

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP., d/b/a LIBERTY UTILITIES	DOCKET NO. RPU-2016-0003 (TF-2016-0303, TF-2016-0304, TF-2016-0305, TF-2016-0306)
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**ORDER APPROVING SETTLEMENT WITH REPORTING REQUIREMENT,
DENYING MOTION TO STRIKE,
AND ADDRESSING RATE CASE EXPENSE**

(Issued April 28, 2017)

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INTRODUCTION

Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty Utilities (Liberty or Liberty Midstates), filed with the Utilities Board (Board) an application on July 25, 2016, seeking to permanently increase revenues by approximately \$1 million and change its rate design. The general rate increase application was identified as Docket No. RPU-2016-0003. On February 17, 2017, Liberty, the Office of Consumer Advocate (OCA), a division of the Iowa Department of Justice, and intervening parties the City of Keokuk (Keokuk) and Roquette America (Roquette) filed a joint unanimous settlement (Settlement) which would allow for a permanent increase of \$870,315 along with associated rate design changes. The Board has reviewed the Settlement and believes it to be reasonable in light of the whole record, consistent with law, and in the public interest. In this order, the Board will approve the Settlement and will address the outstanding issue of Liberty's recovery of rate case expense.

PROCEDURAL HISTORY

On February 25, 2016, Liberty filed with the Board a "Petition for Prior Approval of Customer Notice" in anticipation of an application seeking a general increase in its Iowa gas rates. The petition was identified as Docket No. RN-2016-0001.

On March 1, 2016, Liberty filed a "Request for Waiver" pursuant to Board rule 1.3 asking the Board to waive several provisions of the Board's rate case rules in 199

IAC chapter 26. The request was identified as Docket No. WRU-2016-0006-0222. OCA did not object to the request. Liberty requested partial waivers of several Board rules at 199 IAC 26 pertaining to the information to be filed in support of its application. Liberty anticipated that the waivers would reduce its projected rate case expense from approximately \$800,000 to \$600,000. On March 25, 2016, the Board issued an order granting the requested waivers.¹

Liberty delayed filing its application for a rate increase and on July 18, 2016, Liberty filed a "Petition for Prior Approval of Revised Customer Notice and Request for Expedited Relief." The revised customer notice reflected changes in Liberty's proposed rate design to increase the fixed monthly customer charge over the course of four years and to create two new customer classes. On July 21, 2016, the Board issued an "Order Approving Revised Customer Notice and Scheduling Customer Comment Meeting."²

On July 25, 2016, Liberty filed an application to increase its annual revenues by approximately \$1 million, pursuant to Iowa Code § 476.6 and 199 IAC 26. Liberty stated that the most significant factors contributing to its need for increased revenue are increased investment totaling \$4 million in total plant in service since its last rate

¹ The Board's waiver excused Liberty from filing data for non-Iowa-jurisdictional operations, allowed Liberty to use a lead-lag study approved by the Board in a recent gas utility rate case rather than preparing its own study, and excused other filing requirements.

² Pursuant to 199 IAC 26.9, a customer comment meeting was held in Keokuk, Iowa, on September 15, 2016, for the purpose of receiving comments from Liberty's customers to express their views about the proposed rate increase.

case in 2001 and a 40 percent decline in revenue caused largely by declining gas consumption and population in its service area.

Liberty also filed proposed tariff revisions, identified as TF-2016-0304, TF-2016-0305, and TF-2016-0306, which would implement the rate increase in three phases, with the full increase in effect as specified in TF-2016-0306. Liberty also filed a tariff, identified as TF-2016-0303, which increases Liberty's annual revenues on a temporary basis in the amount of \$528,569.50. Pursuant to Iowa Code § 476.6(9)(b), Liberty implemented the temporary rates on August 4, 2016. The temporary rates are subject to refund. In lieu of a bond, Liberty submitted a corporate undertaking in the amount of \$528,569.50, an amount equal to the anticipated annual increase in revenues under temporary rates.

On August 5, 2016, OCA filed an objection to the application and a request that the Board docket the application and establish a procedural schedule.

On August 16, 2016, the Board issued an "Order Approving Corporate Undertaking, Docketing Proposed Tariffs, Requiring Additional Information, and Establishing Procedural Schedule."

Orders were issued on September 14, 2016, granting the petition to intervene filed by Keokuk on August 30, 2016, and on January 9, 2017, granting the petition to intervene filed on January 5, 2017, by Roquette, Liberty's contract customer.

In addition to orders modifying the procedural schedule in response to requests from the parties, the Board issued an order on November 17, 2016,

changing the location of the hearing from Des Moines to Keokuk, Iowa. Prehearing briefs were filed by OCA, Liberty, and Roquette on January 23, 2017.

SETTLEMENT AGREEMENT

On February 17, 2017, Liberty, OCA, Keokuk, and Roquette filed a "Joint Motion for Approval of Unanimous Settlement" and a "Stipulation and Agreement" (Settlement) identifying the issues the parties have settled. The parties stated that the Settlement resolves all issues in this proceeding among all parties except for the amount of just and reasonable rate case expense to be recovered by Liberty. The parties assert the Settlement is reasonable in light of the whole record, consistent with law, and is in the public interest, as required by the Board's rule at 199 IAC 7.18. The parties asked the Board to approve the Settlement in its entirety without condition or modification.

On February 20, 2017, the Board issued an "Order Regarding Hearing on Settlement Agreement and Requesting Additional Information." The Board identified issues about which further information was necessary for the Board to determine whether the Settlement satisfies the standards of the Board's rule at 199 IAC 7.18. The Board stated that, in order to perform its independent evaluation of the merits of the proposed Settlement, it needed to explore certain matters including rate case expense, rate design, and the reasonableness of the settlement in light of the whole record. The Board directed the parties to make witnesses available at the hearing to address these topics, and the February 20, 2017, order set forth a list of questions to

be explored at hearing. The order directed Liberty to introduce at the hearing an updated estimate of its rate case expense.

A hearing was held on February 22, 2017, at the Grand Theatre in Keokuk, Iowa. All parties appeared and participated in the hearing.

Following the hearing, pursuant to an order issued by the Board on February 24, 2017, Liberty filed certain additional and updated information, and on March 8, 2017, Liberty, OCA, and Roquette filed post-hearing briefs. On March 20, 2017, the Board issued a further order setting dates for the filing of objections to actual rate case expense and for responses to objections, together with an attachment depicting Board and OCA expenses incurred in review of the Liberty rate case as of March 8, 2017. In the March 20, 2017, order, the Board required that any objections to the actual rate case expense be filed on or before March 31, 2017; responses were due on or before April 7, 2017. The Board also required that any party filing an objection or response should indicate whether there are any disputed issues of material fact that would require a hearing.

The Settlement filed on February 17, 2017, is designed to resolve all issues in the natural gas rate increase application filed by Liberty with the exception of rate case expense. The Settlement expresses the parties' intent to request that the Board approve the Settlement and provides that the Settlement will not become effective if the Board modifies or changes the Settlement in any manner that is not explicitly accepted and agreed to by the parties.

