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March 12, 2015

Kate Whitney
Public Service Commission
1701 Prospect Avenue
P.O. Box 202601
Helena, MT 59620-2601

RE: Docket No. D2014.12.99

Dear Ms. Whitney:

Enclosed please find the Testimony of David Pasieka on behalf of Liberty Utilities Co. and Liberty WWH, Inc. It has been filed electronically with the Commission.

Please contact me or my assistant Jenn Tolan at 457-2013 with any questions.

Sincerely,

CROWLEY FLECK PLLP

Michael Green

Enclosure

cc: Service List

CERTIFICATE OF SERVICE

I hereby certify that on March 12, 2015, the foregoing Testimony of David Pasieka on behalf of Liberty Utilities Co. and Liberty WWH, Inc. was served via electronic and U.S. mail on:

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

IN THE MATTER OF the Joint Application of Liberty Utilities Co., Liberty WWH, Inc., Western Water Holdings, LLC, and Mountain Water Company for Approval of a Sale and Transfer of Stock	)))))	REGULATORY DIVISION DOCKET NO. D2014.12.99

DIRECT TESTIMONY

OF

DAVID PASIEKA

ON BEHALF OF

LIBERTY UTILITIES CO.

AND

LIBERTY WWH, INC.

March 12, 2015

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I. INTRODUCTION AND RESUME

Q. Please state your name and business address.

A. My name is David Pasieka. My principal business address is 354 Davis Road, Oakville, ON L6J 2X1.

Q. By whom are you employed and in what capacity?

A. I am President of Liberty Utilities (Canada) Corp. ("Liberty Utilities Canada"), which is the parent company for Liberty Utilities Co. ("Liberty Utilities"), a Delaware corporation. Liberty Utilities is an American corporation that owns and operates regulated gas, water, sewer and electric utilities in ten states—Arizona, Arkansas, California, Iowa, Illinois, Missouri, Georgia, Massachusetts, New Hampshire and Texas.

Q. Please describe your duties and responsibilities as president of Liberty Utilities Canada.

A. As President, I am responsible for all facets of the regulated gas, water, wastewater, and electric utilities owned by Liberty Utilities Canada. I have overall accountability for the strategy, safety, operations, growth and financial results of the regulated utility portfolio. In short, I spend my days determining how to provide excellent quality service to over 550,000 customers, while operating distribution systems efficiently, keeping stakeholders such as employees and regulators happy, and most of all, making sure that we do everything safely.

Q. Please outline your educational and professional background.

A. I earned a Bachelor of Science degree from the University of Waterloo in 1980, a Master of Business Administration from York University's Schulich School of Business in 1984, and a Chartered Director designation from McMaster University in 2007. My experience includes over 30 years of executive leadership in the telecommunications, utilities, enterprise software, financial services, energy, and sustainability sectors.

Q. Prior to joining Liberty Utilities Canada, how were you employed?

A. My professional career spans over 30 years of executive leadership in a number of regulated and unregulated businesses. For the first 20 years of my career, I was involved with the regulated Canadian telecommunications sector, working for Bell Canada, CNCP Telecommunications, UniTel Communications, AT&T Canada, and MetroNet Communications. Between 2000 and 2010, my career was focused in early stage start-ups and corporate turnarounds - working in the energy, sustainability, enterprise software, and innovation sectors. For the past five years, I have been the president of Liberty Utilities.

I have significant experience in organization development, corporate integration, financial management, customer service, strategy, information technology, business development, and network operations. My board of director experience consists of chairing the Audit Committee of Iseemedia (a Canadian wireless software company) from 2007 to 2010 and the Human Resources Committee of Luxell Technologies (a Canadian aerospace company) from 2005 to July 2008. From 2008 to 2011, I sat on the Board of Directors of Oakville Hydro as the chair of the Human Resources Committee. I am also a member of the faculty of the McMaster Directors College & Not-For-Profit Governance Institute, where I lecture on director selection and evaluation, climate change, and corporate social responsibility.

Q. Have you testified before this Commission and other state regulatory bodies?

A. I have not previously testified before this Commission. I have previously testified before the New Hampshire Public Utilities Commission in support of Liberty Utilities' purchase of two utilities – one electric and one gas – in 2011.

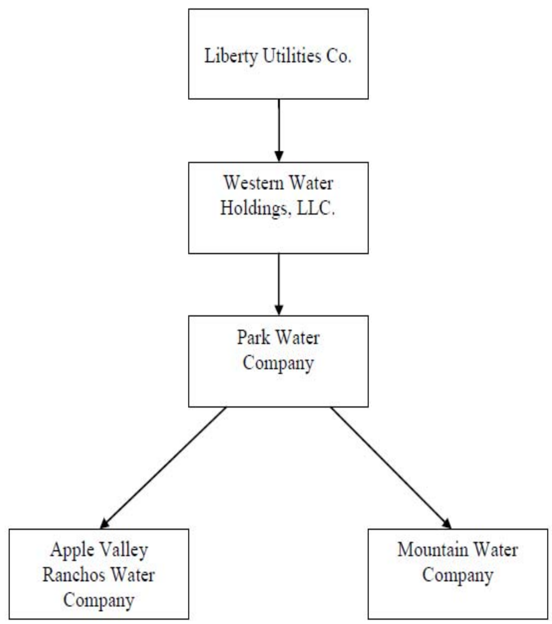
Q. What is the purpose of your testimony?

A. The purpose of this testimony is to describe generally the transaction for which we are seeking approval and to support the joint application by: (1) providing an overview of the relationship among Algonquin Power & Utilities Corp. ("APUC"), Liberty Utilities Canada, Liberty Utilities, and Liberty WWH, Inc. ("Liberty WWH"), which was formed to acquire and hold the stock of Western Water Holdings, LLC ("Western Water"), the current owner of Park Water Company ("Park Water"); (2) describing Liberty Utilities' operating philosophy with regard to its regulated businesses; (3) highlighting Liberty Utilities' management capabilities and technical expertise; (4) describing the structure and plans for operations anticipated for Mountain Water Company ("Mountain Water") after Liberty Utilities' acquisition; (5) describing the benefits Liberty Utilities brings to Mountain Water's customers; and (6) describing Liberty Utilities' long-term strategy for its Montana operations.

II. OVERVIEW OF THE TRANSACTION

Q. Please describe the proposed transaction for which Liberty seeks approval by the Commission.

A. On September 19, 2014, Liberty Utilities, Liberty WWH, and Western Water executed a Plan and Agreement of Merger ("Merger Agreement"). Under the Merger Agreement, Liberty Utilities will acquire the stock of Western Water and Liberty WWH and Western Water will merge, and the surviving entity, Western Water, will become a direct, wholly-owned subsidiary of Liberty Utilities. Upon approval of the Merger, Liberty Utilities will own 100% of Western Water which, in turn, will continue to own 100% of Park Water which, in turn, will continue to own 100% of Mountain Water. The following chart illustrates the organizational structure that will result under Liberty Utilities' ownership:



Q. Has Liberty Utilities allocated the purchase price among the entities or water systems it is acquiring?

A. No. The purchase price was based upon an enterprise value for all of the companies owned by Western Water. Liberty Utilities did not allocate the purchase price among Park Water, Apple Valley Ranchos Water Company ("Apple Valley Ranchos") and/or

Mountain Water. The purchase price resulted from a competitive bid process administered by Wells Fargo for Carlyle Infrastructure Partners, L.P. and Western Water. Liberty Utilities participated in the solicitation process consistent with its core business purpose and strategy to acquire, own, and operate regulated natural gas, water and electric utilities in a safe and reliable manner over the long term.

Q. Will the purchase price affect water rates for customers of Mountain Water?

A. No, the price that Liberty will pay for Park Water, Apple Valley Ranchos, and Mountain Water has no impact on water rates to be paid by customers of Mountain Water. As stated in its application, Liberty Utilities will not seek an acquisition or rate base adjustment to cover or reflect the purchase price in water rates.

