DEPARTMENT OF PUBLIC SERVICE REGULATION

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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

MCC RESPONSE TO MONTANA PUBLIC SERVICE COMMISSION DATA REQUESTS
PSC-043 THROUGH PSC-047 TO THE MONTANA CONSUMER COUNSEL

PSC-043

Regarding: MCC position
Witness: Wilson

It appears from your testimony that MCC neither supports nor opposes the proposed transaction, but recommends that, if the Commission approves the transaction, it condition approval on implementation of the ring-fencing provisions you identified. If this is an incorrect summary of MCC's position in this case, please provide clarification.

Response: That is correct. In addition, given Carlyle's apparent interest in rate base growth and the fact that there appears to be substantial uneconomic (costs exceed benefits) investment potential in Mountain Water, the Commission should emphasize that infrastructure capital expenditures will have to be shown to be economic to be included in future rate base.

Docket No. D2011.1.8

PSC-044

Regarding: MCC-004
Witness: Wilson

The MCC is now in receipt of the work papers requested in MCC-004. Has anything shown in that analysis changed or modified your testimony in any way? Please explain.

Response: Dr. Wilson's examination of Carlyle's model does not require changes to his testimony. The "speculation" in the testimony regarding what the model was likely to show is largely correct. However, according to the model, new post-acquisition investments in Mountain Water infrastructure are assumed to be funded by internal cash flow rather than by additional capital injections by Carlyle. Dr. Wilson does not necessarily agree with Carlyle's cash flow projections or with its ultimate IRR estimate, but he believes those matters are relevant to the merits of Carlyle's investment decision and do not directly impact the regulatory issue (approval of ownership transfer) in this case.

Docket No. D2011.1.8

PSC-045

Regarding: Main Replacement
Witness: Wilson

a. What would be a reasonable approach for Mountain Water to replace its mains that are 40 + years old that would be acceptable to the MCC?

   Response: Main replacement should occur when the benefits of main replacement (present value of expected cost savings plus any increases in the benefits to customers) exceed the cost of main replacement.

b. If main replacement is analyzed from a pure economic point, it makes no sense to replace a fully depreciated main with a new main until catastrophic failure. At what point does the value of reliability of service outweigh the cost of main replacement? Please explain.

   Response: See response to part a. The probability of catastrophic failure and the likely consequences thereof should be considered in evaluating any increases in benefits to customers.

c. Do you suggest or recommend a prudency review of any main replacements over a certain dollar amount? What would that amount be, and why?

   Response: Prudency review is appropriate when rate base additions are proposed in future rate cases, regardless of dollar amount. In this regard it would be desirable for the Company to provide benefit/cost evidence with respect to rate base additions resulting from main replacement activities with each future rate filing in which such rate base additions are requested.

d. Do you recommend an alternative approach to evaluation of a capital improvement project?

   Response: Not at this time.

Docket No. D2011.1.8

PSC-046

Regarding: Exhibit JW-1
Witness: Wilson

To the extent possible, should the same provisions be incorporated into the Order if the Commission decides to approve the sale and transfer? Please explain.

Response: Yes.

Docket No. D2011.1.8

PSC-047

Regarding: ROFR
Witness: Wilson

How would you suggest structuring a possible ROFR for the City of Missoula to ensure any change in ownership of Mountain Water, direct or indirect, so that the City of Missoula would be afforded the opportunity to purchase Mountain Water?

Response: Dr. Wilson (and MCC) take no position on the ROFR issue. We merely point out that the Petitioners did not think that any existing ROFR applied in this case because the ownership transfer was at the parent (Park Water) level rather than a sale of Mountain Water, and that a future sale (or IPO) at the Park Water level is susceptible to the same reasoning. If an ROFR is intended in this situation it would be wise to clarify now whether such right applies in the event of a change of ownership or control at the parent level.