STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities	)))	
	)	**Docket No. 14-0371**
Proposed General Increase In Natural Gas Rates	))	

BRIEF ON EXCEPTIONS OF THE STAFF

OF THE ILLINOIS COMMERCE COMMISSION

MATTHEW L. HARVEY
JAMES V. OLIVERO
MICHAEL J. LANNON
Office of General Counsel
Illinois Commerce Commission
160 North LaSalle Street, Suite C-800
Chicago, IL 60601
Phone: (312) 793-2877
Fax: (312) 793-1556
mharvey@icc.illinois.gov
jolivero@icc.illinois.gov
mlannon@icc.illinois.gov

Counsel for the Staff of the
Illinois Commerce Commission

January 6, 2015

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NOW COME the Staff witnesses of the Illinois Commerce Commission ("Staff"), by and through their undersigned counsel, pursuant to Section 200.830 of the Rules of Practice of the Illinois Commerce Commission ("Commission") (83 Ill. Adm. Code 200.830) and the schedule set by the Administrative Law Judge ("ALJ"), respectfully submit their Brief on Exceptions to the Proposed Order ("PO") issued by the Administrative Law Judge ("ALJ") on December 15, 2014.

I. INTRODUCTION

A. Overview

Initial Briefs ("IB") were filed on November 7, 2014 by Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities ("Liberty Midstates" or "Company")[1] and Staff. Staff's IB identified and responded to many if not most of the arguments raised in Liberty

[1] Staff uses Liberty Midstates or Company to designate the Illinois operating company.

Midstates' IB. Reply Briefs ("RB") were filed by the respective parties on November 21, 2014. In general, the PO reviews the issues presented in this proceeding in a clear and concise manner, is well written, and reflects the positions taken by Staff and the Company. Although Staff supports many of the PO's conclusions, there are two items to which Staff takes exception as set forth below. Staff addresses issues to which it replies in the order in which they appear in the PO.

Also, Staff points out a number of exceptions of a technical nature which are necessary to ensure the PO's accuracy. Finally, although Staff disputes how the Uncollectible Expense was determined in the PO, Staff will not be contesting the determination of the ALJ. Staff's revenue requirement schedule is presented on page 1 of Appendix A to this BOE based on the ALJ's determination of Uncollectible Rate of 0.66% and the proposed changes to the rate of return.

B. Procedural History

C. Nature of Liberty's Operations

D. Test Year

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1. Interest Synchronization Calculation

2. Budget Payment Plans

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4. Average Net Plant

5. Accumulated Deferred Income Taxes

6. Original Cost Determination

7. Cash Working Capital

B. Contested Issues

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2. Accumulated Deferred Income Taxes

3. Incentive Compensation[2]

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A. Resolved Issues

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2. Outside Professional Services

3. Rate Case Expense

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5. Depreciation Expense

B. Contested Issues

1. Gross Revenue Conversion Factor

a. Uncollectible Expense Rate

b. State Income Tax Rate

Technical Exception #1

The presentation of the PO's conclusion addressing the state income tax rate component of the Gross Revenue Conclusion should be revised. Specifically, the third sentence of the second paragraph on page 23 explains Liberty Midstates' state income tax rate position and reads as follows:

> Liberty Midstates acknowledges Staff's position, but believes it is likely that the roll-back will happen based on the statements of various legislative leaders.

[2] Due to the capital component.

Staff believes the word "not" is missing from the above sentence and that additional clarifying language should be added to explain Liberty Midstates' position. The sentence as modified should read as follows:

> Liberty Midstates acknowledges Staff's position, but believes it is likely that the roll-back to the lower rate will not happen based on the statements of various legislative leaders.

2. Incentive Compensation

C. Recommended Operating Income / Revenue Requirement

IV. RATE OF RETURN/COST OF CAPITAL

A. Resolved Issues

1. Short-Term Debt Ratio

2. Cost of Short-Term Debt

3. Embedded Cost of Long-Term Debt

B. Contested Issues

1. Common Equity and Long-Term Debt Ratios

2. Cost of Common Equity

Technical Exception #2

Staff recommends the following technical correction to page 45 of the PO (Section IV.B.2.a. Company Position on the Cost of Common Equity), which would accurately reflect Staff's return on equity ("ROE") recommendation:

> The Company states that after applying a 32 basis point upward adjustment to Ms. Phipps' ROE estimate to reflect the Company's relatively lower credit rating compared to the proxy group average credit rating, Ms. Phipps' ~~9.32~~9.23% ROE recommendation is below the average authorized natural gas ROE since January 2013 of 9.65%.

Technical Exception #3

Should the Commission adopt the PO's conclusions on the Cost of Equity, then Staff recommends two technical corrections. (Adopting Staff's proposed changes to the Cost of Equity conclusion would render the following two technical corrections unnecessary.) These technical corrections are necessary for the PO to accurately reflect the Commission's conclusions regarding the Company's authorized rate of return on rate base.

(1) On page 68 of the PO (Section IV.B.2.c. Commission Analysis and Conclusion on the Cost of Common Equity):

> As explained above, the Commission finds the average of the DCF results of 8.93%, combined with the average of Staff's CAPM result and a subset of the Company's CAPM, 9.95%, should be averaged to provide the estimate of the cost of equity for the proxy group, ~~9.25~~9.44%.

(2) On page 69 of the PO (Section IV.C. Authorized Rate of Return on Rate Base):

> Upon giving effect to the determinations made above on the balances and costs of capital, including the cost of common equity, the Commission finds, for purposes of this proceeding, that the Company's gas operations should be authorized a return on rate base of ~~6.96~~7.05% as shown in the table below and reflected in the appendices to this Order.