Q. Please describe any other regulatory approvals required.

A. On November 24, 2014, Liberty Utilities, Liberty WWH, Western Water, Park Water and Apple Valley Ranchos filed a joint application with the California Public Utilities Commission seeking approval for Liberty Utilities to acquire and control Park Water and Apple Valley Ranchos. That regulatory approval process is currently pending before the California Commission.

III. OVERVIEW OF CORPORATE STRUCTURE

Q. Please describe the relationship among APUC, Liberty Utilities Canada, Liberty Utilities, and Liberty WWH.

A. APUC is a diversified electric generation, transmission, and distribution utility company based in Oakville, Ontario. APUC is listed on the Toronto Stock Exchange and is a registrant with the U.S. Securities and Exchange Commission. APUC subsidiaries own and operate regulated utilities in the United States, and own non-regulated generation facilities and regulated electric transmission and natural gas pipelines throughout the United States and Canada. Liberty Utilities Canada is a direct subsidiary of APUC. Liberty Utilities is an indirect, wholly-owned subsidiary of Liberty Utilities Canada. Liberty Utilities owns the regulated utility companies in the United States. Liberty Utilities is a Delaware corporation. Exhibit ____(DJP-1) shows the current corporate structure. Liberty WWH is a wholly-owned subsidiary of Liberty Utilities and is a newly-created Delaware corporation formed expressly for the merger with Western Water. Upon approval and closing of the merger, Liberty WWH will merge into Western Water.

IV. LIBERTY UTILITIES' PHILOSOPHY REGARDING OPERATION OF ITS UTILITY BUSINESS

Q. What is Liberty Utilities' overall philosophy regarding the operation of its regulated utility businesses?

A. Liberty Utilities and the Liberty family share a common set of organizational values to help guide day-to-day business decisions. Those organizational values are: Family, Quality, Efficiency, Community, Care and Commitment. Those values are the underpinnings of the Liberty Utilities culture and provide guidance on day-to-day business operations. Overarching those organizational values is Safety. Liberty Utilities considers Safety a meta-level value and places the safety of customers, employees and community as first and foremost. In addition to local operations, strategic oversight and administrative support services are provided centrally from the Liberty Utilities level to the local utility businesses. We take this approach because we believe these services can be provided more cost effectively and in a manner that ensures consistent quality across all of our operating utilities if provided on a shared services basis, yet doing so will not detract from the local presence that is valued by our customers and regulators. Customers receive significant benefits from this shared services model, and the local approach in the provision of high quality utility service. If a particular matter directly affects customers or regulators, it is handled locally.

Q. How does Liberty Utilities' regulatory philosophy affect the way in which it approaches the management and operation of the utilities it owns?

A. We believe that there is no adequate substitute for local management, local decision making, and local operational control for a utility that is serious about achieving the highest level of customer satisfaction and maintaining strong regulatory relationships. We believe that small and medium sized utilities can best meet the needs of their customers and regulators when the people making the operating decisions affecting the communities they serve are located near those customers and are in easy, regular, close contact with customers and regulators.

In terms of operating its regulated utilities, Liberty Utilities focuses on local management control and operation. We operate on the following corporate mantra: "Local. Responsive. We Care." Each state has a President who directs the utilities in that state. They have local decision-making authority and responsibility, including operational and financial authority. We have local customer service representatives to interact with customers directly. Our customers appreciate that they are being served by employees who work in the service territory.

Here, Mountain Water will be locally managed and operated. We intend to retain current Mountain Water President John Kappes, as our operating president for Montana. Mr. Kappes will remain located full time in Montana, and in addition to bearing responsibility for financial performance of our new Montana operations, Mr. Kappes will have full accountability for delivering on our customer service commitments and meeting regulatory obligations. We also intend to retain each and every employee of Mountain Water. Over time, we expect we may actually grow our Montana work force as we create one of our typical state operating structures around Mountain Water.

Q. Please summarize Liberty Utilities' perspective regarding the relationship between its operating subsidiary and the regulators who are responsible to the public to ensure that the local utility provides safe, reliable service at reasonable cost.

A. Liberty Utilities believes that the key to our ultimate success is to understand the needs and objectives of our customers and regulators and to deliver on those needs and objectives. We accept and embrace the role of the regulator and the regulator's need to be able to communicate with us through both formal and informal channels with respect to their view of our performance, and we confirm our commitment to adjust course when necessary based on that input.

Our philosophy in working with regulators in the various jurisdictions where we own and operate utilities is that communications are often most effective when they occur before and outside of formal regulatory proceedings. This includes communications between commissions and Liberty Utilities at both the local and the corporate level. We actively look for opportunities to regularly and informally meet with regulators (both staff and, where *ex parte* rules allow, commissioners) as well as our customers and other stakeholders, so we can deliver updates on our plans and activities, receive candid assessments of our performance, including our shortcomings, and seek feedback respecting what these important constituencies think of our plans for the future. We also recognize that regulators deserve to hear from us regarding developments affecting our utilities and our customers before they read about them in the newspaper. Accordingly, we seek to engage our regulators on a regular basis with the objective of keeping them fully informed regarding relevant initiatives; we believe such communication is the path to building trust.

In other states where we operate, we have developed strong working relationships with state regulatory commissions and other public agencies, including reviewing the results of our annual customer satisfaction survey, developing regulatory mechanisms to facilitate investment in plant improvements, facilitating utility seminars on topical subjects and other similar efforts. Just recently, one of our Arizona utilities received approval of a 100-year agreement with the Central Arizona Project (“CAP”) to recharge effluent. That project is the first of its kind in Arizona to recharge excess effluent between a private utility and CAP. The project was short-listed as the global “Water Deal of the Year” by Global Water Summit. The confirmation of the nomination and a description of the project may be found at: http://globalwaterawards.com/2015#WaterDealOfTheyear.

In Montana, we expect to build our relationship with this Commission and its staff by relying on the existing relationships and the institutional knowledge of Mountain Water management. We will maintain communication with the Commission and staff as we incorporate Mountain Water into the broader Liberty Utilities group through formal reports and less formal discussions, as appropriate. Liberty Utilities recognizes Montana's strong tradition and requirements of public access to the Commission's deliberations and information, and welcomes the opportunity for a public discussion with customers, Commissioners and staff about Mountain Water's performance.

V. BENEFITS OF LIBERTY UTILITIES' OWNERSHIP

Q. Please describe what you view as the benefits to Mountain Water's customers of Liberty Utilities' acquisition.

A. Liberty Utilities provides benefits in four key areas: (1) financial compatibility and strength; (2) management and operations expertise; (3) familiarity with utility regulatory expectations; and (4) a strong commitment to providing safe and reliable service to our customers. Liberty Utilities understands Mountain Water is a fundamentally well-run water utility, but believes our strengths in the above areas will improve the quality and level of service for customers and employees and improve the relationship with the Commission and its staff.

Q. Please describe what you mean by "financial compatibility" and "strength."

A. Liberty Utilities couples the strength of ready access to capital markets with an established reputation as a strong utility owner and operator. As a result, Liberty Utilities has access to capital from investors whose expectations are consistent with the operations and investments of a long-term utility. This allows Liberty Utilities to adopt investment and return strategies that are more aligned with the needs of regulated utilities and expectations of utility regulators. Liberty Utilities typically invests more than it takes out in income and more than the depreciation charge. Liberty Utilities has a $200 million credit facility and it spent approximately $178 million in 2014 for capital expenditures with $46 million in depreciation. Our credit facility also gives us access to capital for emergencies or regulatory changes (such as the change in arsenic treatment standards, for example).

Q. Please describe Liberty Utilities' access to capital.

A. In the last four years, Liberty Utilities, its parent and associated affiliates raised over $1.9 billion in equity and debt. Liberty Utilities' parent has been around for 29 years, has been listed on the Toronto Stock Exchange for 18 years, and currently has a strong utility rating, including a BBB designation from Standard & Poor's. Liberty Utilities has a line of credit available to it of approximately $200 million. As of December 2014, only 13% of Liberty Utilities' credit facility had been drawn down.