The substantive provisions in the Settlement are as follows:

1. Liberty's natural gas rate base for the purposes of the Settlement is \$6,810,969.
2. Under the Settlement, Liberty's allowed return on equity (ROE) is 9.5 percent, its cost of long-term debt is 4.83 percent, and its overall allowed rate of return is 7.165 percent, with a capital structure composed of 50 percent equity and 50 percent debt.
3. Liberty's rates will be set to produce an annual Iowa-jurisdictional natural gas revenue requirement of \$2,999,772, representing an increase of approximately 40.9 percent over revenues under current rates. This sum does not include an additional amount to recover rate case expense.
4. The Settlement provides that, in addition to the revenue requirement stipulated by the parties, Liberty will be allowed to recover in rates its just and reasonable rate case expense as determined by the Board, with the total amount to be amortized over a period of seven years, except that any balance not recovered by Liberty at the time it files its next rate case will be subject to determinations to be made in that proceeding.
5. The Settlement parties agree to the rate design proposed by Liberty subject to the following modifications. Monthly customer charges will be set at \$16 for the residential customer class, \$30 for small commercial, \$50 for medium commercial, and \$1400 for large industrial customers. Twenty-five percent of large industrial customers' load shall be included in design day calculations. The

Settlement does not affect rates paid by large industrial customers currently under contract with Liberty.

BOARD ANALYSIS OF SETTLEMENT

Under Board rule 199 IAC 7.18, the Board will not approve the Settlement unless it is reasonable in light of the whole record, consistent with law, and in the public interest. The Board addresses the substantive provisions of the Settlement in light of this standard.

A. Rate Base

The proposed value for rate base provided in the Settlement is \$6,810,969. (Settlement, p. 3; Settlement Schedule 2.)

Rebuttal testimony filed by Liberty called for an overall rate base of \$7,074,656 (Schwartz Rebuttal, pp. 9-10), increased from an initial proposal of \$6,531,685. (Schwartz Direct, pp. 4-9.) The rebuttal testimony included an adjustment of test year data for utility plant in service to reflect updated project cost data for Liberty's Keokuk gate station upgrade projects. Total costs for these projects, completed in late 2016, amounted to \$2,117,119, compared to original cost projections between \$1,400,000 and \$1,700,000.

OCA proposed an overall rate base of \$6,208,422. (Kebede Direct, pp. 15-20.) While OCA accepted the rate base additions associated with the gate station projects, it did not update its proposed rate base after completion of the projects. OCA disputed Liberty's cash working capital calculation.

As indicated in Settlement Schedule 2, the parties have agreed to the figures for total plant additions and utility plant in service proposed by Liberty, while accepting OCA's calculation of cash working capital. The Settlement's treatment of plant additions and cash working capital is consistent with the Board's determinations in prior rate cases.

Based upon the totality of the record, including the range of rate base values addressed in testimony submitted by Liberty and by OCA in this proceeding, the Board finds that the Settlement's rate base provisions, including the stipulated overall rate base figure of \$6,810,969, are reasonable as part of the Settlement in its entirety as a comprehensive resolution of the issues in this rate case.

B. Overall Allowed Rate of Return

The parties agree to an overall allowed rate of return of 7.165 percent. This return is based on a 9.5 percent ROE, a cost of long-term debt of 4.83 percent, and a capital structure composed of 50 percent common equity and 50 percent long-term debt. (Settlement Schedule 4, page 1.)

Liberty proposed an ROE of 10.25 percent, a figure at the midpoint of a range of 10.0 percent to 10.5 percent that was determined using three different market models, i.e., the discounted cash flow (DCF) model, the capital asset pricing model (CAPM), and the risk premium method. (Magee Direct, pp. 3-4.) Liberty also used the expected earnings approach to help determine where in the range to select the recommended ROE. (Magee Direct, p. 13.) An implicit adjustment for flotation costs,

weather risk, and small size premium was included in the proposed ROE. (Magee Direct, p. 4.)

OCA proposed a 9.2 percent ROE for Liberty. (Munoz Direct, p. 4.) OCA used the DCF model to determine its recommended ROE and then used the CAPM results of 8.5 percent to 9.1 percent as the check on the DCF results. (Munoz Direct, p. 21.) Because OCA argued against the adjustments offered by Liberty, it did not make any additional adjustments to its ROE recommendation.

The 9.5 percent ROE included in the Settlement is 75 basis points lower than Liberty's proposed ROE and 30 basis points higher than OCA's recommended ROE, which places the settled ROE towards the lower end of the parties' ROE range of 9.2 percent to 10.25 percent; the midpoint of that range would be 9.7 percent, rounded. The settled ROE is also ten basis points lower than the ROE of 9.6 percent the Board recently approved for Iowa-American Water Company in Docket No. RPU-2016-0002.³ The Board concludes that the Settlement's ROE of 9.5 percent is reasonable.

With respect to the other elements of capital structure, the Settlement proposes a value of 4.83 percent for the cost of long-term debt, an overall rate of return of 7.165 percent, and a capital structure composed of 50 percent equity and 50 percent debt.

Liberty had proposed using a hypothetical capital structure with a common equity ratio of 54 percent and a long-term debt ratio of 46 percent. Liberty asserted

³ See *In re: Iowa-American Water Company*, Docket No. RPU-2016-0002, "Final Decision and Order," issued February 27, 2017.

its proposed capital structure fell between the capital structure for Algonquin Power and Utility Corporation (Algonquin), Liberty's ultimate parent, and the capital structure for Liberty Utilities, the direct parent to Liberty Midstates. The common equity ratio for Liberty's proposed capital structure was less than the actual ratio Liberty Utilities used to finance its assets. (Magee Direct, pp. 51-52.) Also, the average common equity ratio of 54.05 percent for the proxy group used by both Liberty and OCA provided additional support for this capital structure. (Magee Direct, p. 55.)

OCA also recommended a hypothetical capital structure that reflects 47 percent common equity and 53 percent long-term debt. (Munoz Direct, p. 25.) OCA relied on the common equity ratio range for its proxy group and selected the ratio at the low end of that range. This is reasonable since the companies in the proxy group have risks similar to Liberty. (Munoz Direct, p. 26.)

Initially, OCA determined a capital structure for Liberty Utilities reflecting the additional debt from the parent, Algonquin, in what appeared to be a double leverage adjustment to determine the amount of debt actually financing Liberty. (Munoz Direct, p. 25.) The effective common equity ratio fell outside the proxy group's range of common equity ratios of 47 to 57.5 percent, which represents the range of reasonableness for the proxy companies. For this reason OCA used the common equity ratio at the low end of this range in its recommended capital structure. (Munoz Direct, pp. 26, 28.)

The Settlement uses a capital structure composed of 50 percent common equity and 50 percent long-term debt. This falls just below the midpoint, i.e., 50.5

percent, of the parties' proposed common equity ratios of 47 and 54 percent and represents a reasonable capital structure. A 50 percent common equity ratio also falls within the proxy group's common equity ratio range. The cost of debt of 4.83 percent included in the Settlement is the same debt cost rate included in the capital structure proposed by Liberty and the capital structure proposed by OCA.

