

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER OF the Consolidated) REGULATORY DIVISION
Petition by Mountain Water Company for)
Declaratory Rulings and Application for) DOCKET NO. D2011.1.8
Approval of Sale and Transfer of Stock in)
Park Water Company)

**CLARK FORK COALITION'S RESPONSES TO
DATA REQUESTS PSC-039 THROUGH PSC-042 FROM
THE MONTANA PUBLIC SERVICE COMMISSION**

The Clark Fork Coalition (the "Coalition"), by and through its undersigned counsel, hereby submits to the Montana Public Service Commission (the "Commission") the following responses to the first set of data requests from the Commission. As discussed with Commission legal staff, the Coalition's financial witness, Mr. Charles Rial, is providing responses to PSC-039, PSC-040, and PSC-041(a). The Coalition's Executive Director, Karen Knudsen, is providing responses to PSC-041(b) and (c) and PSC-042. These questions call for a response based on the Coalition's organizational perspective and Ms. Knudsen is the appropriate individual to provide the requested information on behalf of the Coalition. Ms. Knudsen has worked with the Coalition for the past eighteen years and has been the Executive Director for the last five.

By: _____
Barbara Hall
Legal Director
Clark Fork Coalition
PO Box 7593
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PSC-039

Regarding: Education and experience

Witness: Rial

- a. Please list your experience testifying before any regulatory commission in any state.
- b. Please list your post-secondary degrees, from which universities those degrees were acquired, and the graduation years.
- c. Are you testifying as an individual on behalf of the Clark Fork Coalition or as Charles Rial and Associates? It is unclear in your testimony.
- d. Please provide a copy of the consulting agreement from the Clark Fork Coalition with regard to the proposed Park Water sale.

RESPONSE: Rial:

- a. None.
- b. None.
- c. As indicated in the transmittal page filed with my testimony and in my testimony at page 2, lines 6-7, I am testifying on behalf of the Clark Fork Coalition (the “Coalition”).
- d. I have no consulting agreement with the Coalition.

PSC-040

Regarding: Carlyle Ownership Period (Page 2 of 4, line 15)

Witness: Rial

Please provide your basis for what you testify would be the reasonably expected ownership period of Park Water by Carlyle.

RESPONSE: Rial:

My testimony regarding the reasonably expected ownership period of Park Water by Carlyle is based on three factors: (1) The holding period indicated in the financial projections made in The Carlyle Group's Investment Committee Memorandum; (2) the limitations on ownership period imposed by the Carlyle Infrastructure Partners Limited Partnership Agreement, which sets September 28, 2019 as the termination date of the fund with the possibility of a two-year extension; and (3) in my experience working with private equity companies, the average holding period ranges from four to seven years.

PSC-041

Regarding: Park Water Ownership

Witness: Rial

In your testimony you state that the concern of the Clark Fork Coalition is that Park Water would have a series of owners which may not have the quality reputation for stewardship of their companies rightfully earned by the Carlyle Group.

- a. Do you have those same concerns? Why or why not?
- b. Is the Clark Fork Coalition's concern more post-Carlyle ownership rather than Carlyle ownership? Please explain.
- c. Does that statement mean that the Clark Fork Coalition believes that Carlyle will be a responsible steward of Park/Mountain Water? Why or why not?

RESPONSE:

- a. Rial: Please see my response to PSC-039(c) above. I am testifying on behalf of the Coalition.
- b. Knudsen: Given Carlyle's intentions to hold Mountain Water for a relatively short period of time, along with the Commission's authority to stipulate responsible stewardship, the Coalition is more concerned about the post-Carlyle phase. Specifically, we are concerned that the Carlyle acquisition will be the first in a series of short-term investment buyers with short-term planning horizons, managing the community's drinking water system and aquatic assets primarily to earn money for investors. A "revolving door" ownership scenario introduces uncertainty and risk, and hinders long-range planning and management, which are essential for ensuring Missoula has clean, safe, reliable, and affordable drinking water into the future. The Coalition believes that better results for consumers and Missoula's irreplaceable water resources could be achieved under municipal ownership, with City government's deep roots in the

community, its long-range view, and its track record of service (accountability mechanisms that put) putting the common good at the forefront.