Q. How will Liberty Utilities' management and operational expertise benefit Mountain Water customers?

A. The board, management and workforce of Liberty Utilities will bring vast regulated utility expertise and experience to the ongoing operations of and investments in Mountain Water. Fundamentally, our utilities are run by experienced long-term employees who handle the operation. The management and operational expertise of our employees is extensive and wide ranging. Further, we have an extensive ongoing training program for employees such that they have all the necessary qualifications to do their day-to-day jobs and be appropriately equipped to progress from a personal and corporate development prospective. Our customers benefit from high-quality, cost-effective utility service provided by employees with significant operational and technical expertise. The fact that we have regulated water utilities in other states also enhances our ability to bring additional expertise to Mountain Water should those resources be required.

Q. Please describe the role of Liberty Utilities' management team in its utility operations.

A. As I described, Liberty Utilities maintains a president in each state. The state president, reports to the Senior Vice President of Distribution Operation, Brian Ketcheson, who reports to me. Mr. Ketcheson has access to the senior management team for Liberty Utilities, which provides strategic oversight support to our state operations. This team provides supporting services such as customer care, billing, regulatory strategy, information technology, finance, and treasury.

Q. Please describe Liberty Utilities' United States workforce.

A. Liberty Utilities has roughly 970 employees in the United States. We currently have approximately 200 employees operating water and wastewater systems in Arizona, Arkansas, Texas, and Missouri. With our philosophy of retaining all employees when we acquire a system, we have accumulated thousands of years of aggregate employee experience operating the systems we own.

Q. Please describe Liberty Utilities' regulatory experience.

A. Liberty Utilities operates more than twenty natural gas, electric, water and wastewater utilities in ten states. A complete list is provided in Table 1, below. Information provided in the table includes the legal corporate name of each utility, the type of utility, the name and address of the commission with jurisdiction over the utility, and the most recent year in which the utility received regulatory approval for rates under Liberty Utilities' ownership. As shown in Table 1, Liberty Utilities has been very active in rate cases since 2012. Initial rate cases under Liberty ownership have received approvals in Arizona, California, Georgia, Illinois, Missouri and New Hampshire.

Table 1: Liberty Utilities Across the U.S

Utility	Type	Commission	Last Rate Order
Liberty Utilities (Calpeco Electric) LLC	Electric	California Public Service Commission 505 Van Ness Avenue San Francisco, CA 94102	2012
Liberty Utilities (New England Gas Co.) Corp.	Natural Gas	Massachusetts Department of Public Utilities One South Station Boston, MA 02110	2009*
Liberty Utilities (Peach State Natural	Natural Gas	Georgia Public Service	2014

Utility	Type	Commission	Last Rate Order
Gas) Corp.		Commission 244 Washington St Atlanta, GA 30334-5701	
Liberty Utilities (Pine Bluff Water) Inc.	Water	Arkansas Public Service Commission 1000 Center Street PO Box 400 Little Rock, AR 72203-0400	2010* Case pending; dec'n expected Mar '15
Liberty Utilities (Midstates Natural Gas) Corp.	Natural Gas		
-Illinois	Natural Gas	Illinois Commerce Commission 527 East Capitol Avenue Springfield, Illinois 62701	2015
-Missouri	Natural Gas	Missouri Public Service Commission 200 Madison Street, PO Box 360 Jefferson City, MO 65102-0360	2014
-Iowa	Natural Gas	Iowa Utilities Board 1375 East Court Avenue Des Moines, Iowa 50319	2001*
Liberty Utilities (Granite State Electric) Corp.	Electric	New Hampshire Public Service Commission 21 South Fruit Street, Suite 10 Concord, N.H. 03301-2429	2014
Liberty Utilities (EnergyNorth Natural Gas) Corp.	Natural Gas	New Hampshire Public Service Commission 21 South Fruit Street, Suite 10 Concord, N.H. 03301-2429	2011* Case pending; dec'n expected Q3'15
Liberty Utilities (Black Mountain Sewer) Corp.	Wastewater	Arizona Corporation Commission 1200 W. Washington Phoenix, AZ 85007-2996	2010
Liberty Utilities (Gold Canyon Sewer) Corp.	Wastewater	Arizona Corporation Commission 1200 W. Washington Phoenix, AZ 85007-2996	2008
Liberty Utilities (Entrada Del Oro Sewer) Corp.	Wastewater	Arizona Corporation Commission 1200 W. Washington	2005*

Utility	Type	Commission	Last Rate Order
		Phoenix, AZ 85007-2996	
Liberty Utilities (Litchfield Park Water & Sewer) Corp.	Water & Wastewater	Public Utility Commission of Texas 1701 N. Congress Avenue PO Box 13326 Austin, TX 78711-3326	2014
Liberty Utilities (Rio Rico Water & Sewer) Corp.	Water & Wastewater	Public Utility Commission of Texas 1701 N. Congress Avenue PO Box 13326 Austin, TX 78711-3326	2013
Liberty Utilities (Bella Vista Water) Corp.	Water	Arizona Corporation Commission 1200 W. Washington Phoenix, AZ 85007-2996	2011
Liberty Utilities (Missouri Water) LLC	Water	Arizona Corporation Commission 1200 W. Washington Phoenix, AZ 85007-2996	Pre-2010*
Liberty Utilities (Fox River Water) LLC	Water & Wastewater	Arizona Corporation Commission 1200 W. Washington Phoenix, AZ 85007-2996	Pre-2010*
Liberty Utilities (Silverleaf Water) LLC	Water & Wastewater	Public Utility Commission of Texas 1701 N. Congress Avenue PO Box 13326 Austin, TX 78711-3326	Pre-2010*
Liberty Utilities (Tall Timbers Sewer) Corp.	Wastewater	Public Utility Commission of Texas 1701 N. Congress Avenue PO Box 13326 Austin, TX 78711-3326	Pre-2010
Liberty Utilities (Woodmark Sewer) Corp.	Wastewater	Unregulated due to small size	NA
Liberty Utilities (Seaside Water) LLC	Water & Wastewater	Missouri Public Service Commission 200 Madison Street, PO Box 360 Jefferson City, MO 65102-0360	Pre-2010*
Liberty Utilities (Whitehall Water) Corp.	Water	City of White Hall, 101 Parkway Dr. White Hall, AR 71612; Not regulated by the APSC	NA

Utility	Type	Commission	Last Rate Order
Liberty Utilities (Whitehall Sewer) Corp.	Wastewater	City of White Hall, 101 Parkway Dr. White Hall, AR 71612; Not regulated by the APSC	NA

Note: Key gas, water and electric decisions shown. Asterisk denotes case was completed while not under Liberty ownership.

VI. MOUNTAIN WATER'S EXPECTED STRUCTURE AND OPERATIONS

Q. Please describe the corporate structure that will be put in place for Mountain Water.

A. Liberty Utilities intends to maintain Mountain Water as a separate, stand alone, corporate entity. For at least some period of time, Mountain Water will remain a subsidiary of Park Water, which, over time, will be integrated into Liberty Utilities' current corporate structure.

Q. Please describe the operational structure that will be put in place for Mountain Water.

A. At the operating company level, Mountain Water will continue to be staffed by the same individuals, performing the same operating functions, using the same operating procedures as under current ownership. We expect Mountain Water to continue to receive the same level of centralized services from Park Water it is receiving now to support its operations and finances. The services currently being provided by Park Water in California will, over time, be transitioned to Liberty Utilities and/or performed by additional resources hired at Mountain Water. In all instances, customers of Mountain

Water will receive the same or better level and quality of service as they have come expect.

Q. Please give an overview of Liberty Utilities' corporate function model.

A. Various groups within our operating structure provide "corporate function" services to our state utilities. An overview of the Liberty Utilities' corporate functions model is provided in Exhibit ____(DJP-2). There are three main corporate groups that provide services to the Algonquin organization, including Liberty Utilities and its affiliate utilities. These are APUC, Liberty Utilities Canada, and Liberty Algonquin Business Services ("LABS").

LABS is the group of employees that provides shared services functions to the entire organization, including Algonquin Power Company ("APCo"), the power generation side of APUC, and to Liberty Utilities Canada, the utility side of APUC. LABS' functions reside organizationally within Liberty Utilities Canada.