Exception #1: The Proposed Order needs to clarify sections related to Mr. Hevert's Alternative CAPM

The PO states, "[d]espite Staff's suggestions to the contrary, Mr. Hevert's Alternative CAPM, which rely on shorter-term betas, was not explicitly considered in his recommendation." (PO, 68) It is not possible to know, with certainty, which of Mr. Hevert's numerous analyses he explicitly considered in his recommendation because Mr. Hevert's recommendation is not based on a calculation using his ROE estimates; rather, Mr. Hevert's recommendation is based on his judgment alone. Staff's brief simply quoted the following statement by the Company:

> Mr. Hevert did not make a specific adjustment to his ROE recommendation based on the results of his alternate CAPM analyses. Rather, Mr. Hevert considered those results along with other factors, when determining where the Company's cost of equity fell within the range of his results.

(Staff IB, 36) Therefore, in light of the Company's acknowledgement that Mr. Hevert considered the results of his alternate CAPM analyses, Staff recommends striking the following sentence from page 68 of the PO:

> Despite Staff's suggestions to the contrary, Mr. Hevert's Alternative CAPM, which rely on shorter-term betas, was not explicitly considered in his recommendation.

For the same reason, Staff recommends striking the following sentence from page 67 of the PO:

> Given that Mr. Hevert did not rely on his Alternative CAPM analyses or the betas calculated with relatively short-term data, the Commission will not address them.

Exception #2: The Proposed Order incorrectly determined the Cost of Common Equity and Authorized Rate of Return on Rate Base

The PO arrives at an authorized ROE of 9.76% by averaging the DCF and CAPM results of Staff and the Company. (PO, 68) The PO states, "For purposes of clarity, the Commission does not endorse every input to the DCF analyses, or rationale therefore, presented by the Company or Staff." (PO, 67) The PO identifies a defect in the Company's DCF analyses, stating, "[a]s in Docket No. 13-0192, the Commission shares to a large degree the concerns expressed by Staff that the growth rate used in [sic] by

Mr. Hevert in the final stage of his multi-stage model is too high and would imply a return on new common equity investment that is implausible and unsustainable." (PO, 67) Further, the PO states that:

> [T]he Commission notes that in its initial brief, the Company discusses how the Commission estimated the cost of equity in Docket No. 13-0192. The Commission also notes; however, that as Staff points out in its reply brief, the Company's initial brief mischaracterizes the actual Commission action in that proceeding. Additionally, at page 34 of its reply brief, the Company discusses the risk-free rate that Mr. Hevert used in developing his recommendation. It appears to the Commission that the Company suggests that Mr. Hevert relied only on his analyses that use the 30-day average Treasury yields and not the near-term projections of the 30-year Treasury yield. The Commission notes that is not true. Whether intentional or not, the Commission does not appreciate misleading statements from any party and notes that it can calls [sic] into question the very veracity of that party's arguments. (PO, 67)

However, after making these findings, the PO makes two errors. First, the PO adopts the Company's DCF estimate despite the fact that sustaining the 5.72% terminal growth rate used by the Company, in combination with the Company's assumed 30.55% earnings retention rate, means the gas sample companies would have to indefinitely sustain, on average, an 18.72% return on new common equity investment – something no single company in the proxy group achieved for even a single year, let alone for an extend period, during the 2003-2013 measurement period. (Staff IB, 31-32) Importantly, the PO does not identify any concerns or shortcomings regarding Staff's DCF analysis.

Second, and perhaps less explicably, the PO concludes, "[b]ased on the record, the Commission believes that blending the Parties' proposals in this manner results in an average return that significantly diminishes any perceived upward or downward bias." (PO, 67) Since the PO has already "called into question" the Company's arguments regarding cost of equity, using Company positions as the basis for an average would be difficult to sustain.

Further, the Company's unsustainable growth rate - recognized by the PO - biases the DCF results upward; however, the PO does not identify any downward bias in Staff's or the Company's estimates. Consequently, averaging Staff's DCF result with the Company's upwardly biased DCF estimate only serves to raise the authorized rate of return on rate base above investors' required rate of return. Such an outcome provides utilities additional incentive to present upwardly biased cost of equity estimates in future rate cases since including them in any average result will raise the authorized rate of return on rate base. Thus, it is the Staff's firm opinion that the Company's DCF estimate should be given little or no weight, in light of the PO having correctly identified flaws in the Company's analysis as a source of concern.

The PO also errs by averaging the results of Staff's CAPM analysis with the Company's flawed CAPM analyses. (PO, 68) Staff's beta estimate comprised the two five-year beta estimates that Mr. Hevert used (his Value Line beta and regression beta) as well as Staff's regression beta, Zacks betas; and a five-year Bloomberg beta estimate provided by Mr. Hevert (which he did not use). (Staff IB, 26-27) By averaging the CAPM estimates of Staff and the Company, the PO assigns the most weight to the two highest beta estimates used by Staff and the Company (i.e., the Value Line beta and Mr. Hevert's regression beta). That is, as shown in the table below, the PO effectively assigns over 30% weight to Mr. Hevert's regression beta estimate, without articulating any reason for doing so, and reduces the weight assigned to the Zacks, Bloomberg and Staff regression betas to 6.25%.[3]

[3] Staff has explained that the Value Line beta should receive 50% weight given it is the only weekly beta. Averaging the weekly Value Line beta with the average of the monthly betas avoids over-weighting the monthly return-based betas. (Staff IB, 26-27)

