



TO: Kate Whitney, Montana Public Service Commission

FROM: Barbara Hall, Clark Fork Coalition

DATE: September 1, 2011

RE: Docket No. D2011.1.8  
Pre-filed direct testimony of Charles McKenna Rial – Unredacted Version

Enclosed please find the unredacted version of the pre-filed direct testimony of Charles McKenna Rial filed on behalf of the Clark Fork Coalition in the above referenced docket. Counsel for The Carlyle Group indicated that no portions of Mr. Rial's testimony should remain protected from public disclosure and he had no objection to making the unredacted version available to the public. An electronic version of this document has been uploaded to the Commission's website and emailed to the service list. A hard copy will follow by US Mail.

Thank you.

c: Service list

PO Box 7593  
Missoula, MT 59807  
406/542-0539 Phone  
406/542-5632 Fax

**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 Approval of Sale and Transfer of ) DOCKET NO. D2011.1.8  
Stock in Park Water Company )

Direct Testimony of

**CHARLES MCKENNA RIAL**

Charles Rial & Associates  
Bass Creek Advisors, Ltd.  
1109 Forest Service Road 1136  
Stevensville, MT 59870  
(216) 272.0377

On behalf of

**Clark Fork Coalition**

July 28, 2011

---

1 **Q. Please state your name, occupation and address.**

2 A. My name is Charles McKenna Rial. I am the Principal of Bass Creek  
3 Advisors, Ltd., a broker-dealer registered with the Securities and Exchange  
4 Commission and a Member of the Financial Industry Regulatory Authority. Bass  
5 Creek Advisors provides capital raising services for private equity firms. I also  
6 have a small consulting business, Charles Rial & Associates, which undertakes  
7 assignments not requiring a broker-dealer registration. Our offices are at 1109  
8 Forest Service Road 1136, Stevensville, MT 59870.

9 **Q. Please describe your educational background and professional experience.**

10 A. I attended Georgetown University. My business education has been the  
11 result of practical experience. I have been in the private equity business since  
12 2000. I served as a Managing Partner for a leading small middle market private  
13 equity firm in their European activities. I have worked extensively with a series of  
14 private equity firm clients over the past 11 years. I formed Charles Rial &  
15 Associates in 1987 to assist clients by providing entrepreneurial services and in  
16 arranging financing for business expansion and acquisitions and commercial real  
17 estate projects. In 2006, I formed Bass Creek Advisors, Ltd. to assist private  
18 equity and development organizations in raising investment capital.

19 From the late 1970s to the mid-1990s, I led a series of consulting  
20 enterprises that worked in distressed communities from rural Alaska to the Navajo  
21 Reservation to Liberty City in Miami.

22 From 1988 to 1994, I served as Founding Managing Director for Shorebank  
23 Advisory Services, a consulting business which specialized in development  
24 finance.

25 From 1994 to 2000, I served as President and then Chairman of the  
26 Management Committee of Shorebank Cleveland Corporation, a development  
27 bank holding company.

28 From 2004 to 2006, I provided consulting services through Charles Rial &  
29 Associates to the subsidiary of a major U.S. insurance company. Charles Rial &

1 Associates assisted the insurer in the fundraising for a \$1 billion mezzanine and  
2 private equity co-investment fund.

3 In 2006 and 2007, Bass Creek Advisors assisted a small middle market  
4 leveraged buyout firm raise \$200 million in capital. I am currently assisting that  
5 same client in pre-marketing for their next fund.

6 **Q. On whose behalf are you testifying in this proceeding?**

7 A. I am testifying on behalf of the Clark Fork Coalition.

8 **Q. What documents have you reviewed in preparation for the testimony you are  
9 providing in this proceeding?**

10 A. I have reviewed Carlyle's Investment Committee Memorandum and the  
11 Private Placement Memorandum of Carlyle Infrastructure Partners, L.P.

12 **Q. Having read the documents provided, please provide your perspective on the  
13 proposed sale of Mountain Water Company to The Carlyle Group.**

14 A. The basic concern of the Clark Fork Coalition is that post-Carlyle's  
15 ownership period (which would reasonably be expected to be 4-7 years with the  
16 potential for a slightly shorter or longer hold period) is that the subsequent buyer  
17 (who would purchase it from Carlyle) would be a financial buyer—typically  
18 another private equity firm—and would have a similar medium-term ownership  
19 period as part of its strategy. The preferred method of sale according to the Carlyle  
20 documents is a public offering, which in turn could lead to stable ownership. But  
21 as the Carlyle documents indicate, unless the size of the overall Park Water grew  
22 considerably (typically through add-on acquisitions) the projected size of Park  
23 Water would not likely warrant a public offering under current market conditions.  
24 The concern is that Park Water would have a series of short-to-medium-term  
25 owners which may not have the quality reputation for stewardship of their  
26 companies rightfully earned by The Carlyle Group. It is this potential uncertainty  
27 that the Clark Fork Coalition sees as problematic.