LABS provides certain shared services that benefit the entire company, *i.e.*, APCo and the utilities. The shared service functions within LABS include typical business and corporate support services such as information technology, human resources, training, facilities and building rent, procurement, environment health safety and security, and capital management services. The capital management services include treasury, financial reporting and administration, legal, internal audit, risk, and investor relations.

Liberty Utilities Canada provides strategic utility oversight and corporate administrative support services that are specifically for the operating utilities, such as customer care, regulatory strategy, utility finance, billing and collections, and operations In addition to these utility administrative support services, strategic utility oversight generally relates to ensuring consistency of operations across all Liberty Utilities' businesses as well as performance monitoring to ensure that each utility meets our high expectations for reliability, cost of service, customer care and regulatory relations.

APUC is the ultimate corporate parent and affiliate that provides overall financial, strategic management, corporate governance, administrative and support services to Liberty Utilities Canadaand APCo. The services provided by APUC are necessary for Liberty Utilities Canada and its subsidiaries to maintain robust access to capital markets for capital projects and operations.

Q. Please describe how Liberty Utilities' corporate function costs are allocated to its operating utilities.

A. Where it is possible, costs which are directly attributable to it, such as labor, will be directly charged to Mountain Water. Liberty Utilities allocates its corporate function costs which are not directly attributable to its various subsidiaries using a multi-factor methodology. In summary, those costs are allocated based on varying combinations of many factors such as each utility's relative plant, revenue, expenses, and employee or customer count. The current Cost Allocation Manual is attached as Exhibit ____(DJP-3).

VII. LIBERTY UTILITIES' LONG-TERM STRATEGY AND EXPECTATIONS FOR MOUNTAIN WATER.

Q. What should customers expect in terms of rates and service quality in the future if the sale is approved?

A. Customers should expect to receive the same reliable, high-quality and cost-effective water service from Mountain Water under Liberty Utilities' ownership as they do today. Liberty Utilities provides reliable, high-quality and cost-effective utility service with all of its regulated utilities. Liberty Utilities strives to balance the need for capital investment in utility operations with the impact on customer rates. Customers will not see a rate increase as a direct result of this transaction. Liberty believes that the system should be operated as though our customers could have a choice of their service provider. Consequently, we have a strong focus on ensuring that our customers have the ability to get their customer service from us in a manner that they require. This would include communicating via telephone, walk-in, website or, in the future, by mobile device. Liberty is committed to ensuring that we remain responsive to customer needs. On an annual basis, we will facilitate a third-party administrated customer service survey. The results of this survey will be shared with Commission staff, along with our company plans for addressing any concerns or new services raised in this process.

Q. What plans do you have to address leakage and the system's aging infrastructure?

A. There is an existing plan for Mountain Water to address the leakage and aging infrastructure. It is Liberty Utilities' intent to facilitate the current plans the existing team of water professionals have created. Should additional capital opportunities be available to accelerate this plan, Liberty Utilities would be supportive of additional accelerated investment subject to the Commission's approval.

Q. Is Liberty Utilities prepared to accept ring-fencing conditions on its acquisition?

A. We have reviewed the ring-fencing provisions imposed in Docket D2011.1.8, and as indicated in the Joint Application, we are prepared to accept similar provisions. Liberty Utilities, however, believes it is in the best interest of customers to allow Liberty Utilities to integrate Mountain Water into Liberty's existing group of companies. As outlined in my prior testimony on acquisitions in other jurisdictions, we believe our integration philosophies preserve the benefits of local operational control with combined strategic planning and access to financial resources. The changes to the dividend and cash management ring-fencing provisions we proposed were intended to preserve that flexibility to allow integration.

Q. Are you committed to only using Mountain Water's existing water rights for the benefit of the Missoula area?

A. Yes.

Q. What is Liberty Utilities' strategy for acquiring and selling utilities?

A. Liberty Utilities is in the business of buying, owning, operating, improving and holding regulated utilities for the long term. Our corporate saying is that we intend to serve "Mr. Beasley's daughter's daughter's daughter." In other words, we are in the utility business for the long term. We have never sold a regulated utility.

Q. What are Liberty Utilities plans for expansion or growth in Montana?

A. Liberty Utilities anticipates expansion of Mountain Water's system through organic growth of the existing system and customer base as the community it serves grows. It is my understanding that Mountain Water management expects opportunities to expand its system through the acquisition of other nearby systems. Liberty Utilities also hopes for the opportunity to acquire additional water and/or waste water systems in Montana to expand its regulated operations in Montana. Future acquisitions would be incorporated into Liberty Utilities' operational structure, described above.

Q. How does Liberty Utilities intend to meet the water needs of this anticipated growth?

A. Liberty Utilities expects Mountain Water would use its existing water rights, as allowed under binding agreements and Commission orders, to serve anticipated "organic" growth of the Mountain Water system. Liberty Utilities anticipates acquiring new (which would include rights belonging to the acquired system) water rights where needed to serve new customers or systems. It is not anticipated that Mountain Water's existing water rights would be used to serve any new utilities added in Montana outside the Missoula service area.

Q. **Why is Liberty Utilities willing to pay more than the current rate base to acquire Park Water?**

A. The purchase price represents the market value for Park Water. I am not aware of transactions in recent years in which a utility company was not sold for some premium above rate base. In this case, the purchase price was set through a bid process which drew multiple experienced utility companies. Park Water was attractive to Liberty Utilities because it aligns well with our existing utilities, including our existing utility in California. It also aligns with our long-term goal of acquiring utilities and increasing the number of states in which Liberty Utilities operates.

Q. How does Liberty Utilities intend to recover its investment in excess of rate base in the Park Water companies?

A. As noted above, Liberty Utilities does not expect to recover the acquisition premium it is paying for Park Water through rates. However, Liberty Utilities plans to hold, operate and grow all three of the Park Water's existing systems for the long term. Rates now and in the future will be based on Mountain Water's actual costs of service and related items. Liberty Utilities intends to own and operate Mountain Water for the long term and earn a return on its capital investment. Liberty Utilities does not intend to sell Mountain Water and, because we are not seeking an acquisition adjustment, the notion of recovering an acquisition premium does not apply. Put simply, the acquisition premium is justified because opportunities to acquire and invest in rate-regulated utilities are relatively rare, and the acquisition occurred in a fully competitive process.

We expect to conduct business as a regulated utility in the state of Montana, subject to rate case filings and review by the Commission and its staff. We understand and expect that water rates will be determined based on used and useful plant value, prudent operating expenses and other issues determined in rate cases. We intend to operate, maintain and grow Mountain Water over the long term. Liberty Utilities believes that

Mountain Water has growth potential through replacement of aging infrastructure, growth in customers, and through potential acquisitions.

The regulated utility business is, by definition, a conservative, long-term venture. Our utilities are operated by experienced, long-term employees. Experience is vital in this industry. Training costs are very substantial, but necessary, so that the utility professionals who operate the system day-by-day ensure the safe and reliable delivery of the utility service. Liberty Utilities understands all of this. I know this as President and that is how we approach our utility business. We are committed to being an excellent utility company. This acquisition expands our utility presence in California and marks our entry into the state of Montana. It builds on our strong water utility expertise and provides continuing opportunity for organic growth. As noted above, Liberty Utilities is not seeking an increase or adjustment to rate base to reflect a purchase price above the approved rate bases of the utilities in this merger transaction. As such, the notion of a return on investment above rate base is a non-issue and will not impact water rates for customers of Mountain Water.

Q. What role does Liberty Utilities expect to take in the Missoula community?

A. We intend to take a significant role in the Missoula community, as we have done in all of our states. Liberty Utilities offers programs that promote our values of Quality, Commitment, Family, Community, Efficiency and Care. We believe those values closely align with Mountain Water employee values and the values of the Missoula community. Those programs include a Liberty Days program that allows and encourages employees to take three paid days to support local community activities. The Liberty Days program is designed to encourage local, community involvement and participation. We have another program called Spirit of Liberty that was created to recognize employees whose actions, activities and successes promote the Liberty values for employees, customers and the community. A significant component of the Spirit of Liberty program is to recognize employees who get involved in the local community. We also intend to promote and continue the Local Advisory Committee in place currently with Mountain Water. We would promote and continue community efforts that we have taken in other states, including service agreements with local municipalities and public agencies, partnerships with local schools for water education, educational presentations to local schools, and other similar efforts.