Table One: Beta Summary

Beta Interval	Weekly	Monthly				
Beta Source	Value Line	Hevert	Zacks	Bloomberg	Staff	Total
Staff Beta	0.72	0.73	0.66	0.62	0.62	
Staff Weighting	50.00%	12.50%	12.50%	12.50%	12.50%	100%
Staff Weighted Beta*	0.360	0.091	0.083	0.078	0.078	0.69
Company Beta**	0.76	0.75				
Company Weighting	50.00%	50.00%	0.00%	0.00%	0.00%	100.00%
Company Weighted Beta	0.380	0.375	0.000	0.000	0.000	0.76
PO Beta	0.74	0.74	0.66	0.62	0.62	
PO Weighting	50.00%	31.25%	6.25%	6.25%	6.25%	100.00%
PO Weighted Beta	0.370	0.231	0.041	0.039	0.039	0.72

*The weighted betas equal the beta estimate times the weight assigned to beta (e.g., Staff's weighted Value Line Beta of 0.360 = 0.72 × 50.00%). The total beta estimate equals the sum of the weighted betas (e.g., Sum of Staff Weighted Betas of 0.360 + 0.091 + 0.083 + 0.078 + 0.078 = 0.69, which is the Beta Estimate used in Staff's CAPM).

** Mr. Hevert's updated CAPM analyses used a Value Line beta of 0.76 and a regression beta estimate of 0.75. (Company Sch. 7.4) In contrast, Ms. Phipps' CAPM analysis included Mr. Hevert's original Value Line beta (0.72) and regression beta (0.73). (Staff Ex. 3.0, Sch. 3.06; Co. Sch. 4.4)

The PO states, "[a]gain, for purposes of clarity, the Commission does not endorse every input to the CAPM analyses, or rationale therefore, presented by the Company or Staff." (PO, 68) Yet, as shown in the table above, the PO favors Mr. Hevert's monthly beta over three other monthly betas, including the published beta estimates from Zacks and Bloomberg. Further, similar to the discussion of the DCF analyses, the PO does not identify any concerns or shortcomings regarding Staff's CAPM analysis. On the other hand, Staff demonstrated that the Company's CAPM reflects an inflated market risk premium ("MRP") due to growth estimates exceeding 40% for companies included in the two MRP calculations performed by the Company. (Staff IB, 35) Those growth rates significantly affect the Company's MRP estimates. Specifically, the Company's Bloomberg analysis includes a company with a growth rate of 144.90%, which adds 0.10% to the market return, and the Company's Value Line analysis, includes four companies with growth rates ranging from 72.5% - 129%, which add 0.67% to the market return. In addition, Staff identified the following problems with the Company's MRP analyses: (1) missing growth rates for thirty-five dividend-paying companies in the Value Line analysis; (2) inconsistent market values (which should be the same in both analyses given a publicly-traded company's market value is observable); and (3) inconsistent dividend yields (despite dividend yields also being observable). (Staff IB, 35-36) Furthermore, the PO does not identify any downward bias in Staff's or the Company's CAPM estimates. Thus, by averaging the CAPM results of Staff and the Company, the PO biases the CAPM results upward. Again, the PO incents utilities to present upwardly biased cost of equity estimates in future rate cases since including them in any average result will raise the authorized rate of return on rate base.

In summary, Staff recommends the Commission reject the Company's DCF and CAPM analyses. The PO should rely exclusively on Staff's recommended ROE of 9.23%, which equals the average of Staff's DCF estimate (8.26%) and CAPM estimate (9.56%), plus 32 basis points to reflect the greater risk that the Company's lower credit rating implies vis-à-vis the proxy group. Accordingly, Staff recommends that the Commission adopt the language below to implement these changes to pages 67-69 of Sections

IV.B.2.c and IV.C of the PO, as well as paragraphs (7) and (8) of the Findings and Ordering paragraphs (on page 86 of the PO).

IV. COST OF CAPITAL

B. Contested Issues

2. Cost of Common Equity

c. Commission Analysis and Conclusion

The Company witness Mr. Hevert's ROE analyses produced an average updated multi-stage DCF result of 9.60% and an average standard CAPM result of 10.68%. Mr. Hevert reviewed the reasonableness of those estimates using a Bond Yield Plus Risk Premium analysis and an alternate CAPM analysis. Based on this analysis, Mr. Hevert determined that a reasonable range for the Company's ROE is 10.00 to 10.50 percent. After considering the Company's regulatory and business risks relative to the proxy group, Mr. Hevert concluded that 10.50 percent is a reasonable ROE for the Company.

Staff witness Ms. Phipps' analysis indicates that the cost of common equity for the Company's natural gas distribution operations is 9.23%. Ms. Phipps began with Mr. Hevert's DCF and CAPM analyses. Ms. Phipps' DCF estimate of the required rate of return on common equity for the gas sample is 8.26% and her CAPM estimates a required rate of return on common equity of 9.56% for the gas sample. Ms. Phipps recommended adding 32 basis points to the 8.91% cost of equity estimate for the natural gas sample to reflect the greater risk that the Company's lower credit rating implies. Her resulting cost of equity recommendation is 9.23%.

As an initial matter, the Commission notes that there were extensive arguments and filings relating to contested cost of capital issues. The Commission will begin by identifying some of the issues it will not be addressing in this conclusion. ~~Given that Mr. Hevert did not rely on his Alternative CAPM analyses or the betas calculated with relatively short-term data, the Commission will not address them. Similarly, t~~The Commission will not discuss Mr. Hevert's Bond Yield Plus Risk Premium analyses since he did not explicitly consider them in his recommendation and the Commission will not rely on them. While Mr. Hevert calculated flotation cost adjustments and made arguments related thereto, he did not incorporate an explicit adjustment to his cost of equity recommendation, the Commission disagrees with estimate and will not address it in this conclusion. Finally, Mr. Hevert says he "considered" the Company's risk profile, in particular its relatively small size, the regulatory environment in which it operates, and weather variability, in addition to costs associated with equity issuances. Because there is no way to evaluate how this impacted Mr. Hevert's recommendation, there is no need for the Commission to explicitly address them in this conclusion.