The Settlement's overall rate of return of 7.165 reflects the compromise on the ROE and the capital structure and falls at the lower end of the parties' recommended rate of return range of 6.884 and 7.76 percent (with a midpoint of 7.322 percent). The Board concludes that the overall rate of return is reasonable.

C. Revenue Requirement and Revenue Deficiency

The Settlement's value for annual natural gas service revenue requirement is \$2,999,772, as set out in Schedule 1. The Settlement includes adjusted test year revenues of \$2,129,456 and adjusted test year expenses of \$2,157,460, resulting in an adjusted test year net operating loss of \$28,004. (Settlement p. 3; Settlement Schedules 1 and 3.)

Liberty proposed a revenue requirement figure of \$3,128,877. Liberty proposed a current net operating loss of \$37,496 with adjusted revenues of \$2,125,518 and adjusted expenses of \$2,163,014. (Schwartz Rebuttal, pp. 9-10.) OCA estimated a revenue requirement of \$2,842,014, with a current net operating income of \$39,614, adjusted revenues of \$2,178,369, and adjusted expenses of \$2,138,755. (Kebede Direct, pp. 15-20.)

Aside from differences attributable to differences in the parties' proposals for rate base, return on equity, and capital structure, the differences between Liberty's and OCA's revenue deficiency positions arise principally from different estimates of revenue impact of four items.

First was the revenue impact of the closing in March 2016, and the possible reopening, of Keokuk Steel Castings, a transportation customer of Liberty. Liberty proposed a reduction of revenues of \$84,849 representing the loss of twelve months' test year revenue from this customer. (Schwartz Direct, pp. 10-11.) OCA objected that there was significant evidence that the plant would reopen under new management. (Kebede Direct, pp. 5-7.) Keokuk likewise challenged Liberty's failure to take into account plans for the plant to reopen. (Marion Direct, pp. 3-4.) Liberty replied that the operations and gas purchase volume for Keokuk Steel Castings remained highly uncertain. (Schwartz Rebuttal pp. 3-9.)

The second point of disagreement concerned weather normalization. Liberty relied on its most recent weather normalization filing in Docket No. PGA-2015-0032 to estimate a revenue adjustment of \$41,707. (Schwartz Direct, p. 11.) OCA objected to the normalization of interruptible sales, which OCA contends should not be treated as weather-sensitive. OCA also objected to the use of normalized residential and commercial firm sales figures for 2014 rather than 2015, and to an incorrect commercial firm sales figure. According to OCA, the correct weather normalization adjustment would be \$16,099. (Kebede Direct, pp. 7-8.) In response,

Liberty accepted OCA's weather normalization adjustment. (Schwartz Rebuttal, pp. 2-3.)

Third, Liberty estimated uncollectible expense at \$60,941. (Schwartz Exhibit 3, Workpaper 3.) OCA objected that Liberty's recent uncollectible expense levels had varied significantly and that the test year figure was excessive and, in comparison with other utility data, did not appear to reflect prudent operation. (Kebede Direct, pp. 9-10.) OCA recommended a figure of \$49,049.

Finally, OCA recommended an interest synchronization adjustment to recognize the tax deductibility of long-term debt interest implied under OCA's proposals for capital structure and rate base. OCA proposed an adjustment of \$158,929 for long-term debt interest expense, decreasing federal income taxes by \$49,999 and state income taxes by \$16,068. (Kebede Direct, p. 13.)

While the income statement set forth at Settlement Schedule 1 does not identify specific adjustments on these points, it implies certain treatment of the previously disputed revenue adjustment items. Thus, the Schedule reflects adoption of Liberty's rebuttal estimate of revenues from the Keokuk Steel Castings plant, operating at 40 percent of prior capacity (compared to Liberty's initial assumption of no transportation sales to that facility). The Schedule also reflects adoption of OCA's estimates for weather normalization and uncollectible expense.

Overall, the revenue adjustments reflected in the Settlement produce a revenue requirement figure roughly midway between the initial positions advocated by Liberty and by OCA. The Settlement does not set forth detailed adjustment

calculations. Nonetheless, the Board finds that the Settlement revenue requirement figure is the result of calculations that are based upon reasonable estimates that are consistent with Board precedent.

In light of the record as a whole, the Board concludes that the proposed revenue requirement of \$2,999,772 and the proposed adjusted income statement are reasonable as part of the overall Settlement.

D. Rate Case Expense

The parties agree that in addition to the settled revenue requirement, Liberty will be permitted to recover just and reasonable rate case expense as approved by the Board. The parties reserve all rights related to the amount of rate case expense but agree that the expense shall be amortized over a seven-year period and that any remaining balance of rate case expense still outstanding at the time Liberty files its next rate case proceeding will be addressed in that proceeding.

In testimony submitted on July 25, 2016, Liberty estimated it would spend \$375,000 to prepare, file, and litigate this case, and that costs of the Board and OCA would total \$225,000. Because Liberty expects to file its next rate case not sooner than five years from now, Liberty proposed to amortize total rate case expense over five years. (Schwartz Direct, p. 14.) When filing the “Estimate of Rate Case Expense” on August 23, 2016, pursuant to 199 IAC 26.4(1) (within one week of the docketing of the rate case), Liberty estimated a total rate case expense of \$389,979. Liberty previously noted in testimony an estimate of \$225,000 for Board and OCA costs.

OCA did not object to Liberty's initial estimated rate case expense but disagreed with Liberty's proposed five-year amortization period. Instead, OCA proposed a ten-year amortization period, noting that the estimated rate case expense of \$600,000 was approximately 56 percent of the proposed revenue increase; a five-year amortization period would result in an annual recovery amount of \$120,000, which is approximately 11 percent of the total annual increase. (Kebede Direct, p. 11.)

On March 22, 2017, Liberty reported actual rate case expense of \$839,643, which includes expenses for the Board and OCA. This is \$224,664 more than its initial estimate.

The Board will address the issue of whether Liberty's actual rate case expense is reasonable and just in a separate discussion below.

E. Cost of Service and Rate Design

The Settlement adopts the rate design proposed by Liberty (Lyons Direct, pp. 22-29, and Beatty Direct, pp. 15-16) subject to several specific modifications discussed below.

Liberty estimated its overall revenue requirement and allocated it to revenue target amounts for each customer class on the basis of its cost-of-service study. Liberty then designed rates for each customer class to recover the proposed revenue requirements based on test year customer and usage data.

Liberty proposed a four-phase transition to a straight-fixed variable (SFV) rate design under which fixed costs would be recovered primarily through fixed charges

and variable costs through variable charges. Liberty noted that the greater part of its costs are fixed and do not vary with the volume of gas sold to customers. The primary effect of adopting SFV rate design would be to increase Liberty's customer charges and reduce the amount of fixed costs recovered through volumetric charges compared to current rate design.

Liberty proposed that after implementation of new rates reflecting the new revenue requirement, the phase-in of SFV rate design would be revenue-neutral, with customer charge increases offset by decreased volumetric charges.