Q. What impact does the City of Missoula's condemnation action have on Liberty Utilities' plans for Mountain Water?

A. At present, the City of Missoula's condemnation action does not have any impact on Liberty Utilities' plans. While trial in that matter is imminent, it is my understanding that any final conclusion is likely years in the future. While no one knows how long the pending condemnation case will take before it is fully resolved, it is instructive to recall that the City filed a condemnation petition for Mountain Water's assets in 1984 and that case didn't conclude until 1989. During that five-year period, there were two trials and two appeals to the Montana Supreme Court before a final resolution was achieved. That's not to mention that the Montana Courts rejected the City's prior efforts to condemn Mountain Water. Not only must the City be successful in its legal complaint to condemn Mountain Water, but the City also must be able to finance and fund any fair market value determination for Mountain Water. To say the least, the City's condemnation effort is subject to a variety of substantial legal and financial contingencies. As a result, we believe that the City's condemnation effort should not have any impact on this regulatory docket. If approval is granted in this docket, Liberty Utilities intends to move forward under the presumption it will be the long-term owner and operator of Mountain Water's system.

Q. Does this complete your direct testimony?

A. Yes, it does.

Docket No. D2014.12.99

Exhibit No. ____(DJP-1)

LIBERTY UTILITIES
ORGANIZATION CHART
AS OF FEBRUARY 4, 2015

KEY

1. Corporation or LLC ☐

Chart A

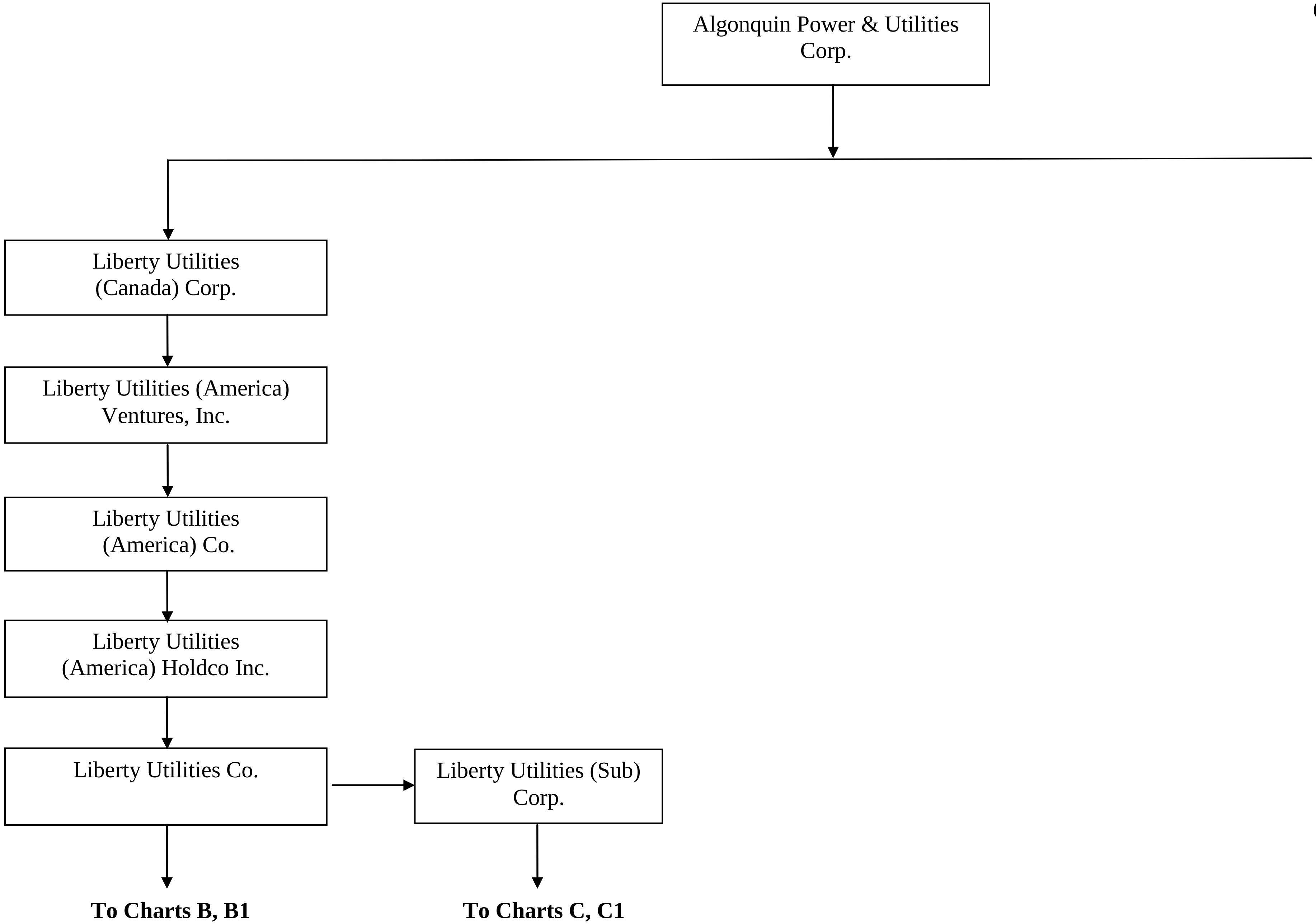

Algonquin Power & Utilities Corp.
Liberty Utilities (Canada) Corp.
Liberty Utilities (America) Ventures, Inc.
Liberty Utilities (America) Co.
Liberty Utilities (America) Holdco Inc.
Liberty Utilities Co.
Liberty Utilities (Sub) Corp.
To Charts B, B1
To Charts C, C1

Chart B
(Continued on Chart B1)