Next, the Commission notes that in its initial brief, the Company discusses how the Commission estimated the cost of equity in Docket No. 13-0192. The Commission also notes; however, that as Staff points out in its reply brief, the Company's initial brief mischaracterizes the actual Commission action in that proceeding. Additionally, at page 34 of its reply brief, the Company discusses the risk-free rate that Mr. Hevert used in developing his recommendation. It appears to the Commission that the Company suggests that Mr. Hevert relied only on his analyses that use the 30-day average Treasury yields and not the near-term projections of the 30-year Treasury yield. The Commission notes that is not true. Whether intentional or not, the Commission does not appreciate misleading statements from any party and notes that it can calls into question the very veracity of that party's arguments.

For purposes of estimating the Company's cost of equity in this proceeding, the Commission finds it is appropriate to ~~average~~use the DCF recommendation~~s~~ of ~~the Company and~~ Staff as well as the CAPM result~~s~~ discussed below.~~ For purposes of clarity, the Commission does not endorse every input to the DCF analyses, or rationale therefore, presented by the Company or Staff.~~

As in Docket No. 13-0192, the Commission shares to a large degree the concerns expressed by Staff that the growth rate used in by Mr. Hevert in the final stage of his multi-stage model is too high and would imply a return on new common equity investment that is implausible and unsustainable. Therefore, the Commission finds Staff's DCF estimate of 8.26% to be appropriate – along with the CAPM result found appropriate below – for determining the Company's cost of equity in this proceeding.

~~Nevertheless, the Commission finds that the DCF recommendations made by both parties are of sufficient value to be considered in the estimating the cost of common equity in this case. Averaging the recommendations of 9.60% by the Company and 8.26% by Staff results in a DCF estimate of 8.93%. Based on the record, the Commission believes that blending the Parties' proposals in this manner results in an average return that significantly diminishes any perceived upward or downward bias.~~

~~In its Order in Docket No. 11-0282, the Commission expressed "serious concerns" with the betas used by Mr. Hevert. The Commission noted that it has traditionally relied upon betas calculated with five years of data. In Docket No. 13-0192, the Commission again found that the beta estimates provided by Staff are more reliable than those provided by Mr. Hevert. Despite Staff's suggestions to the contrary, Mr. Hevert's Alternative CAPM, which rely on shorter-term betas, was not explicitly considered in his recommendation.~~

Regarding the CAPM, ~~A~~as noted above, while the Company suggests that Mr. Hevert relied only on his analyses that use the 30-day average Treasury yields; that is not the case. In this proceeding, the Commission concludes that reliance on near-term projections of the 30-year Treasury yield as proxy for the risk-free rate is not appropriate, in part, for the reasons identified by Staff. Furthermore, the Commission shares to a large degree the concerns expressed by Staff that the Company's market risk premium calculations are questionable at best due to excessive growth rates and inconsistencies in the market values and dividend yields between both of the Company's MRP analyses. The Commission also notes that Mr. Hevert's reliance on only the highest beta estimates biases his CAPM results upward.

Mr. Hevert's Alternative CAPM analyses rely on shorter-term betas and MRP analyses that include non-dividend paying companies. The Commission rejected such analyses in Docket Nos. 11-0282 and 13-0192, and does so again in the instant case. The Commission shares Staff's concern that betas measured over time periods shorter than five years are more prone to measurement error arising from short-term changes in risk and investors risk preferences, which can bias the beta estimate. Similarly, in the

Commission's view, including non-dividend paying companies in the MRP calculation upwardly biases the MRP estimate. Consequently, the Commission rejects Mr. Hevert's Alternative CAPM analyses altogether.

For purposes of this proceeding, the Commission concludes that it is appropriate to ~~average~~use the results of Staff's CAPM analyse~~e~~is~~ with results of Mr. Hevert's standard CAPM analyses which incorporate five-year betas and 30-day-average Treasury yields as a proxy for the risk free rate. Again, for purposes of clarity, the Commission does not endorse every input to the CAPM analyses, or rationale therefore, presented by the Company or Staff~~.

As explained above, the Commission finds ~~the average of the~~Staff's DCF result~~s~~ of 8.26~~8.93~~%, combined with ~~the average of~~ Staff's CAPM result~~ and a subset of the Company's CAPM~~, 9.56~~9.95~~%, should be averaged to provide the estimate of the cost of equity for the proxy group, ~~9.25~~8.91%. The Commission agrees with Staff that it is necessary to increase that estimate to reflect the additional risk of the Company relative to the proxy group. The Commission finds Staff's estimate of that additional risk, 32 basis points, to be reasonable and it should be adopted. While no estimate of the incremental risk would be perfect, the Staff method appears to be reasonably derived. ~~The derivation of the Company's cost of common equity is shown in the table below.~~

~~Staff DCF~~	~~8.26%~~
~~Liberty DCF~~	~~9.60%~~
~~Average DCF~~	~~8.93~~
~~Staff CAPM~~	~~9.56%~~
~~Liberty DCF~~	~~10.34%~~
~~Average CAPM~~	~~9.95~~
~~Overall Average~~	~~9.44~~
~~Risk Adjustment~~	~~0.32~~
~~Approved ROE~~	~~9.76~~

For purposes of this proceeding, the Commission finds that a reasonable estimate of the Company's cost of common equity is ~~9.76~~9.23%.

C. Authorized Rate of Return on Rate Base

Upon giving effect to the determinations made above on the balances and costs of capital, including the cost of common equity, the Commission finds, for purposes of this proceeding, that the Company's gas operations should be authorized a return on rate base of ~~6.96~~6.81% as shown in the table below and reflected in the appendices to this Order.