Finally, Liberty proposed to eliminate the two-block rate structure for the volumetric rates, with a higher volumetric rate applicable to lower quantities of consumption. Liberty's proposed rate design would use a single volumetric rate for each service class.

OCA objected to Liberty's proposed SFV rate design on several grounds. (Bodine Direct, pp. 9-15.) According to OCA, the proposed increases to customer charges exceed estimated customer costs, are not cost-justified, and are significantly higher than customer charges of other rate-regulated Iowa gas utilities. OCA asserted that increased customer charges would send inaccurate pricing signals, encourage inefficient consumption of energy, and impede conservation policies. OCA also objected to the inclusion in customer charges of fixed costs of service not characterized as "customer-related." OCA proposed that customer charges be increased to \$10.39, \$16.99, and \$25.00, for the first three service classes, respectively, and held constant for large industrial (interruptible) customers, and that

the remainder of revenue requirement be recovered through volumetric charges.

OCA did, however, endorse Liberty's proposal to eliminate the two-block volumetric rate structure.

In rebuttal testimony (Lyons Rebuttal, pp. 14-22), Liberty noted that rate continuity and bill impact concerns should be addressed through the phased implementation of the proposed changes. Liberty stated that its customer charge had not changed since 1994, that several gas utilities in the region had customer charges similar to those proposed, and that the national trend was toward higher customer charges. The proposed customer charges would recover customer-related costs but not other Liberty fixed costs such as common facilities, systems, and staffing. Liberty's cost-of-service study shows that the fully-allocated cost of serving a residential customer is \$27.61 per month; the proposed customer charge is justified, therefore, by the need to align rates with cost causation. Setting the customer charge too low, by contrast, would shift recovery of some fixed customer-related costs from low-usage customers to higher-usage customers.

The Settlement adopts Liberty's general rate design proposal, including the shift toward SFV rate design, subject to modification of the final phased-in monthly customer charge as follows: \$16 for residential customers (compared to \$27.61 and \$10.39 as initially proposed by Liberty and OCA); \$30 for small commercial customers (compared to \$41.69 and \$16.99 as initially proposed by Liberty and OCA); \$50 for medium commercial customers (compared to \$249.93 and \$25 as initially proposed by Liberty and OCA); and \$1400 for large industrial customers (no

change from current charge, compared to \$2145.50 proposed by Liberty). In addition, the Settlement requires Liberty to include in its design day calculations 25 percent of large industrial customers' load. Finally, the Settlement expressly excludes from its terms the rates paid by large industrial customers currently under contract with Liberty.

The Board finds that the settled rate design changes are reasonable in light of the record as a whole. These agreed-upon changes should advance the rate design objectives cited by Liberty in calling for a shift toward SFV pricing, while mitigating bill impacts and moderating the other adverse consequences identified by OCA.

F. Roquette Contract

Under the Settlement, Roquette is excluded from the cost-of-service analysis. Roquette's service is subject to a contract and a tariff rate between Roquette and Liberty's predecessor, Atmos Energy Corporation (Atmos), approved by the Board on August 27, 2003. Liberty contends that the contract benefits Liberty's customers and requiring Liberty to charge Roquette the tariffed rates determined in this proceeding would improperly interfere with and undermine the Roquette contract.

Roquette asserts that the Board has no authority to change the terms of the contract between Roquette and Liberty, which was executed in 2003 with an initial term of 30 years. Roquette argues the Board is prohibited from changing the terms of the contract by the Contract Clause of the United States Constitution.

After reviewing the information Liberty provided in response to the Board's questions on the issue of the Roquette contract, the Board is assured that Liberty is

recovering its costs to serve Roquette and that the contract is beneficial to Liberty's customers. The Board concludes that the Settlement's exclusion of Roquette from Liberty's total cost of service is reasonable.

G. Customer Impacts and Mitigation

At the hearing, the Board asked questions about the need for measures to mitigate the impact of the proposed rate increases on certain customers. Liberty argues that a formal mitigation plan is not necessary in this case. According to Liberty, rate increase impacts are already mitigated by the following features of its rate increase implementation: (1) because interim rates reflecting half of the proposed permanent rate increase went into effect on August 4, 2016, Liberty's customers have already had an opportunity to adjust to part of the total increase; (2) the remainder of the increase under the Settlement will be implemented in the spring of 2017, allowing additional time for customers to become familiar with the new rates before the next heating season; (3) eliminating the dual block structure for volumetric rates should help offset the increase in customer charges; (4) Liberty will continue to make energy assistance programs available to help qualifying customers who may experience difficulty paying their bills; and (5) Liberty further plans to contact its customers before October 2017 to remind them about the rate increase. (Liberty Post-Hearing Br., pp. 5-7.)

OCA agrees that a mitigation plan is not necessary in this case. OCA points out that the reduced level of increases in the customer charge reflected in the Settlement, with a correspondingly greater proportion of revenue requirement

recovered through volumetric charges, affords customers greater opportunity to control bill increases by altering consumption. Liberty's energy efficiency programs will be available to assist customers to implement conservation measures. (OCA Post-Hearing Br., pp. 2-3.)

Given the size of the overall revenue requirement increase in this case, the Board has considered the potential for rate shock. The Board recognizes there can be significant differences in levels of gas usage by different customers within a particular rate class, which in turn can result in different levels of bill impact within a class. The Board has analyzed rate increase impacts at various usage levels for the four customer classes in this case and observes that implementation of interim rates has significantly mitigated the potential for rate shock.

The range of anticipated rate increase percentages within the classes appears to be relatively narrow, with the exception of the small commercial class. For those customers, the Board was able to analyze specific customer impacts using the estimated settlement rates filed on March 3, 2017, in conjunction with confidential information Liberty previously provided on November 15, 2016. Based on the Board's analysis of this information, there appears to be a significant concentration of potential annual bill increases ranging from 20 to 50 percent, with annualized dollar increases ranging from \$150 to \$250. Spread evenly over twelve months, however, these increases would be approximately \$12 to \$20 per month, which puts the percentage increase in perspective. The Board's analysis shows that approximately 60 small commercial customers may experience bill increases exceeding 50 percent.

In dollar terms, the total annual bill increase for these customers is not expected to exceed \$250.

Considering both the estimated percentage and dollar increases for these customers, the Board will not require implementation of a rate impact mitigation plan. Rather, the Board will require that Liberty directly contact each small commercial customer whose annual bill would result in an increase of 50 percent or greater in comparison to the test period annual bill, and provide such customers with information on the options available to them to reduce their bills. Liberty shall make these contacts as soon as possible after the Board approves the compliance tariffs. Liberty shall file with the Board no later than August 1, 2017, a report listing the small commercial customers (by location reference as was done in the confidential information filed on November 15, 2016) it has contacted for this purpose and specifying the information that was provided to the customers.

Finally, the Board notes Liberty intends to contact all of its customers before October 2017 about the rate increase under the Settlement. (Liberty Post-Hearing Br., p. 6.) The Board will direct Liberty to prepare a written notice form to be delivered to its customers and to file that form with the Board not less than 30 days before sending it to customers.