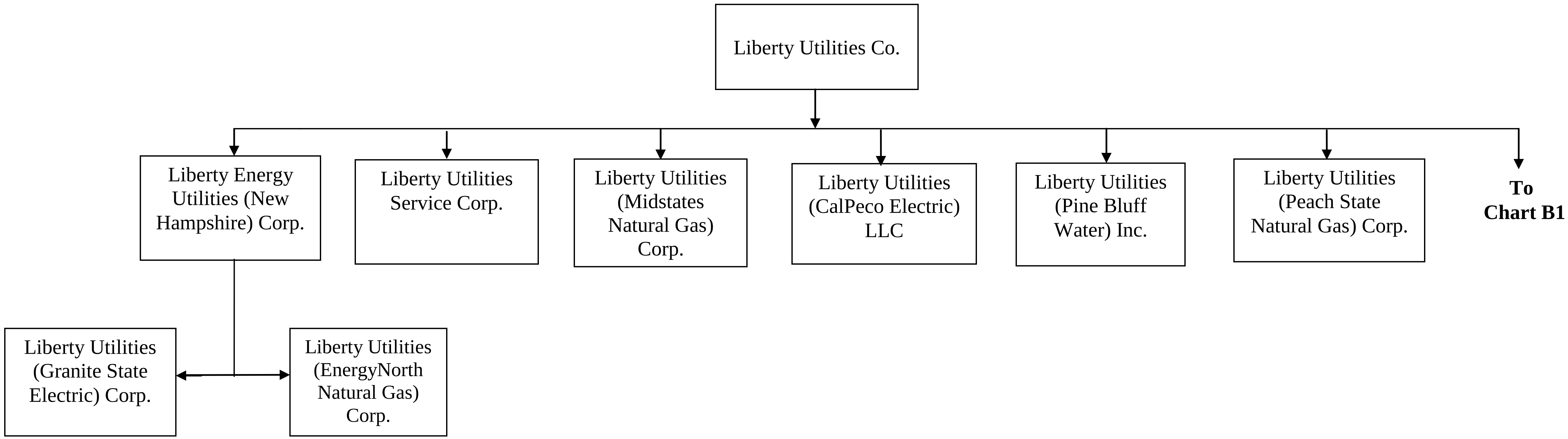


Chart B1

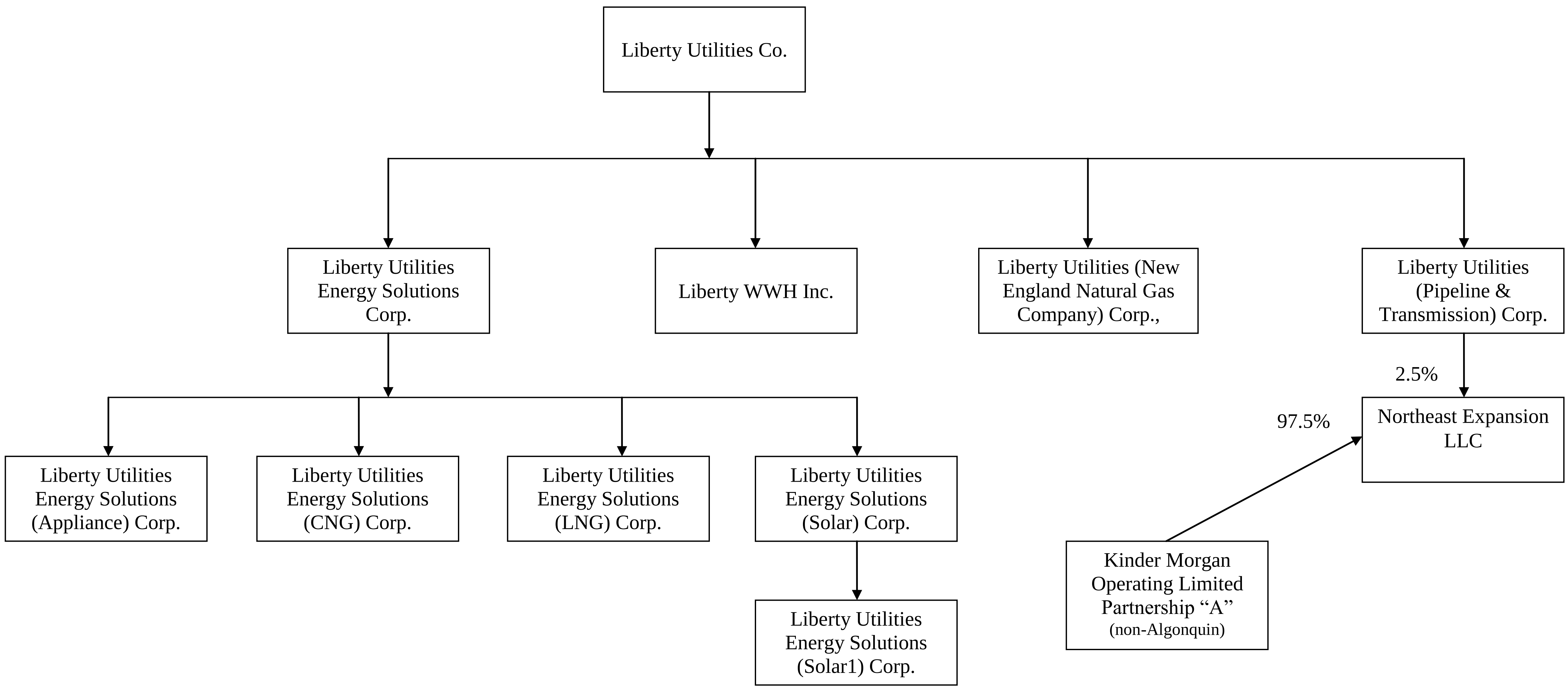

Liberty Utilities Co.
Liberty Utilities Energy Solutions Corp.
Liberty WWH Inc.
Liberty Utilities (New England Natural Gas Company) Corp.,
Liberty Utilities (Pipeline & Transmission) Corp.
2.5%
97.5%
Northeast Expansion LLC
Liberty Utilities Energy Solutions (Appliance) Corp.
Liberty Utilities Energy Solutions (CNG) Corp.
Liberty Utilities Energy Solutions (LNG) Corp.
Liberty Utilities Energy Solutions (Solar) Corp.
Kinder Morgan Operating Limited Partnership "A" (non-Algonquin)
Liberty Utilities Energy Solutions (Solar1) Corp.

Chart C
(continued on Chart C1)

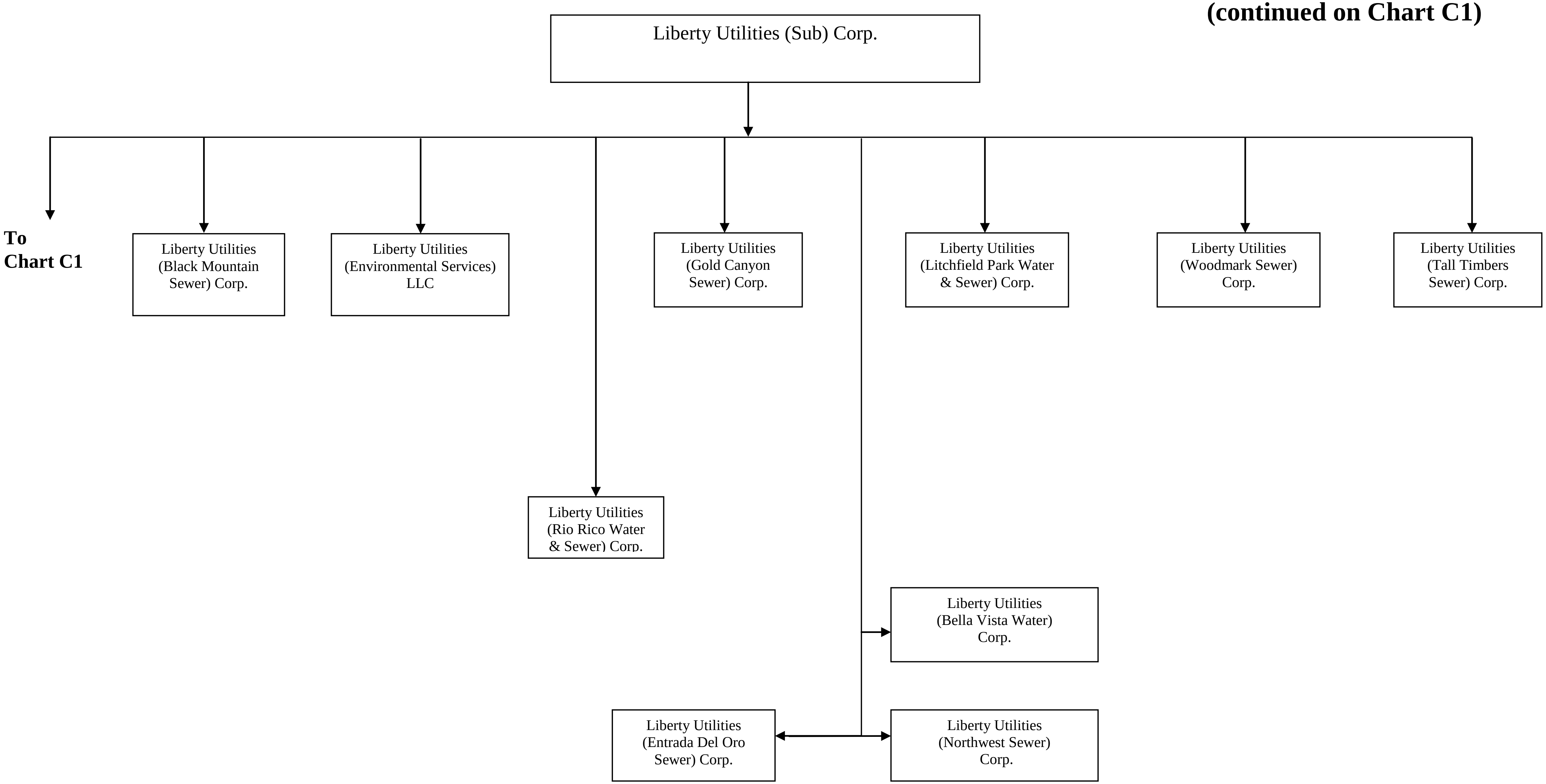
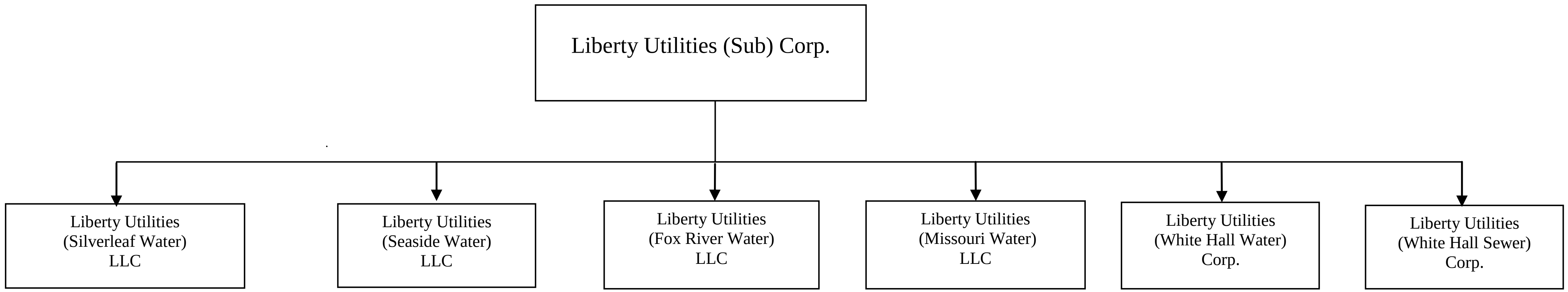