Capital Component	Weight	Cost	Weighted Cost	Revenue Conversion Factor	Pre Tax WAAC
Short-Term Debt	0.46%	1.41%	0.01%	1.0000	0.01%
Long-Term Debt	53.95%	4.81%	2.59%	1.0000	2.59%
Common Equity	45.59%	~~9.76~~9.23%	4.~~45~~21%	1.6509	~~7.35~~6.95%
Total	100.00%		~~7.05~~6.81%		~~9.95~~9.55%

Based on the condition set forth in the Commission's Order in Docket No. 11-0559, the upper limit pre-tax cost of capital is ~~10.90~~10.47% with a ~~9.76~~9.23% cost of common equity. The authorized overall cost of capital of ~~7.05~~6.81% for the Company, which is ~~9.95~~9.55% on a pre-tax basis, satisfies the Commission's condition set forth in Docket No. 11-0559. The Commission finds that the overall revenue requirement does not need to be adjusted downward to reflect the condition adopted in Docket No. 11-0559.

VIII. FINDINGS AND ORDERING PARAGRAPHS

(7) a just and reasonable return on which Liberty Midstates should be allowed to earn on its net original cost gas delivery service rate base is ~~7.05~~6.81%; this rate of return incorporates an ROE of ~~9.76~~9.23%;

Additionally, if the Commission adopts Staff's exceptions regarding the authorized rate of return on rate base, then it should correct Findings and Ordering Paragraph (8) to reflect the previously referenced Finding (7), the tariff revenues, total operating revenues and operating income given an authorized rate of return of 6.81%.

(8) the rate of return set forth in Finding ~~(6)~~(7) results in base rate gas delivery service tariffed operating revenues of $~~12,090,641~~11,934,228, which combined with other revenues of $116,352, produces total operating revenues of $~~12,206,993~~12,050,580 and net annual operating income of $~~2,778,981~~ 2,684,377 for the test year;

C. Recommended Overall Rate of Return

D. Ability to Satisfy Docket No. 11-0559 Condition

V. COST OF SERVICE

VI. RATE DESIGN

Technical Exception #4

The presentation of the PO's conclusion that addresses having a customer in the future take service under any of its customer class numbers 150, 190, 191 or 192 should be revised. Specifically, the third sentence of the first paragraph on page 74 explains Liberty Midstates will be required to conduct a new cost of service study and to provide that new cost of service study to the Director of Accounting at the Illinois Commerce Commission. Staff believes it would be more administratively efficient for the Manager of the Rates Department to receive the new cost of service study in the event a new customer takes service under any of its customer class numbers 150, 190, 191 or 192, rather than the Director of Accounting. The sentence should be revised as follows:

> The Commission agrees with Staff that should Liberty Midstates have a customer in the future take service under any of its customer class numbers 150, 190, 191 or 192, at that time Liberty Midstates will be required to conduct a new cost ~~costs~~ of service study and to provide that new cost of service study to the Manager of the Rates Department ~~Director of Accounting~~ at the Illinois Commerce Commission.

VII. OTHER

A. Quality of Future Rate Filings and Reports

B. Property Taxes – Request for Deferred Accounting[4]

VIII. CONCLUSION

WHEREFORE, for all of the reasons set forth in Staff's Initial Brief, Reply Brief, and this BOE, Staff respectfully requests that the Commission's Order in this proceeding reflect all of Staff's recommendations regarding the Company's request for a general increase in gas rates.

[4] No longer an operating expense issue.

Respectfully submitted,

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MATTHEW L. HARVEY
JAMES V. OLIVERO
MICHAEL J. LANNON
Office of General Counsel
Illinois Commerce Commission
160 North LaSalle Street, Suite C-800
Chicago, IL 60601
Phone: (312) 793-2877
Fax: (312) 793-1556
mharvey@icc.illinois.gov
jolivero@icc.illinois.gov
mlannon@icc.illinois.gov

Counsel for the Staff of the
Illinois Commerce Commission

January 6, 2015

Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Statement of Operating Income with Adjustments
For the Test Year Ending December 31, 2015

