line 12 x Line 13)			<u>(865,673)</u>
15	Total 2015 Illinois and Shared Plant Future Tax Liability - ADIT (Line 9 + Line 14)			<u>\$ (1,189,925)</u>

Sources:

Column (c) - LU response to Staff Data Request JMO 3.02
 Column (d) Federal Tax Rate - LU response to Staff Data Request JMO 3.02
 Column (d) State Tax Rate - ICC Staff Exhibit 2.0, pp. 10-11
 Line 13 - LU response to Staff Data Request JMO 3.06

**Liberty Utilities (Midstates Natural Gas) Corp.
 Accumulated Deferred Income Taxes
 For the Test Year Ending December 31, 2015**

Line No.	Description	Timing Difference	Tax Rate	Future Tax Impact
(a)	(b)	(c)	(d)	(e)
<u>2014 Illinois Plant ADIT (Federal)</u>				
1	Net Plant	\$ (1,660,545)	31.68%	\$ (526,061)
2	Customer Advances for Construction	222,395	31.68%	70,455
3	Cost of Removal	565,251	31.68%	179,072
4	Total Future Federal Tax Liability - ADIT (Line 1 + Line 2 + Line 3)			<u>(276,534)</u>
<u>2014 Illinois Plant ADIT (State)</u>				
5	Net Plant	(1,660,545)	9.50%	(157,752)
6	Customer Advances for Construction	222,395	9.50%	21,128
7	Cost of Removal	565,251	9.50%	53,699
8	Total Future State Tax Liability (Line 5 + Line 6 + Line 7)			<u>(82,925)</u>
9	Total 2014 Illinois Plant Future Tax Liability - ADIT (Line 4 + Line 8)			<u>(359,460)</u>
<u>2014 Shared Plant ADIT (Federal)</u>				
10	Net Plant	(6,174,698)	31.68%	(1,956,144)
<u>2014 Illinois Plant ADIT (State)</u>				
11	Net Plant	(6,174,698)	9.50%	<u>(586,596)</u>
12	Total Shared Plant Future Tax Liability - ADIT (Line 10 + Line 11)			(2,542,741)
13	Allocation Factor			<u>28.47%</u>
14	Total 2014 Shared Plant Future State Tax Liability Allocated to Illinois - ADIT (Line 12 x Line 13)			<u>(723,918)</u>
15	Total 2014 Illinois and Shared Plant Future Tax Liability - ADIT (Line 9 + Line 14)			<u>\$ (1,083,378)</u>

Sources:

Columns (c) and (d) - LU response to Staff Data Request JMO 3.02
 Line 13 - LU response to Staff Data Request JMO 3.06

**Liberty Utilities (Midstates Natural Gas) Corp.
 Accumulated Deferred Income Taxes
 For the Test Year Ending December 31, 2015**

Line No.	Description	Amount	Days	Ratio	Prorated
(a)	(b)	(c)	(d)	(e)	(f)
1	Balance at 12/31/2014	\$ (1,083,378)			
2	Balance at 12/31/2015	<u>(1,189,925)</u>			
3	Test Year Addition to ADIT (Line 2 - Line 1)	(106,547)			
4	Monthly Addition to ADIT (Line 3 / 12)	<u>(8,879)</u>			
5	January		-		\$ (8,879)
6	February		-		(8,879)
7	March		276	90.5%	(8,035)
8	April		246	80.7%	(7,161)
9	May		215	70.5%	(6,259)
10	June		185	60.7%	(5,386)
11	July		154	50.5%	(4,483)
12	August		123	40.3%	(3,581)
13	September		93	30.5%	(2,707)
14	October		62	20.3%	(1,805)
15	November		32	10.5%	(932)
16	December		1	0.3%	<u>(29)</u>
17	Impact of Proration (Sum of Line 5 through Line 16)	<u>(58,135)</u>			<u>\$ (58,135)</u>
18	Prorated Balance at 12/31/2015 (Line 1 + Line 17)	<u>\$ (1,141,513)</u>			

Sources:

- Line 1 - Staff Exhibit 2.0, Schedule 2.02, page 1 of 4, column (c), line 1
- Line 2 - Staff Exhibit 2.0, Schedule 2.02, page 2 of 4, column (e), line 15
- Column (d) - Days from Last Day of Month to Year End
- Column (e) - Proration Ratio = Column (d) / Total Days in Proration Period (305)
- Column (f) - Column (e) x Monthly Addition to ADIT (column (c), line 4)

Notes: Assumes rates become effective March 1, 2015
 Total days in Proration Period = 305

**Liberty Utilities (Midstates Natural Gas) Corp.
Budget Payment Plans
For the Test Year Ending December 31, 2015**

Line No.	Description	Amount
(a)	(b)	(c)
1	Amount per Staff	\$ (3,878)
2	Amount per Company	<u>22,814</u>
3	Staff Proposed Adjustment (Line 1 - Line 2)	<u><u>\$ (26,692)</u></u>

Sources:

Line 1 - LU Schedule B-14 (Part 285 Deficiency Response)

Line 2 - LU Schedule B-14 (Initial Part 285)

Note:

The amount per Staff for the 13 month average overpayments is reflected as a negative amount since the overpayments will reduce the Company's test year rate base.

