

SUPPLEMENTAL 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 25, 2014

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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. Have you previously testified in this case?**

6 A. Yes, my direct testimony is ICC Staff Exhibit 2.0.

7 **Q. What is the purpose of your supplemental direct testimony in this**
8 **proceeding?**

9 A. The purpose of my supplemental direct testimony is to propose
10 adjustments to Liberty Utilities (Midstates Natural Gas) Corp.'s ("Liberty",
11 "LU" or the "Company") operating statement and rate base concerning
12 incentive compensation.

13 **Schedule Identification**

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

15 A. Yes. I am sponsoring Schedule 5.01, Adjustment to Incentive
16 Compensation, which shows data as of, or for the future test year ending,
17 December 31, 2015.

18 **Adjustment to Incentive Compensation**

19 **Q. In your prepared direct testimony did you indicate that there were**
20 **some issues not addressed in your direct testimony but upon which**
21 **future testimony might be necessary?**

22 A. Yes, as of the writing of my direct testimony, I was waiting for the
23 Company's response to certain data requests regarding incentive
24 compensation. (ICC Staff Exhibit 2.0, 15) The Company has responded
25 to those requests and I have had a chance to review the responses and
26 will address the issue in this supplemental direct testimony.

27 **Q. Please describe Schedule 5.01, Adjustment to Incentive**
28 **Compensation.**

29 A. Schedule 5.01 presents my proposed adjustments to reduce the
30 Company's operating expenses and rate base for incentive compensation
31 costs. The adjustments are comprised of the following three subparts:

- 32 1) Disallowance of Long Term Incentive Plan ("LTIP") costs related to
33 shareholder-oriented goals;
- 34 2) Disallowance of Short Term Incentive Plan ("STIP") costs related to
35 goals tied to financial performance; and
- 36 3) Disallowance of Shared Bonus Pool Program ("SBPP") costs
37 related to goals tied to financial performance.

38 As I explain more fully below, the Company has not demonstrated that
39 these costs provide tangible net benefits to ratepayers in order to prove

40 that the recovery of these incentive compensation costs is just and
41 reasonable.

42 **Q. Please provide the rationale for your recommended disallowance of**
43 **the Company's LTIP related to shareholder-oriented goals, as**
44 **reflected on Schedule 5.01, page 2.**

45 A. I have disallowed the Company's LTIP costs related to shareholder-
46 oriented goals because the goals are based on financial measures that
47 primarily benefit shareholders and not ratepayers. The LTIP is valued
48 solely using the stock price of Algonquin Power & Utilities Corp., LU's
49 parent company.¹ My proposal disallows 100% of the LTIP costs that the
50 Company proposes to recover in the revenue requirement but have not
51 been shown to benefit ratepayers. The LTIP is provided to eligible senior
52 management.

53 **Q. Please summarize your recommended disallowance of the**
54 **Company's STIP costs related to financial performance, as reflected**
55 **on Schedule 5.01, page 3.**

56 A. My proposal disallows the "Balanced Scorecard" segment that measures
57 the Company's financial performance which primarily benefits

¹ LU response to Staff Data Request 4.14 LTIP Program - Confidential

58 shareholders and not ratepayers.² The STIP is provided to management
59 employees.

60 **Q. Please summarize your recommended disallowance of the**
61 **Company's SBPP costs related to financial performance, as reflected**
62 **on Schedule 5.01, page 3.**

63 A. Similar to the STIP discussed above, my proposal disallows the "Balanced
64 Scorecard" segment that measures the Company's financial performance
65 which primarily benefits shareholders and not ratepayers.³ The SBPP is
66 provided to non-management employees.

67 **Q. Has the Commission previously disallowed incentive compensation**
68 **plan costs related to shareholder-oriented goals and/or goals tied to**
69 **financial performance?**

70 A. Yes. The Commission has disallowed incentive compensation plan costs
71 related to shareholder-oriented goals and/or goals tied to financial
72 performance in the following traditional rate cases:

- 73 • Docket No. 08-0363, Northern Illinois Gas Company, filed June
74 4, 2008;
- 75 • Docket Nos. 09-0166/0167 (Cons), The Peoples Gas Light and
76 Coke Company and North Shore Gas Company, filed March 25,
77 2009;

² LU response to Staff Data Request 4.14 STIP Program - Confidential

³ LU response to Staff Data Request 4.14 SBPP Program - Confidential

- 78 • Docket Nos. 09-0308/0309/0310/0311 (Cons), Ameren Illinois
79 Utilities, filed July 8, 2009;
- 80 • Docket Nos. 11-0280/0281 (Cons), The Peoples Gas Light and
81 Coke Company and North Shore Gas Company, filed March 23,
82 2011; and
- 83 • Docket Nos. 12-0511/0512 (Cons), The Peoples Gas Light and
84 Coke Company and North Shore Gas Company, filed
85 September 6, 2012.