Line No.	Description	Company Rebuttal Pro Forma Present (Sch. 6.01, p. 2, col (d)	Adjustments (Source)	Pro Forma Present (Cols. b+c)	Company Proposed Increase (Co. Ex. 5.01	Gross Revenue Conversion Factor	Proposed Rates With Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Operating Statement per Order (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Tariffed Revenues	$ 7,465,402	$ -	$ 7,465,402	$ 5,466,835	$ (68,069)	$ 12,864,168	$ (929,940)	$ 11,934,228
2	Fuel Adjust. Clause Revenues	$ -	$ -	$ -	$ -	$ -	$ -		$ -
3	Other Revenues	$ 116,352	$ -	$ 116,352	$ -	$ -	$ 116,352	$ -	$ 116,352
4	Total Operating Revenue	$ 7,581,754	$ -	$ 7,581,754	$ 5,466,835	$ (68,069)	$ 12,980,520	$ (929,940)	$ 12,050,580
5	Uncollectible Accounts	$ 113,117	$ (14,933)	$ 98,184		$ 35,632	$ 133,816	$ (6,138)	$ 127,678
6	Distribution Expense	$ 1,387,302	$ -	$ 1,387,302	$ -	$ -	$ 1,387,302	$ -	$ 1,387,302
7	Customer Accounts	$ 160,088	$ -	$ 160,088	$ -	$ -	$ 160,088	$ -	$ 160,088
8	Sales Expense	$ 23,664	$ -	$ 23,664	$ -	$ -	$ 23,664	$ -	$ 23,664
9	A&G	$ 2,784,061	$ (32,611)	$ 2,751,450	$ -	$ -	$ 2,751,450	$ -	$ 2,751,450
10	Depreciation & Amortization	$ 3,026,648	$ (1,050)	$ 3,025,598	$ -	$ -	$ 3,025,598	$ -	$ 3,025,598
11	Taxes Other Than Income Taxes	$ 702,697	$ (4,377)	$ 698,320	$ -	$ -	$ 698,320	$ -	$ 698,320
12	Cost of Gas	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
13	Total Operating Expense								
14	Before Income Taxes	$ 8,197,577	$ (52,971)	$ 8,144,606	$ -	$ 35,632	$ 8,180,238	$ (6,138)	$ 8,174,100
							$ -		$ -
15	State Income Tax	$ (114,666)	$ (14,107)	$ (128,773)	$ 519,349	$ (103,703)	$ 286,873	$ (71,595)	$ 215,278
16	Federal Income Tax	$ (358,482)	$ (57,090)	$ (415,572)	$ 1,682,145	$ 2	$ 1,266,575	$ (289,750)	$ 976,825
17	Deferred Taxes and ITCs Net	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
18	Total Operating Expenses	$ 7,724,429	$ (124,168)	$ 7,600,261	$ 2,201,494	$ (68,069)	$ 9,733,686	$ (367,483)	$ 9,366,203
19	NET OPERATING INCOME	$ (142,675)	$ 124,168	$ (18,507)	$ 3,265,341	$ -	$ 3,246,834	$ (562,457)	$ 2,684,377
20	Rate Base (Appendix A, p. 5, Column (d))								$ 39,418,167
21	Overall Rate of Return (ICC Staff Exhibit 8.0, Schedule 8.01)								6.81%
22	Revenue Change (Col. (i) Line 4 minus Col. (d), Line 4)								$ 4,468,826
23	Percentage Revenue Change (Col. (i), Line 22 divided by Col. (d), Line 4)								58.94%

Uncollectible Exense:		
Tariff Revenues	$	11,934,228
PGA Revenues		7,294,660
Other Revenues		116,352
Total Revnue	$	19,345,240
Uncollectible Rate		0.66%
Uncollectible Exp		127,679
Rounding		(1)
Per Order		127,678

Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Statement of Operating Income with Adjustments
For the Test Year Ending December 31, 2015

Line No.	Description	Company Direct Pro Forma Present (Liberty Sch C-1)	Company Rebuttal Adjustments (Liberty Ex 5.02)	Company Rebuttal Pro Forma Present (Cols. b+c)	Company Surrebutal Adjustments (Liberty Ex. 8.0, 6-7)	Company Surrebuttal Pro Forma Present (Cols. d+e)
	(a)	(b)	(c)	(d)	(e)	(f)
1	Tariffed Revenues	$ 7,465,402	$ -	$ 7,465,402	$ -	$ 7,465,402
2	Fuel Adjust. Clause Revenues					
3	Other Revenues	116,352	-	116,352	-	116,352
4	Total Operating Revenue	7,581,754	-	7,581,754	-	7,581,754
5	Uncollectible Accounts	113,117	-	113,117	-	113,117
6	Distribution Expense	1,378,773	8,529	1,387,302	-	1,387,302
7	Customer Accounts	160,088	-	160,088	-	160,088
8	Sales Expense	23,664	-	23,664	-	23,664
9	A&G	2,888,553	101,702	2,990,255	(206,194)	2,784,061
10	Depreciation & Amortization	2,964,329	62,319	3,026,648	-	3,026,648
11	Taxes Other Than Income Taxes	776,181	(73,484)	702,697	-	702,697
12	Cost of Gas	-	-	-	-	-
13	-	-	-	-	-	-
14	-	-	-	-	-	-
15		-	-	-	-	-
16	Total Operating Expense					
17	Before Income Taxes	8,304,705	99,066	8,403,771	(206,194)	8,197,577
18	State Income Tax	(121,235)	(9,411)	(130,646)	15,980	(114,666)
19	Federal Income Tax	(392,672)	(30,483)	(423,155)	64,673	(358,482)
20	Deferred Taxes and ITCs Net	-	-	-	-	-
21	Total Operating Expenses	7,790,798	59,172	7,849,970	(125,541)	7,724,429
22	NET OPERATING INCOME	$ (209,044)	$ (59,172)	$ (268,216)	$ 125,541	$ (142,675)

Liberty Ex. 5.02
Line 15, Column (j)

State Inome Tax:

Operating Income (Loss) Before Taxes	(99,066)
Company State Tax Rate	9.5%
Illinois Inocme Tax	(9,411)

Federal Income Tax:

Operating Income (Loss) Before Taxes	(99,066)
Less: Illinois Icome Tax Expense	(9,411)
Taxable Federal Inocme Tax	(89,655)
Federal Income Tax Rate	34.00%
Federal Income Tax	(30,483)

Company Rebuttal Increase:

(Liberty Schedule 5.01)

	5,466,835
	9.5%
Page 1, Col. (e). line 16	519,349
	5,466,835
	519,349
	4,947,486
	34.00%
Page 1, Col. (e). line 17	1,682,145

Sources:
Column (e); See, Staff Ex. 6.0, Schedule 6.02, Column (e)

Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Statement of Operating Income with Adjustments
For the Test Year Ending December 31, 2015