OVERALL SETTLEMENT

Viewing the Settlement as a whole, the Board concludes that the Settlement is “reasonable in light of the whole record, consistent with law, and in the public

interest.” 199 IAC 7.18. The Board will approve the Settlement. The Board will require Liberty to: (1) contact certain customers in the small commercial class and provide one report to the Board regarding Liberty’s contact with those customers and (2) provide the Board with an opportunity to review in advance Liberty’s proposed form of notice informing customers in October 2017 about the rate increases, as discussed above. Also, as will be discussed below, the Board will require that Liberty use a rider to recover the amount of rate case expense the Board approves in this order.

RATE CASE EXPENSE

A. Liberty’s Estimate of Rate Case Expense

On August 23, 2016, Liberty filed its estimated rate case expense. In relevant part, the estimate showed the following:

<u>Item</u>	<u>Rate</u>	<u>Hours</u>	<u>Travel</u>	<u>Total</u>
Sheila Tipton	\$300	400	\$100	\$120,100
Rachel Rowley	\$240	437	\$100	<u>\$104,980</u>
Total Legal				\$225,080
Outside Consultants				
Timothy Lyons	\$325	295	\$1,700	\$97,575
Keith Magee	\$275	105	\$1,700	\$30,575
Dane Watson	\$260	80	\$1,700	\$22,500
James Fallert	\$250	20		\$5,000
Customer Notifications				\$4,449
Company Charges				<u>\$4,800</u>
Total Co. Estimated Expense				\$389,979⁴

⁴ Liberty's testimony had separately noted \$225,000 for Utilities Division Fees.

B. Liberty's Actual Rate Case Expense

On March 22, 2017, Liberty filed a report of actual rate case expense.

Liberty's actual expense varied from its estimate by a significant amount in a number of categories:

<u>Item</u>	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
Sheila Tipton	\$120,100	\$94,792	(\$25,308)	(21%)
Rachel Rowley	\$104,980	\$280,321	\$175,341	167%
Other Legal	\$0	\$15,032	\$15,032	
Total Legal	\$225,080	\$390,145	\$165,065	73%
Outside Consultants				
Timothy Lyons	\$97,575	\$108,666	\$11,091	11%
Keith Magee	\$30,575	\$77,461	\$46,866	153%
Dane Watson	\$22,500	\$15,925	(\$6,575)	(29%)
James Fallert	5,000	\$4,313	(\$687)	(14%)
Customer Notice	\$4,449	\$4,881	\$432	10%
Company Charges	\$4,800	\$7,540	\$2,740	57%
Total Co. Expense	\$389,979	\$608,931⁵	\$218,952	56%

In the report that accompanies Liberty's actual rate case expense filing, Liberty said it made numerous efforts to reduce rate case expense, as described in its post-hearing brief. However, Liberty said its estimate of rate case expense was based on the expectation that it would be able to reach an early settlement; instead, Liberty had to litigate a full rate case, which required filing testimony and preparing for and participating in a hearing. The Board notes that Liberty did not file an updated estimate of rate case expense when it became apparent that there would be no early settlement.

⁵ Liberty's actual rate case expense also included \$230,712 for Utilities Division Fees.

Liberty contends its total rate case expense is consistent with the rate case expense in other recent rate cases. Liberty says that while it is true it has a small customer base, Iowa law does not provide for a streamlined rate case procedure for small utilities, so the size of its customer base should not be a factor in the Board's analysis of the reasonableness of Liberty's actual rate case expense.

C. Objections

On March 30, 2017, Keokuk filed an objection to Liberty's rate case expense. Keokuk points out that Liberty has approximately 4,400 customers in Iowa who will have to pay the allowed rate case expense and calculates this will cost approximately \$243.26 per customer, on average. (Keokuk appears to double-count Board and OCA expenses, so this number is inaccurate.) Keokuk says it is particularly concerned that Liberty's legal expenses for the case almost doubled, demonstrating that Liberty spared no expense in pursuing its rate increase, knowing that the costs would be borne by just 4,400 customers. Keokuk says that Liberty's rate case expense per customer is much higher than in other recent rate cases, stating Iowa-American spent approximately \$13.15 per customer. Keokuk is also concerned that at the customer comment meeting, a Liberty representative said Liberty plans to file for another rate increase in three to five years; Keokuk is concerned that another \$1.1 million could be spent on that case, as well.

Generally, Keokuk objects to Liberty's rate case expense (and the Board's and OCA's, as well), given the small number of customers involved. Keokuk asks the

Board to review each of the expenses being claimed because they are not reasonable or just.

On March 31, 2017, OCA filed a response to Liberty's report of actual rate case expense. According to OCA, Iowa Code § 476.6(5) requires that the estimate of rate case expense filed early in the case should show "the utility's expected expenses for litigating the case through the time period allowed by the board in rendering a decision." (OCA Response, p. 1.) OCA says this means that the estimated expense is required to include the full cost of litigating the case, from start to finish. OCA asserts that Liberty's estimate, which Liberty claims was based on an expectation of an early settlement, does not comply with the statutory requirement. By failing to include the full cost of litigating the case in its estimate, Liberty denied the other parties a meaningful opportunity to challenge the reasonableness of the expected rate case expense early in the proceedings.

OCA also argues that Liberty's report of actual rate case expense fails to provide the level of detail required by 199 IAC 26.4(6), which provides that the actual expenses must be reported in the same format and detail as the estimated expenses and all material variances shall be fully supported and justified. OCA says Liberty failed to meet either of those requirements. In particular, several expense items vary significantly from the estimate without adequate explanation.

According to OCA, even though Iowa law does not distinguish between large and small utilities when it comes to recovery of rate case expense, the Board should still consider whether it is just for Liberty's customers to bear the burden of costs that

could have been avoided or reduced. OCA concludes that the Board should reduce Liberty's rate case expense recovery for Liberty's failure to comply with the statutory requirement that estimates include the full cost of litigating the case; for Liberty's failure to provide adequate justification for the material variances between its estimates and its actuals; for Liberty's failure to include the required level of detail in its report of actual expenses; and for Liberty's failure to explain what is included in the actual expense line "Other," which was not included in the estimated rate case expenses.

OCA does not suggest an amount to be disallowed.

D. Liberty's Reply to Objections

On April 6, 2017, Liberty filed an updated report of actual rate case expense. Liberty does not describe what it has changed from the prior report, but it appears the only difference is that the updated report includes two new pages providing additional detail about the actual expenses for outside counsel, outside consultants, company charges, Utilities Division charges, and other miscellaneous charges.

On April 7, 2017, Liberty filed a reply to the filings from OCA and Keokuk. Liberty says Keokuk's objection stems from the small number of customers served, is based on an inaccurate calculation of overall rate case expense, and should be disregarded.

Liberty says that when OCA complains that certain information has not been filed, at least some of that information was provided to OCA through discovery. Specifically, in response to OCA's assertion that Liberty failed to provide the number

of hours worked and costs per hour billed by attorneys and consultants and the travel expenses for those individuals, Liberty says OCA received all of the allegedly-missing information on March 30, 2017, in response to data requests. Liberty also says that the hourly rates for outside counsel and consultants were shown in the original estimates, while the filing with actual rate case expense shows the total amounts charged, so “OCA could have performed simple math and determined how many hours were billed by the Company’s outside counsel and consultants.” (Liberty Reply, p. 3.)