Chart C1


Liberty Utilities (Sub) Corp.
Liberty Utilities (Silverleaf Water) LLC
Liberty Utilities (Seaside Water) LLC
Liberty Utilities (Fox River Water) LLC
Liberty Utilities (Missouri Water) LLC
Liberty Utilities (White Hall Water) Corp.
Liberty Utilities (White Hall Sewer) Corp.

Docket No. D2014.12.99

Exhibit No. ____(DJP-2)

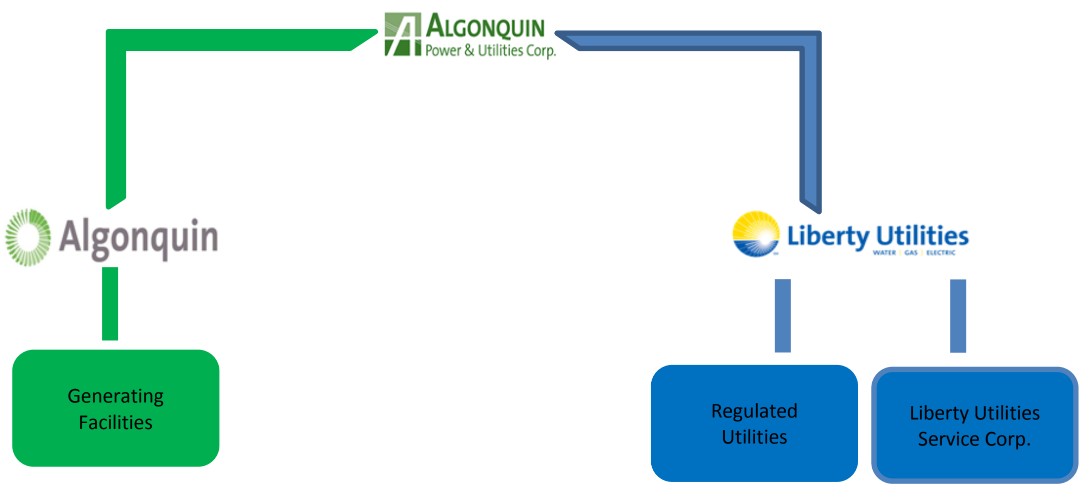
Corporate Functions Summary

The following summarizes the corporate functions that provide services throughout the Algonquin/Liberty organization, including the corporate functions and services provided to the regulated utilities under the Liberty banner.

Corporate Functions

There are three main corporate groups that provide services to the Algonquin organization, including Liberty Utilities and its affiliate utilities. These are APUC, LUC and LABS (Algonquin Power and Utilities Corp., Liberty Utilities (Canada), and Liberty Algonquin Business Services, respectively. Note that LABS functions reside organizationally within the LUC entity). A simplified organizational structure is provided as Figure 1 below.

Figure 1: Algonquin Power & Utilities Corporate Structure



APUC

APUC is structured as a publicly traded holding company and provides substantial benefits to its regulated utilities and generation facilities through access to capital markets.

APUC is the ultimate corporate parent and affiliate that provides financial, strategic management, corporate governance, administrative and support services to LUC and APCo (Algonquin Power Co). The services provided by APUC are necessary for LUC and its subsidiaries to have access to capital markets for capital projects and operations.

APUC's services include Financing Services. As used herein Financing Services means the selling of units to public investors in order to generate the funding and capital necessary (be it short term or long term funding, including equity and debt) for LUC and APCo as well as providing legal services in connection with the issuance of public debt.

In connection with the provision of Financing Services, APUC incurs the following types of costs: (i) strategic management costs (board of director, third-party legal services, accounting services, tax planning and filings, insurance, and required auditing); (ii) capital access costs (communications, investor relations, trustee fees, escrow and transfer agent fees); (iii) financial control costs (audit and tax expenses); and (iv) administrative (rent, depreciation, general office costs). Appendix 2 of the CAM provides a more detailed discussion of the costs incurred by APUC.

Non-labor costs, including corporate capital, are pooled and allocated to LUC and APCo using the "multi-factor" method summarized in Table 1 of the CAM.

LUC

LUC provides its regulated utilities with the following services: accounting, administration, corporate finance, human resources (including training and development), information technology, rates and regulatory affairs, environment, health and safety, and security, customer service, procurement, risk management, legal, and utility planning.

The following are more specific examples of some of the services provided: (i) budgeting, forecasting, and financial reporting services including preparation of reports and preservation of records, cash management (including electronic fund transfers, cash receipts processing, managing short-term borrowings and investments with third parties); (ii) development of customer service policies and procedures; (iii) development of human resource policies and procedures; (iv) selection of information systems and equipment for accounting, engineering, administration, customer service, emergency restoration and other functions and implementation thereof; (v) development, placement and administration of insurance coverages and employee benefit programs, including group insurance and retirement annuities, property inspections and valuations for insurance; (vi) purchasing services including preparation and analysis of product specifications, requests for proposals and similar solicitations; and vendor and vendor-product evaluations; (vii) energy procurement oversight and load forecasting; and (viii) development of regulatory strategy.

LUC will direct charge costs that can be directly attributable to a specific utility. These include direct labor and direct non-labor costs. However, the indirect LUC costs cannot be directly attributed to an individual utility. LUC allocates its indirect labor and indirect non-labor costs, including capital costs, to its regulated utilities using a Utility Four Factor Methodology. (This is shown at Table 2 of the CAM – i.e. the four factors are plant, # customers, opex labor, opex non-labor, each equally weighted).

LABS

In addition, within the formal organizational structure, LUC provides certain services that benefit the entire company, i.e., APCo and the utilities. These shared services functions are internally known as Liberty Algonquin Business Services, or LABS. The indirect costs from these shared service functions are allocated using the "multi-factor" methodology shown in Table 4 of the CAM. These factors and weightings are designed to closely align the costs with the driver of the activity.

The shared service functions within LABS include: risk management, information technology, human resources, training, facilities and building rent, financial reporting and administration, environment health safety and security, legal costs, treasury, internal audit, procurement, and communications.

LUSC

To provide clarity to Figure 1, it bears noting the role of Liberty Utilities Service Corp. (LUSC) on Figure 1. All US utility employees are, or will be, employed by LUSC. The purpose of this entity is to streamline the administration of payroll across the US-based companies. All employees' costs, such as salaries, benefits, insurances etc. are paid by LUSC and direct charged to the extent possible to the utility for which the employee performs work.