c. Knudsen: While we have relatively little information on specific management plans of Carlyle for Mountain Water, we have received no indication that Carlyle will mismanage the company. That said, we believe the Commission can put in place certain provisions to ensure responsible stewardship, by conditioning its approval of the proposed transaction on a combination of stewardship practices, including: designating the Rattlesnake watershed as an emergency back-up water supply only; committing to keeping Missoula water in the Missoula-area watershed; investing in responsible capital improvement to tackle Mountain Water's 40% leakage rate; implementing water conservation strategies (e.g., household metering); and abiding by a right of first refusal that guarantees the City of Missoula an option to buy the water utility from Carlyle. Such a package of conditions will alleviate many of the Coalition's concerns over the proposed transaction and will bridge the gap between Carlyle's profit orientation and Missoula's interest in ensuring that the community's drinking water is clean and safe, accessible and affordable to all, and sustainable for generations to come.

PSC-042

Regarding: Clark Fork Coalition

Witness: Rial

- a. Please provide a copy of the mission statement of the Clark Fork Coalition.
- b. Please reconcile your testimony to the mission statement of the Clark Fork Coalition.
- c. Please explain why the Clark Fork Coalition believes that the acquisition of Park Water, Mountain Water's parent, will impact the mission of the Coalition in light of the comment that Carlyle has a quality reputation for stewardship of companies it acquires.
- d. Please provide all examples where Mountain Water has not protected the watershed in its provision of service.
- e. Is the Coalition aware of the aquifer studies conducted by Park Water on behalf of Mountain Water?

RESPONSE:

- a. Knudsen: The Coalition is dedicated to protecting and restoring the Clark Fork River basin, a 22,000-square-mile area draining western Montana and northern Idaho.
- b. Knudsen: As stated above, the mission of the Coalition is to protect and restore the Clark Fork River basin. Mr. Rial has provided testimony on our behalf that Carlyle's investment strategy, including holding period and exit plans, could lead to a series of short to medium-term investment owners in a utility that must provide stable, long-term services, including drinking water to over 55,000 Missoula residents and management and care of the Missoula Valley Aquifer, Rattlesnake Creek, and Rattlesnake wilderness lakes. The Coalition has worked to protect these essential water resources for more than two decades. We are concerned about how frequent ownership turnover will affect Mountain Water's ability to serve the community, deliver uninterrupted, high-quality service, and act as a responsible steward of Missoula's waters for current and future generations.

c. Knudsen: The Coalition was pleased to learn from our witness, Mr. Rial, that Carlyle has a solid reputation for stewardship of its companies in the private equities market. That said, Mountain Water Co. is a water utility and Carlyle has no experience or reputation in this realm. Moreover, with rights to an aquifer and an urban watershed as core assets, taking on Mountain Water may require stewardship decisions and planning horizons of a very different nature from other of Carlyle's companies. In fact, the holding period that Carlyle is predicting for Mountain Water is a major concern for the Coalition. The water resources under Mountain Water's care are complex, dynamic, inter-related, and irreplaceable. The Coalition believes that an eye toward the long view in managing this utility is essential. As part of our commitment to building a healthier Clark Fork watershed and safeguarding restoration investments for current and future generations, the Coalition is dedicated to protecting the Missoula Valley Aquifer and Rattlesnake Creek. Our ability to see this work through largely derives from the commitments of future owners, which we cannot predict.

d. Knudsen: The Coalition is not aware of specific examples where Mountain Water has not protected the watershed in its provision of service, other than anecdotal accounts of the giardia contamination scare in the late 1970s. That said, we do believe that Mountain Water should take more proactive and aggressive steps to implement water and energy conservation and watershed protection measures such as: incentivizing metering to decrease the number of customers on a flat rate; implementing a more aggressive and cost-effective plan to address the utility's significant leakage rate; and partnering with local stakeholders on projects such as aquifer education and long-range growth planning.

e. Knudsen: We are aware of several aquifer tests funded or partially funded by Park Water and/or Mountain Water, including several that the Coalition acted as a cost-share or in-kind partner.

CERTIFICATE OF SERVICE

I hereby certify that on this, the 17th day of August, 2011, the CLARK FORK COALITION'S RESPONSES TO DATA REQUESTS PSC-039 THROUGH PSC-042 FROM THE MONTANA PUBLIC SERVICE COMMISSION was served via e-mail U.S. mail on:

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