Liberty says that when it orally notified Board staff of its intent to file a rate case in early 2016, staff suggested that Liberty meet with OCA to discuss a streamlined filing and possible settlement of some issues prior to filing. Liberty says it approached OCA but OCA declined to discuss any possible settlement until the full case was filed. Liberty tried again to enter into settlement negotiations once the case had been filed, but OCA again declined, indicating it wanted to conduct discovery and file OCA’s testimony so that the rate case record would be complete. Once OCA filed its testimony, the parties discussed settlement, but no agreement could be reached before Liberty’s reply testimony was filed.

Liberty states that the variance between its estimated expenses and the actuals is due to the failure of the parties to reach an early settlement, additional issues raised by OCA and the Board, and the calculation of Liberty’s taxes. Liberty says that in the end, its overall actual rate case expense is lower than the actual expense in other recent rate cases. Liberty says that the same filing requirements

apply regardless of the number of customers served, so rate cases tend to cost about the same.

E. Motion to Strike

On April 12, 2017, OCA filed a motion to strike the updated report of actual rate case expense filed by Liberty on April 6, 2017. According to OCA, the update is a late-filed pleading that violates the due process rights of OCA and Keokuk because it contains new information that OCA and Keokuk have not had a fair opportunity to dispute. OCA also moves to strike Liberty's April 7, 2017, reply to OCA's response to the original report of actual rate case expense. OCA says the reply includes "lengthy testimony of the attorney for Liberty." (Motion to Strike, 4.) OCA says it disagrees with some of the statements made, but does not identify which statements; instead, OCA only says that it "will provide specifics if so requested by the Board." (*Id.*)

On April 14, 2017, Liberty filed a reply to the motion to strike. Liberty says that OCA fails to identify which information is alleged to be new information or testimony, hindering Liberty's ability to reply to the motion. Liberty also says that the updated report and the reply do not contain any information that is not already in the record, so OCA has had a fair opportunity to respond to it.

More specifically, Liberty says that the updated report contains details regarding the actual rate case expense, information that OCA had in its possession prior to filing in response to various data requests or as part of the original estimate of rate case expense. As for the allegation that Liberty provided "testimony" in the reply, Liberty says that all of the statements in the reply are supported by evidence in

the record, including the testimony of a company witness that OCA did not want to discuss settlement until after (a) Liberty's full rate case was filed and (b) OCA's direct testimony and exhibits were filed. (Tr. 18-19.)

DISCUSSION

Iowa Code § 476.6(5) provides that when a general rate case is docketed as a formal proceeding and considered by the Board, the utility shall be allowed to recover its costs of litigating the case if the Board finds those expenses to be reasonable and just. More specifically, the statute provides as follows:

5. Utility hearing expenses reported. When a case has been docketed as a formal proceeding under subsection 4, the public utility, within a reasonable time thereafter, shall file with the board **a report outlining the utility's expected expenses for litigating the case through the time period allowed by the board in rendering a decision.** At the conclusion of the utility's presentation of comments, testimony, exhibits, or briefs the utility shall submit to the board a listing of the utility's actual litigation expenses in the proceeding. As part of the findings of the board under subsection 6, the board shall allow recovery of costs of the litigation expenses over a reasonable period of time to the extent the board deems the expenses reasonable and just.

(Emphasis added.) Thus, the statute establishes a three-step process: (1) the utility files its estimated rate case expense after the matter is docketed; (2) the utility files its actual rate case expense after final briefs are filed; and (3) the Board determines (a) whether Liberty has met its burden of showing the actual expenses are "reasonable and just" and (b) the time period over which they should be recovered. The Board understands this process is intended to allow the parties the

opportunity to litigate the reasonableness of the rate case expense during the regular hearing, based upon the estimates. If that is the purpose, then litigation based upon the actual rate case expense should only happen when there are significant, unexplained variances between the estimates and the actuals.

The Board's rules reflect this approach. Rule 26.4 requires the utility to file estimated rate case expense within one week of docketing of the rate case. The estimate is required to include the following categories of expense:

- a. Printing costs for rate notification letters, initial filing, testimony, briefs, and other printing;
- b. Postage costs;
- c. Outside counsel cost, including number of attorneys engaged as outside counsel, expected hours, and cost per hour;
- d. Outside expert costs, including the same detail as outside counsel;
- e. Expenses for travel, hotel, meals, and other similar costs; and
- f. Other (to be specified).

The estimated rate case expense cannot include expenses that are already included in the test year expenses, including utility staff costs. While the final allowed rate case expense shall include the costs incurred by the Board and OCA for the same time period, "the rate case expense to be filed by the utility shall **not** include these expenses." (199 IAC 26.4(4), **emphasis added**.)

Subrule 26.4(5) provides that the "reasonableness of the estimates **shall** be litigated during the proceeding." (*emphasis added*.) Then, actual utility expenses are to be filed by the utility within two weeks after filing the final brief and "all material variances shall be fully supported and justified." (199 IAC 26.4(6).)

Finally, the Board may schedule additional hearings to litigate the reasonableness of the final expenses, if necessary. (199 IAC 26.4(7).)

The Board agrees with OCA that Liberty's stated approach to preparing its estimate of rate case expense, i.e., basing the estimate on expectation of an early settlement, had the effect of denying the other parties and the Board a meaningful opportunity to consider the reasonableness of Liberty's rate case expense at the hearing. The Board believes it is appropriate to disallow a portion of Liberty's actual rate case expense as being unreasonable and unjust on this basis. As will be discussed below, the Board has considered several alternatives for determining the amount to be disallowed. An understanding of the process for considering the reasonableness of rate case expense may be helpful when considering those alternatives.

Iowa Code § 476.6(5) requires that the utility file an estimate of its cost of litigating the rate case before the Board within a reasonable time after the case is docketed. Like OCA, the Board believes this requires an estimate of the cost of fully litigating the case, not the cost of a hoped-for settlement; otherwise, companies would always have an incentive to understate their estimated expenses, to try to avoid litigating the actual expense of the case and to reduce the amount of the overall proposed revenue increase as stated in the customer notices. The statute and the Board's rules then contemplate that the issue of the reasonableness of the company's rate case expense can be litigated at the regular hearing in the case, based upon those estimates.

Under this approach, the majority of rate case expense disputes should be litigated during the regularly-scheduled hearing. A second hearing on the actual rate case expense may be necessary only when the actual expenses have material variances from the estimates and a party challenges the utility's explanations for those variances. However, in this case, the parties appear to agree that a second hearing is not required to investigate the variances in this proceeding; the primary cause of the variance is already known.⁶

Liberty says its estimate was "calculated with Liberty Midstates' expectation that it would be able to reach an early settlement of the rate case with the OCA." (Liberty's "Report of Actual Rate Case Expense," March 22, 2017, p. 1.) This approach fails to satisfy the requirement in Iowa Code § 476.6(5) to file an estimate "outlining the utility's expected expenses for litigating the case through the time period allowed by the board in rendering a decision." Liberty's approach understates the projected rate case expense by a substantial amount. The result is to deny the parties, and the Board, the meaningful opportunity to adequately examine Liberty's rate case expense during the regularly-scheduled hearing.