Line No.	Description	Interest Synchronization (Sch. 6.06)	Uncollectible Expense at Present Rates (Sch. 1.08	Company Accepted Property Tax Expense (Sch. 1.11)	Co Accepted - SRTTY Outside Professional Services (Sch 6.09)	Adjustment Withdrawn Allocations from Shared Services (LABS) (Sch 1.13)	Company Accepted Rate Case Expense (Sch. 2.04)	Company Accepted Depreciation Expense (Sch. 2.05)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Tariffed Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Fuel Adjust. Clause Revenues		-						-
3	Other Revenues	-	-	-	-	-	-	-	-
4	Total Operating Revenue	-	-	-	-	-	-	-	-
5	Uncollectible Accounts	-	(14,933)	-	-	-	-	-	(14,933)
6	Distribution Expense	-	-	-	-	-	-	-	-
7	Customer Accounts	-	-	-	-	-	-	-	-
8	Sales Expense	-	-	-	-	-	-	-	-
9	A&G	-	-	-	-	-	-	-	-
10	Depreciation & Amortization	-	-	-	-	-	-	-	-
11	Taxes Other Than Income Taxes	-	-	-	-	-	-	-	-
12	Cost of Gas	-	-	-	-	-	-	-	-
13	Total Operating Expense								
14	Before Income Taxes	-	(14,933)	-	-	-	-	-	(14,933)
								-	
15	State Income Tax	(18,212)	1,157	-	-	-	-	-	(17,055)
16	Federal Income Tax	(73,705)	4,684	-	-	-	-	-	(69,021)
17	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
18	Total Operating Expenses	(91,917)	(9,092)	-	-	-	-	-	(101,009)
19	NET OPERATING INCOME	$ 91,917	$ 9,092	$ -	$ -	$ -	$ -	$ -	$ 101,009

Column (c): Proposed Order, Appendix, p. 9.

Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Adjustments to Operating Income
For the Test Year Ending December 31, 2015

Line No.	Description	Subtotal Operating Statement Adjustments (Sch 6.02, p. 1)	Incentive Compensation (Sch. 7.03)	(Source)	(Source)	(Source)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Tariffed Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Fuel Adjust. Clause Revenues	-							-
3	Other Revenues	-	-	-	-	-	-	-	-
4	Total Operating Revenue	-	-	-	-	-	-	-	-
5	Uncollectible Accounts	(14,933)	-	-	-	-	-	-	(14,933)
6	Distribution Expense	-	-	-	-	-	-	-	-
7	Customer Accounts	-	-	-	-	-	-	-	-
8	Sales Expense	-	-	-	-	-	-	-	-
9	A&G	-	(32,611)	-	-	-	-	-	(32,611)
10	Depreciation & Amortization	-	(1,050)	-	-	-	-	-	(1,050)
11	Taxes Other Than Income Taxes	-	(4,377)	-	-	-	-	-	(4,377)
12	Cost of Gas	-	-	-	-	-	-	-	-
13	Total Operating Expense								
14	Before Income Taxes	(14,933)	(38,038)	-	-	-	-	-	(52,971)
15	State Income Tax	(17,055)	2,948	-	-	-	-	-	(14,107)
16	Federal Income Tax	(69,021)	11,931	-	-	-	-	-	(57,090)
17	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
18	Total Operating Expenses	(101,009)	(23,159)	-	-	-	-	-	(124,168)
19	NET OPERATING INCOME	$ 101,009	$ 23,159	$ -	$ -	$ -	$ -	$ -	$ 124,168

Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Rate Base
For the Test Year Ending December 31, 2015

Line No.	Description	Company Pro Forma Rate Base Sch 6.03, p. 2, col (d)	Adjustments (Appendix, p. 7)	Per Order Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Utility Plant in Service	$ 65,856,245	$ (1,865,627)	$ 63,990,618
2	Less: Accumulated Depreciation	(26,234,473)	1,241,358	(24,993,115)
3		-	-	-
4	Net Utility Plant in Service	39,621,772	(624,269)	38,997,503
5	Additions to Rate Base			
6	Gas Stored Underground & Propane	1,604,364	-	1,604,364
7	Cash Working Capital	570,164	(30,211)	539,953
8	Budget Plan Balances & Customer Deposits	(3,878)	-	(3,878)
9			-	-
10			-	-
11			-	-
12			-	-
13			-	-
14			-	-
15			-	-
16	Deductions From Rate Base			
17	Customer Advances for Construction	(570,958)	-	(570,958)
18	Accumulated Deferred Income Taxes	(1,299,065)	150,248	(1,148,817)
19			-	-
20			-	-
21			-	-
22		-	-	-
23	Rate Base	$ 39,922,399	$ (504,232)	$ 39,418,167

Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Rate Base
For the Test Year Ending December 31, 2015

Line No.	Description	Company Direct Pro Forma Rate Base Co. Sch. B-1	Company Rebuttal Adjustments (Co. Ex. 5.03)	Company Rebuttal Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Utility Plant in Service	$ 63,916,617	$ 1,939,628	$ 65,856,245
2	Less: Accumulated Depreciation	(24,673,695)	(1,560,778)	(26,234,473)
3		-	-	-
4	Net Utility Plant in Service	39,242,922	378,850	39,621,772
5	Additions to Rate Base			
6	Gas Stored Underground & Propane	1,604,364	-	1,604,364
7	Cash Working Capital	570,524	(360)	570,164
8	Budget Plan Balances & Customer Deposits	22,814	(26,692)	(3,878)
9	-	-	-	-
10		-	-	-
11		-	-	-
12		-	-	-
13		-	-	-
14		-	-	-
15		-	-	-
16	Deductions From Rate Base			
17	Customer Advances for Construction	(570,958)	-	(570,958)
18	Accumulated Deferred Income Taxes	(1,240,930)	(58,135)	(1,299,065)
19	-	-	-	-
20	-	-	-	-
21	-	-	-	-
22	-	-	-	-
23	Rate Base	$ 39,628,736	$ 293,663	$ 39,922,399

Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Adjustment to Rate Base
For the Test Year Ending December 31, 2015