86 **Conclusion**

87 **Q. Does this question end your prepared supplemental direct**
88 **testimony?**

89 **A. Yes.**

**Liberty Utilities (Midstates Natural Gas) Corp.
 Adjustment to Incentive Compensation
 For the Test Year Ending December 31, 2015**

Line No.	Description	LTIP	STIP & SBP	Adjustments Totals
(a)	(b)	(c)	(d)	(e)
<u>Staff Proposed Adjustments Summary</u>				
1	Administrative and General Expenses	\$ (14,199)	\$ (21,962)	\$ (36,161)
2	Gross Utility Plant in Service	(10,711)	(16,568)	(27,279)
3	Taxes Other Than Income (Payroll taxes)	(1,906)	(2,947)	(4,853)
4	Depreciation Expense	(457)	(707)	(1,165)
5	Accumulated Depreciation	457	707	1,165
6	Accum. Deferred Income Taxes	180	279	459

Sources:

Column (c) - Staff Exhibit 5.0, Schedule 5.01, page 2 of 3

Column (d) - Staff Exhibit 5.0, Schedule 5.01, page 3 of 3

**Liberty Utilities (Midstates Natural Gas) Corp.
 Adjustment to Incentive Compensation
 For the Test Year Ending December 31, 2015**

Line No.	Description	Disallowed Amounts	Source
(a)	(b)	(c)	(d)
<u>Long Term Incentive Plan ("LTIP")</u>			
1	Administrative and General Expenses	\$ (14,199)	LU response to Staff Data Request JMO 11.02
2	Gross Utility Plant in Service	(10,711)	LU response to Staff Data Request JMO 11.02
3	Taxes Other Than Income (Payroll taxes)	(1,906)	Line 1 + Line 2 x 7.65%
4	Depreciation Expense	(457)	Line 2 x 4.27% (See Note 1)
5	Accumulated Depreciation	457	Line 4 x -1
6	Accumulated Deferred Income Taxes	180	Line 4 x -39.43% (See Note 2)

Note 1 - The depreciation rate of 4.27% is an average rate derived from LU Schedule C-12.

Note 2 - The ADIT rate is composed of the federal income tax rate of 31.68% plus the Illinois income tax rate of 7.75%.

**Liberty Utilities (Midstates Natural Gas) Corp.
 Adjustment to Incentive Compensation
 For the Test Year Ending December 31, 2015**

Line No.	Description	A&G Expenses	Gross Plant	Source
(a)	(b)	(c)	(d)	(d)
1	Short Term Incentive Plan ("STIP") + Shared Bonus Pool Program ("SBPP") Total Cost	125,496	94,672	LU response to Staff Data Request JMO 11.04
2	Balanced Scorecard Weighting	<u>70%</u>	<u>70%</u>	LU response to Staff Data Request JMO 11.04
3	STIP + SBPP Balanced Scorecard Goals Cost	87,847	66,270	Line 1 x Line 2
4	Financial Goals Weighting	<u>-25%</u>	<u>-25%</u>	LU response to Staff Data Request JMO 11.04
5	Disallowed Amounts	(21,962)	(16,568)	Line 3 x Line 4
6	Taxes Other Than Income (Payroll taxes)	(1,680)	(1,267)	Line 5 x 7.65%
7	Depreciation Expense		(707)	Line 5 x 4.27% (See Note 1)
8	Accumulated Depreciation		707	Line 7 x -1
9	Accum. Deferred Income Taxes		279	Line 7 x -39.43% (See Note 2)

Note 1 - The depreciation rate of 4.27% is an average rate derived from LU Schedule C-12.

Note 2 - The ADIT rate is composed of the federal income tax rate of 31.68% plus the Illinois income tax rate of 7.75%.