The Board is aware of Liberty's argument that OCA conducted some discovery regarding rate case expense and therefore had additional information to evaluate the issue. However, that information was not provided to the Board, which has an equal, if not greater, interest in considering Liberty's rate case expense in a timely manner.

⁶ In its March 20, 2017, order, the Board expressly asked the parties to identify any fact issues that might require a hearing. No such issues were identified.

The Board concludes it is not reasonable and just to allow Liberty to recover its full, actual rate case expense over a seven-year amortization period, as proposed in the Settlement, where Liberty has failed to comply with applicable statutory requirements.

Before reaching the amount of actual expenses that will be disallowed, the Board will address the Motion to Strike filed by OCA. The Board has concluded that it is not reasonable and just to allow Liberty to recover the full amount of its actual rate case expense because Liberty's estimate did not comply with statutory requirements. The relevant violation here was present from the start of the case, when Liberty failed to present a proper estimate on August 23, 2016. Therefore, the Board does not need to reach the question whether Liberty improperly presented new information at this stage of the proceeding. The Board will deny the motion.

The Board has considered a number of options for reducing the amount of the recovery to address Liberty's failure, including the following:

- 1) disallowing all increased expenses, which would result in the disallowance of over \$250,000;
- 2) disallowing all increased expenses, but crediting Liberty for decreased expenses, which would result in a disallowance of about \$220,000; and
- 3) disallowing only a portion of the increased expense under either of the two options above. This approach would reduce the disallowance by some percentage representing that part of the increased expenses that, in the Board's opinion, were not within Liberty's reasonable control.

These alternatives are not intended to indicate that Liberty's outside attorneys or experts overcharged for their services; their work may have been reasonable and necessary as the case developed. Instead, the point is that by filing an estimated rate case expense based upon hopes for an early settlement (and thereby failing to fulfill the requirements of Iowa Code § 476.6(5)), and then failing to update that filing when it became apparent there would be no early settlement, Liberty effectively denied OCA and the Board the opportunity to consider the likely full expense of the rate case at the regularly-scheduled hearing.

The Board has jurisdiction of the parties and the subject matter in this proceeding pursuant to Iowa Code chapter 476. The Board will exercise its discretion under Iowa Code § 476.6(5) to set the amount to be disallowed at \$25,000. Disallowing recovery of that amount brings the total rate case expense to be recovered to \$814,643, an amount the Board concludes is reasonable and just in these particular circumstances.

In the Settlement, the parties agreed to a seven-year amortization period. Consistent with the Board's recent decision in Docket No. RPU-2016-0002 regarding the recovery of rate case expense through a separate rider,⁷ the Board concludes that Liberty's approved rate case expense shall likewise be recovered through a rider. This will allow dollar-for-dollar recovery of rate case expense without risking over-recovery from ratepayers. In its compliance tariff filing, Liberty should include a

⁷ See *In re: Iowa-American Water Company*, Docket No. RPU-2016-0002, "Final Decision and Order," issued February 27, 2017, pp. 57-58.

proposed tariff implementing a rider for rate case expense that reflects the approved rate case expense, approved amortization period, and recovery through a volumetric rate, and that indicates that recovery will be subject to a true-up or reconciliation if it is not altered in the next rate case.

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The “Joint Motion for Approval of Unanimous Settlement” and “Stipulation and Agreement” filed on February 17, 2017, by Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty Utilities, the Office of Consumer Advocate, a division of the Iowa Department of Justice, the City of Keokuk, and Roquette America, are approved by the Utilities Board, as discussed in the body of this order.
2. The proposed tariffs identified as TF-2016-0304, TF-2016-0305, and TF-2016-0306, filed on July 25, 2016, by Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty Utilities, are rejected.
3. The proposed tariff identified as TF-2016-0303, filed on July 26, 2016, by Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty Utilities, shall remain in effect until the Utilities Board approves compliance tariffs required by this order.
4. The Motion to Strike filed on April 12, 2017, by the Office of Consumer Advocate, a division of the Iowa Department of Justice, is denied.
5. Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty Utilities, shall file tariffs in compliance with this order within 20 days from the date of this

order, reflecting rates that produce annual revenues of no more than \$2,999,772, consistent with this order and attached Settlement Schedules 1 through 6 . At the time Liberty Utilities files its compliance tariffs, it shall also file an updated cost-of-service study based on final rates, schedules showing how its proposed compliance rates are calculated, and an updated proof of revenue exhibit demonstrating that its proposed compliance rates will produce no more than the approved revenue requirement. All documentation supporting Liberty Utilities' post-decision filing (except the tariffs themselves) is to be provided in Excel format, including formulas for each calculation. The compliance tariffs will become effective upon approval by the Utilities Board.

6. As discussed in the body of this order, the Utilities Board concludes that recovery through a rider by Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty Utilities, of its rate case expense in an amount of \$814,643, amortized over seven years, is reasonable and just in these particular circumstances.

7. As discussed in the body of this order, Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty Utilities, shall provide its small commercial customers with information about the options available to them to reduce their bills and shall file with the Board no later than August 1, 2017, a report describing its contact with the customers.

8. Not less than 30 days before providing its customers with written notice about the rate increase approved in this order, Liberty Utilities (Midstates Natural

Gas) Corp., d/b/a Liberty Utilities, shall file with the Utilities Board a proposed form of notice.

9. This order constitutes the final decision of the Utilities Board in Docket No. RPU-2016-0003.

UTILITIES BOARD

/s/ Geri D. Huser

/s/ Elizabeth S. Jacobs

ATTEST:

/s/ Trisha M. Quijano
Executive Secretary, Designee

/s/ Nick Wagner

Dated at Des Moines, Iowa, this 28th day of April 2017.