		Company Accepted CWC Methodology	Partially Accepted		Company Accepted				
Line No.	Description	Cash Working Capital (Sch. 1.14)	Average Net Plant (Sch. 7.01 & 7.02)	Accumulated Deferred Income Tax (Sch. 7.02)	Budget Payment Plans (Sch. 2.03)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Utility Plant in Service	$ -	$ (1,865,627)	$ -	$ -	$ -	$ -	$ -	$ (1,865,627)
2	Less: Accumulated Depreciation	-	1,241,358	-	-	-	-	-	1,241,358
3	-	-	-	-	-	-	-	-	-
4	Net Utility Plant in Service	-	(624,269)	-	-	-	-	-	(624,269)
	-								
5	Additions to Rate Base								-
6	Gas Stored Underground & Propane			-	-	-	-	-	-
7	Cash Working Capital	(30,211)	-	-	-	-	-	-	(30,211)
8	Budget Plan Balances & Customer Deposits	-	-	-	-	-	-	-	-
9	-	-	-	-	-	-	-	-	-
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	Customer Advances for Construction	-	-	-	-	-	-	-	-
18	Accumulated Deferred Income Taxes	-	-	150,248	-	-	-	-	150,248
19		-	-	-	-	-	-	-	-
20	-	-	-	-	-	-	-	-	-
21	-	-	-	-	-	-	-	-	-
22	-	-	-	-	-	-	-	-	-
23	Rate Base	$ (30,211)	$ (624,269)	$ 150,248	$ -	$ -	$ -	$ -	$ (504,232)

Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Revenue Effect of Adjustments
For the Test Year Ending December 31, 2015

Line No.	Description	Per Company	Staff Adjustments	Per Staff
	(a)	(b)	(c)	(d)
1	Present Revenues	$ 7,581,754 [(1)]	$ -	$ 7,581,754 [(2)]
2	Proposed Increase	5,466,835 [(3)]	(998,009) [(4)]	4,468,826 [(5)]
3	Proposed Revenues	$ 13,048,589	$ (998,009)	$ 12,050,580
4	% Increase	72.11%		58.94%
5	Staff Adjustments:			
6	Rate of Return (Applied to Company Rate Base)		(667,874)	
7	Interest Synchronization		(160,449)	
8	Uncollectible Expense at Present Rates		(15,032)	
9	Property Tax Expense		-	
10	Outside Professional Services		-	
11	Allocations from Shared Services (LABS)		-	
12	Rate Case Expense		-	
13	Depreciation Expense		-	
14	Incentive Compensation		(38,290)	
15	-		-	
16	-		-	
17	Cash Working Capital		(2,894)	
18	Average Net Plant		(59,792)	
19	Accumulated Deferred Income Tax		14,391	
20	Budget Payment Plans		-	
21			-	
22	Gross Revenue Conversion Factor		(68,069)	
23				
24	Rounding		-	
25				
26	Total Revenue Effect of Staff Adjustments		$ (998,009)	

Sources:
(1) Appendix A, page 1, column (b), line 4
(2) Appendix A, page 1, column (d), line 4
(3) Appendix A, page 1, column (e), line 4
(4) Appendix A, page 1, columns (f) + (h), line 4
(5) Appendix A, page 1, column (i), line 22

Reconciliaton to Appendix A, page 1:

Column (c), line 4 - Staff Adjustments to Revenues	$ -
Column (f), line 4 - GRCF	(68,069)
Column (h), line 4 - Adjustment to Proposed Increase	(929,940)
	$ (998,009)

Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Interest Synchronization Adjustments
For the Test Year Ending December 31, 2015

Line No.	Description	Amount	
	(a)	(b)	
1	Rate Base	$ 39,418,167	(1)
2	Weighted Cost of Debt	2.600%	(2)
3	Synchronized Interest Per Staff	$ 1,024,872	
4	Company Interest Expense	789,882	(3)
5	Increase (Decrease) in Interest Expense	$ 234,990	
6	Increase (Decrease) in State Income Tax Expense		
7	at 7.750%	$ (18,212)	
8	Increase (Decrease) in Federal Income Tax Expense		
9	at 34.000%	$ (73,705)	

(1) Source: Appendix A, p. 5, Column (d).
(2) Source: ICC Staff Exhibit 8.0, Schedule 8.01.
(3) Source: Company Schedule C-5.4, line 3.

Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Gross Revenue Conversion Factor
For the Test Year Ending December 31, 2015

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles (a)	0.6600%	0.006600	
3	State Taxable Income		0.993400	1.000000
4	State Income Tax	7.7500%	0.076989	0.077500
5	Federal Taxable Income		0.916411	0.922500
6	Federal Income Tax	34.0000%	0.311580	0.313650
7	Operating Income		0.604831	0.608850
8	Gross Revenue Conversion Factor Per Staff		1.653354	1.642441

Liberty Utilities (Midstates Natural Gas) Corp.
Adjustment to Cash Working Capital
For the Test Year Ending December 31, 2015

Line No.	Description	Amount	Amount
	(a)	(b)	(c)
1	Cash Working Capital - per Staff (Line 11, Column (c))		$ 540,313
2	Cash Working Capital - per Company (Line 11, Column (b))		570,524
3	Staff Adjustment (Line 1 - Line 2)		$ (30,211)

Cash Working Capital Determination:

Line No.	Description	Company Amount	Staff Amount
	(a)	(b)	(c)
4	Distribution Expense	$ 1,378,773	$ 1,387,302
5	Customer Accounts Expense	160,088	160,088
6	Uncollectible Accounts Expense	113,117	-
7	Sales Expense	23,664	23,664
8	Administrative & General Expenses	2,888,553	2,751,450
9	Total Expenses Requiring Cash Working Capital	$ 4,564,195	$ 4,322,504
10	CWC Formula Method (45-days or 1/8 of a year)	8	8
11	CWC Allowance (Line 9 divided by Line 10)	$ 570,524	$ 540,313