1           It is clear from the Carlyle documents that the infrastructure fund will  
2 benefit from investing in Park Water, so Carlyle ownership of Mountain Water is  
3 not perceived as a risk. The amount of debt Carlyle intends to place on the  
4 company is not burdensome and they appear to be comfortable with local  
5 management.

6           To the extent there is a risk, it is longer term, particularly as it relates to the  
7 character of ownership post-Carlyle. To mitigate this potential risk, the Clark Fork  
8 Coalition believes it would be in the public's interest to condition the approval of  
9 the Carlyle acquisition upon the City of Missoula receiving an option or first right  
10 of refusal or similar agreement to purchase Mountain Water from Carlyle at their  
11 sale of the company.

12 **Q: What would be a reasonable method of assigning a value to Mountain Water**  
13 **if the City of Missoula is granted a right to purchase it from Carlyle?**

14           Any sale to the City of Missoula should be at fair market value and take  
15 into account any diminution of value to Carlyle by selling Park Water without  
16 Mountain Water as part of it. Typically in private equity sales, a company with a  
17 larger EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)  
18 will fetch a higher purchase price multiple, driving a higher overall value. Without  
19 the EBITDA from Mountain Water, the relative size and market attractiveness at  
20 sale may be less. This depends on the overall earnings of the company at sale  
21 relative to Mountain Water's earnings. If Carlyle is successful in growing Park  
22 Water to significant scale (say \$100 million in EBITDA from its present \$18  
23 million) then the percentage that Mountain Water is of the whole would likely be  
24 considerably less, and carving out Mountain Water at sale would be expected to  
25 have relatively modest impact on value. However, if Mountain Water remains in  
26 the range of one-third of overall Park Water EBITDA, then the impact on value  
27 could be expected to be greater.

28 **Q. Do you have a recommendation on how such a condition could be structured?**

1           There are a variety of ways to structure such a condition. One simple  
2 mechanism is at the time of sale for each party to engage an appraiser and, if they  
3 do not agree on the company's value, to have those two appraisers agree on a third  
4 appraiser whose valuation would be the final word. However on the nature of that  
5 agreement, it is best to defer to the City of Missoula and Carlyle to negotiate any  
6 such provision.

7 **Q. Does this conclude your pre-filed direct testimony?**

8 **A. Yes, it does.**

**CERTIFICATE OF SERVICE**

I hereby certify that on this, the 1<sup>st</sup> day of September, 2011, the un-redacted version of the DIRECT TESTIMONY OF CHARLES MCKENNA RIAL was served via e-mail U.S. mail on:

Arvid Hiller  
Mountain Water Company  
1345 W Broadway  
PO Box 4826  
Missoula, MT 59806-4826  
(U.S. mail only)

Kate Whitney  
Public Service Commission  
1701 Prospect Avenue  
P. O. Box 202601  
Helena, MT 59620-2601  
(e-filed plus original)

John Alke  
Hughes, Kellner, Sullivan & Alke  
40 W. Lawrence, Suite A  
P.O. Box 1166  
Helena, MT 59624-1166  
jalke@hksalaw.com

Bryan D. Lin  
The Carlyle Group  
520 Madison Avenue, 41st Floor  
New York, NY 10022  
bryan.lin@carlyle.com

Jim Nugent  
Missoula City Attorney's Office  
435 Ryman Street  
Missoula, MT 59802  
JNugent@ci.missoula.mt.us

Jim Larocque, CFA  
The Carlyle Group  
520 Madison Ave  
New York, NY 10022  
jim.larocque@carlyle.com

Thorvald A. Nelson  
Holland & Hart LLP  
6380 South Fiddlers Green Circle, Suite 500  
Greenwood Village, CO 80111  
tnelson@hollandhart.com

William Mercer  
Holland & Hart LLP  
401 North 31st Street, Suite 1500  
P. O. Box 639  
Billings, Montana 59103-0639  
wwmerc@hollandhart.com

Mary Wright  
Montana Consumer Counsel  
PO Box 201703  
Helena, MT 59620  
mwright@mt.gov

By:

  
Barbara Hall