Liberty Utilities (Midstates Natural Gas) Corp.

d/b/a Liberty Utilities

Docket No. RPU-2016-0003

Settlement Schedule 1

Revenue Requirement

Page 1 of 1

Line No	Description	Amount	Reference
1	Rate Base	6,810,969	Settlement Schedule 2, Line 15
2	Rate of Return	7.165%	Settlement Schedule 4, Line 4
3	Required Net Operating Income	488,006	Line 1 x Line 2
4	Adjusted Net Operating Income	(28,004)	Settlement Schedule 3, Line 13
5	Net Operating Income Deficiency (Excess)	516,010	Line 3 - Line 4
6	Revenue Conversion Factor	1.6866	Settlement Schedule 5, Line 4
7	Revenue Deficiency (Excess)	870,315	Line 5 x Line 6
8	Adjusted Operating Revenue	2,129,456	Settlement Schedule 3, Line 1
9	Revenue Requirement	2,999,772	Line 7 + Line 8

Liberty Utilities (Midstates Natural Gas) Corp.

d/b/a Liberty Utilities

Docket No. RPU-2016-0003

Settlement Schedule 2

Rate Base

Page 1 of 1

Line No	Description	13-Month Average G/L	Pro Forma Adjustments	Adjusted Rate Base
1	Utility Plant In-Service	\$ 15,783,521	\$ 2,145,569	\$ 17,929,090
2	Less: Accumulated Depreciation	10,178,403	7,604	10,186,007
3	Total Net Utility Plant	\$ 5,605,118	\$ 2,137,965	\$ 7,743,083
4	Additions to Rate Base			
5	Gas Storage	467,146	-	467,146
6	Prepaid Expenses	21,982	-	21,982
7	Cash Working Capital	(294,962)	(2,088)	(297,049)
8	Total Additions to Rate Base	\$ 194,166	\$ (2,088)	\$ 192,079
9	Deductions to Rate Base			
10	Accumulated Deferred Income Taxes	608,626	349,034	957,660
11	Customer Advances	-	-	-
12	Customer Deposits	139,297	-	139,297
13	Reserve for Bad Debt	27,235	-	27,235
14	Total Deductions to Rate Base	\$ 775,158	\$ 349,034	\$ 1,124,192
15	Total Rate Base	\$ 5,024,126	\$ 1,786,843	\$ 6,810,969

Liberty Utilities (Midstates Natural Gas) Corp.

d/b/a Liberty Utilities

Docket No. RPU-2016-0003

Settlement Schedule 3

Income Statement

Page 1 of 1

Line No	Description	Year End 2015	Pro Forma Adjustments	Total Adjusted Income Statement	Increase / (Decrease)	Adjusted Income Statement After Increase/ (Decrease)
1	Operating Revenues	\$ 4,330,127	\$ (2,200,671)	\$ 2,129,456	\$ 870,315	\$ 2,999,772
2	Operating Expenses					
3	Operation Expense	3,308,107	(1,968,961)	1,339,146		1,339,146
4	Maintenance Expense	3,963	-	3,963		3,963
5	Depreciation and Amortization	533,602	7,604	541,206		541,206
6	Property Taxes	349,824	-	349,824		349,824
7	Other Taxes	45,616	-	45,616		45,616
8	Federal Income Tax	24,170	(123,320)	(99,150)	265,794	166,644
9	State Income Tax	8,049	(41,066)	(33,018)	88,511	55,493
10	Deferred Income Tax		-	-		-
11	Investment Tax Credits		-	-		-
12	Interest on Customer Deposits	9,873	-	9,873		9,873
13	Total Operating Expense	4,283,204	(2,125,743)	2,157,460	354,305	2,511,766
14	Net Operating Income	\$ 46,923	\$ (74,927)	\$ (28,004)	\$ 516,010	\$ 488,006

Liberty Utilities (Midstates Natural Gas) Corp.

d/b/a Liberty Utilities

Docket No. RPU-2016-0003

Settlement Schedule 4

Return on Equity

Page 1 of 1

Line No	Description	Ratio	Cost Rate	Weighted Average
1	Long Term Debt	50.000%	4.830%	2.415%
2	Preferred Stock	0.000%	0.000%	0.000%
3	Common Equity	50.000%	9.500%	<u>4.750%</u>
4				<u><u>7.165%</u></u>

Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Docket No. RPU-2016-0003
Settlement Schedule 5
Income Taxes
Page 1 of 1

Line No.	Description	Statutory Rate	Effective Rate
1	Federal	34.00%	30.54%
2	State	12.00%	10.17%
3	Composite		40.71%
4	Gross-up		1.68663

LIBERTY UTILITIES MID-STATES
Iowa Assets

Proposed Depreciaton Rates

Acct (a)	Description (b)	Proposed Rate (c)
3010	Intangible Plant-Organization	
3020	Intangible Plant-Franchise/Consents	
3030	Misc. Intangible Plant	
3650	Land - Transmission	
3651	Land & Land Rights	
3660	T&D-Structures & Improvements	
3661	T&D-Other Structures	2.10%
3670	T&D-Mains-STL-PLST-CI-Mixed	
3671	T&D-Mains-STL	1.72%
3672	T&D-Mains-PLST	
3690	T&D-M&R Station Equipment	2.75%
3700	Communication Equipment	
3740	Land and Land Rights	
3741	T&D-Land	
3742	T&D-Land Rights	0.66%
3750	Strucutures and Improvements	0.52%
3760	Mains	2.47%
3761	T&D-Mains-STL	1.27%
3762	T&D-Mains-PLST	1.15%
3780	Measuring & regulating stn eqt-General	1.58%
3790	Measuring & regulating stn eqt-City gate check stn	1.45%
3800	Services	3.07%
3810	Meters	8.38%
3820	Meters Installations	3.91%
3830	House regulators	2.22%
3840	House Regulatory installations	0.00%
3850	Industrial measuring & regulating stn eqt	1.62%
3870	Other Equipment	0.00%
3890	Land and Land Rights	0.00%
3900	General Structures & Improvmnt	3.60%
3901	GEN-Structure Frame	
3902	GEN-Improvements	3.39%
3903	GEN-Improvements Leased Premise	
3910	Office Furniture & Improvement	6.67%
3920	Transportation Equipment	14.13%
3921	Transportation Equip<12,000 LB	12.42%
3930	Stores Equipment	

LIBERTY UTILITIES MID-STATES
Iowa Assets

Proposed Depreciaton Rates

Acct (a)	Description (b)	Proposed Rate (c)
3940	Tools, Shop, and Garage Equipment	7.69%
3950	Laboratory Equipment	
3960	Power Operated Equipment	7.75%
3961	GEN- Ditchers	
3962	GEN-Backhoes	
3963	GEN- Welders	
3970	Communications Equipment	9.09%
3971	GEN-Comm Eq. Mob Radios	
3972	GEN-Comm Eq. Fixed Radios	
3973	GEN-Comm Eq. Telemetrying	
3980	Misc. Equipment	6.25%
3993	OTH-Oth Tang Prop - Network - H/W	
3994	OTH-Oth Tang Prop - PC Hardware	14.29%
3995	OTH-Oth Tang Prop - PC Software	

LIBERTY UTILITIES MID-STATES
Shared Services

Proposed Depreciaton Rates

Acct (a)	Description (b)	Proposed Rate (c)
3740 Total	Land and Land Rights	
3900 Total	General Structures & Improvmnt	2.50%
3910 Total	Office Furniture & Improvement	5.00%
3921 Total	Transportation Equip<12,000 LB	9.48%
3940 Total	Tools, Shop, and Garage Equipment	5.00%
3980 Total	Misc. Equipment	5.00%
3990 Total	OTH-Other Tangible Property	14.29%
3991 Total	Other Tangible Property - Servers H/W	20.00%
3993 Total	Other Tangible Property - Network H/W	14.29%
3994 Total	Other Tangible Property - PC Hardware	20.00%
3995 Total	Software 3 Yr Life	33.33%
	3995 Software 5 Yr Life	20.00%
	3995 Software 7 Yr Life	14.29%