**Liberty Utilities (Midstates Natural Gas) Corp.
 Rate Case Expenses
 For the Test Year Ending December 31, 2015**

Line No.	Description	Amount
(a)	(b)	(c)
1	Amount per Staff	\$ 707,855
2	Amount per Company	<u>707,500</u>
3	Staff Proposed Adjustment (Line 1 - Line 2)	355
4	3 Year Amortization Period	<u>3</u>
5	Staff Proposed Adjustment (Line 3 / Line 4)	<u><u>\$ 118</u></u>

Sources:

- Line 1 - Staff Exhibit 2.0, Schedule 2.04, page 2 of 2, column (h), line 9
- Line 2 - Staff Exhibit 2.0, Schedule 2.04, page 2 of 2, column (c), line 9
- Line 4 - LU Schedule C-10

NOTE: Only Page 2 is Confidential

**Liberty Utilities (Midstates Natural Gas) Corp.
 Rate Case Expenses
 For the Test Year Ending December 31, 2015**

Line No.	Description	Estimate	5/31/2014 Actual	Remaining Estimate (c) - (d)	Remaining Estimate Adjustment	Disallowed Amount	Allowed Amount (d)+(e)+(f)+(g)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1	ZPWB Law	\$ 400,000					
2	SPI Energy Group	200,000					
3	Sussex Economic Advisors	60,000					
4	Stokes CPA	7,500					
5	Bourassa (ADIT)	10,000					
6	Schmidt (Part 285)	-					
7	Public Notice	10,000					
8	Miscellaneous	20,000					
9	Total Rate Case Expense (Sum of Line 1 through Line 8)	<u>\$ 707,500</u>	<u>\$ 427,288</u>	<u>\$ 280,212</u>	<u>\$ 355</u>	<u>\$ -</u>	<u>\$ 707,855</u>

Sources:

Column (c) = LU C-10

Column (d) = LU response to Staff Data Request SRK 1.03 CONFIDENTIAL

**Liberty Utilities (Midstates Natural Gas) Corp.
Depreciation Expense
For the Test Year Ending December 31, 2015**

Line No.	Description	Amount
(a)	(b)	(c)
1	Amount per Staff	\$ 2,727,617
2	Amount per Company	<u>2,728,496</u>
3	Staff Proposed Adjustment (Line 1 - Line 2)	<u>\$ (879)</u>

Sources:

Line 1 - Staff Exhibit 2.0, Schedule 2.05, page 2 of 2, column (c), line 3

Line 2 - LU Schedule C-12

**Liberty Utilities (Midstates Natural Gas) Corp.
Depreciation Expense
For the Test Year Ending December 31, 2015**

Line No.	Description	Amount
(a)	(b)	(c)
1	Amount per Company	\$ 2,728,496
2	Correct Calculation Error	<u>(879)</u>
3	Amount per Staff (Line 1 + Line 2)	<u><u>\$ 2,727,617</u></u>

Sources:

Line 1 - LU Schedule C-12
Line 2 - LU Schedule C-12

LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP.
d/b/a LIBERTY UTILITIES
DOCKET NO. 14-0371
RESPONSE TO ILLINOIS PUBLIC SERVICE COMMISSION STAFF

Response provided by: Christopher D. Krygier
Title: Director, Regulatory & Government Affairs
Company: Liberty Utilities
Address: 2751 North High Street
Jackson, MO 63755
Company Response Number: JMO 3.03
Date: 13 June 2014

Q. Referring to the Company's response to Staff data request JMO 3.01, is the shared plant calculated accumulated depreciation amount included in the test year accumulated depreciation amount of \$24,673,695? If so, please demonstrate how the shared plant accumulated depreciation amount is included in the test year amount.

RESPONSE:

Mathematically speaking, the test year amount of accumulated depreciation provided in response to JMO 3.01 is not included in the referenced \$24,673,695 balance of test year accumulated provision for depreciation. This is because the "shared plant" was included in test year plant in service on a net plant basis.

This can be demonstrated through an examination of several of the Company's filing schedules and workpapers.

First, a review of Schedule B-5 (2012-2015) will show that plant additions for 2014 and 2015 combined are \$7,043,300. Also on B-5(2012-2015), shared plant allocations of \$5,401,003 are shown separately from plant additions.

The origin of test year shared plant allocations can be determined by examining WP B-5(a). This workpaper shows that the test year shared plant allocations are the net of \$6,936,863 gross plant allocated to Illinois and 2 years of annual depreciation expense of \$767,930.

Next, please examine the origin of the test year balance of accumulated provision for depreciation of \$24,673,695 referenced in JMO 3.03. This balance appears on Schedules B-1, B-2 and B-6. On the EXCEL version of Schedule B-6, there is shown a link to WP B-6(a) that produces the value of \$4,131,771. This workpaper also shows the source of the retirements for each period. WP B-6(a) uses plant balances that tie with plant additions on Schedule B-5 that do not include shared plant allocations.

As a result, while the accumulated provision for depreciation for the test year does not include depreciation associated with shared plant allocations, the effect of that depreciation is included in the net plant balance because the shared plant allocation is on a net plant basis as described above.

Should Staff wish to include shared plant allocations in its rate base evaluation showing both gross plant and depreciation detail, the values that should be used are shown below.

GROSS PLANT ALLOCATED TO ILLINOIS SHOWN ON WP B-5(a) is \$6,936,863.

ANNUAL DEPRECIATION EXPENSE FOR GROSS PLANT ALLOCATED TO ILLINOIS SHOWN ON WP B-5(a) is \$767,930.

ACCORDINGLY, THE GROSS PLANT BALANCES AND ACCUMULATED DEPRECIATION BALANCES FOR SHARED PLANT ALLOCATED TO ILLINOIS ARE AS FOLLOWS.

	<u>2014</u>	<u>2015</u>
GROSS PLANT	\$6,936,863	\$6,936,863
ACCUM PROV FOR DEPREC	\$ 767,930	\$1,535,860
NET PLANT	\$6,168,933	\$5,401,003