Docket No. D2014.12.99

Exhibit No. ____(DJP-3)

ALGONQUIN POWER & UTILITIES CORP.

COST ALLOCATION MANUAL

Effective: January 1st, 2014

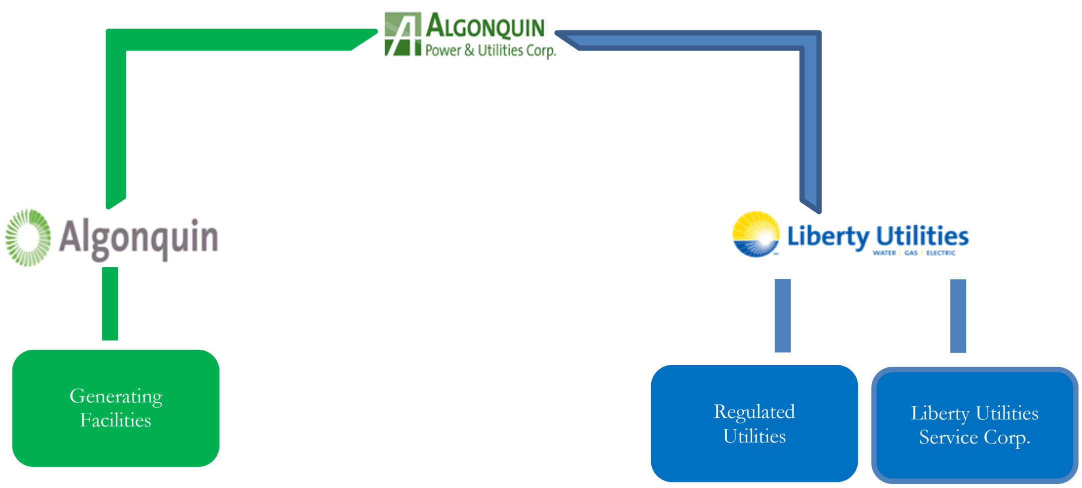
This document outlines the methods of direct charge and cost allocations: (i) between Algonquin Power & Utilities Corp. and its affiliates, Algonquin Power Company and Liberty Utilities (Canada) Corp.;(ii) between Liberty Utilities (Canada) Corp. and its regulated utility subsidiaries; (iii) between Liberty Utilities (Canada) Corp.'s service companies and its regulated utility subsidiaries; and (iv) between Liberty Utilities (Canada) Corp and Algonquin Power Company.

TABLE OF CONTENTS

1. INTRODUCTION

The purpose of this paper is to provide a detailed explanation of services provided by Algonquin Power & Utilities Corp ("APUC"), and its affiliates, Algonquin Power Company ("APCo"), Liberty Utilities (Canada) Corp. ("LUC"), and Liberty Utilities Service Corp. ("LUSC") to the regulated utilities and to describe the Direct Charge and Cost Allocation Methodologies used by APUC, APCo, LUC, and LUSC. The following organization chart identifies the relationships between the separate entities.

<u>Figure 1: Algonquin Power & Utilities Corporate Structure</u>



This Cost Allocation Manual ("CAM") has been completed in accordance and conformance with the NARUC Guidelines for Cost Allocations and Affiliate Transactions ("NARUC Guidelines"). More specifically, the founding principles of this Cost Allocation Manual are to a) directly charge as much as possible to the entity that procures any specific service, and b) to ensure that inappropriate subsidization of unregulated activities by regulated activities, and vice versa, does not occur. For ease of reference, the NARUC Guidelines are attached as Appendix 1.

Costs charged and allocated pursuant to this CAM shall include direct labor, direct materials, direct purchased services associated with the related asset or services, and overhead amounts. The direct charges are assigned as follows:

a. Tariffed rates or other pricing mechanisms established by rate setting authorities shall be used to provide all regulated services;

b. Services not covered by (a) shall be charged by the providing party to the receiving party at fully distributed cost; and
c. Facilities and administrative services rendered to a rate-regulated subsidiary shall be charged on the following basis:

(i) the prevailing price for which the service is provided for sale to the general public by the providing party (i.e., the price charged to non-affiliates if such transactions with non-affiliates constitute a substantial portion of the providing party's total revenues from such transactions) or, if no such prevailing price exists, (ii) an amount not to exceed the fully distributed cost incurred by the providing party in providing such service to the receiving party.

2. THE APUC CORPORATE STRUCTURE

APUC's primary business is direct interest or equity ownership in renewable and thermal power generating facilities and regulated utilities. APUC owns a widely diversified portfolio of independent power production facilities and regulated utilities consisting of water distribution, wastewater treatment facilities, electric and gas utilities. While power production facilities are located in both Canada and the United States, regulated utility operations are exclusively in the United States. APUC is publicly traded on the Toronto Stock Exchange. Its structure as a publicly traded holding company provides substantial benefits to its regulated utilities through access to capital markets.

APUC is the ultimate corporate parent and affiliate that provides financial, strategic management, corporate governance, administrative and support services to LUC and its subsidiaries as well as to the numerous generation assets held by APCo. The services provided by APUC are necessary for LUC and its subsidiaries to have access to capital markets for capital projects and operations. These services are expensed at APUC and are performed for the benefit of APCo and LUC and their respective businesses.

APUC and its affiliates capitalize on APUC's expertise and access to the capital markets through the use of certain shared services, which maximizes economies of scale and minimizes redundancy. In short, it provides for maximum expertise at lower costs. Further, the use of shared expertise allows each of the entities to receive a benefit they may not be able to achieve on a stand-alone basis such as strategic management advice and access to capital at more competitive rates.

3. SCOPE OF SERVICES AMONG AFFILIATES AND HOW THOSE COSTS ARE ALLOCATED

3.1. Labor Services and Cost Allocation from APUC to LUC and APCo

APUC provides benefits to its affiliate companies by use of certain shared services. APUC charges labor rates for these shared services at cost, which is the dollar hourly rate per employee as recorded in APUC's payroll systems, grossed up for burdens such as payroll taxes, health benefits, retirement plans, other insurance provided to employees, and other employee benefits. These labor costs are charged directly based on timesheets to the extent possible. If labor is for the benefit of all subsidiaries then the allocation methodologies used for non-labor costs are applied.

APUC's non-labor services include Financing Services. As used herein Financing Services means the selling of units to public investors in order to generate the funding and capital necessary (be it short term or long term funding, including equity and debt) for LUC and APCo as well as providing legal services in connection with the issuance of public debt.

The capital and funds obtained from the sale of shares in APUC are used by LUC and APCo for current and future capital investments. The services provided by APUC are critical and necessary to LUC and APCo because without those services they would not have a readily available source of capital funding. Further, relatively small utilities may have difficulty attracting capital on a stand-alone basis.

The services provided by APUC specifically optimize the performance of the utilities, keeping rates low for customers while ensuring access to capital is available. If the utilities did not have access to the services provided by APUC, then they would be forced to incur associated costs for financing, capital investment, audits, taxes and other similar services on a stand-alone basis, which would substantially increase such costs. Simply put, without incurring these costs, APUC would not be able to invest capital in its subsidiaries, including the regulated utilities.

In connection with the provision of Financing Services, APUC incurs the following types of costs: (i) strategic management costs (board of director, third-party legal services, accounting services, tax planning and filings, insurance, and required auditing); (ii) capital access costs (communications, investor relations, trustee fees, escrow and transfer agent fees); (iii) financial control costs (audit and tax expenses); and (iv) administrative (rent, depreciation, general office costs). See Appendix 2 for a more detailed discussion of the costs incurred by APUC.

Non-labor costs, including corporate capital, are pooled and allocated to LUC and APCo using the method summarized in Table 1. Each corporate cost type, or function, has been carefully reviewed to properly identify the factors driving those costs. Each function or cost type is typically driven by more than one factor each has been assigned an appropriate weighting. Table 1 includes brief commentary on the rationale for each cost driver and weighting, along with examples for each cost type.

Table 1: Summary of Corporate Allocation Method of APUC Indirect Costs

Type of Cost	Allocation Methodology	Rationale	Examples
Legal Costs	Net Plant 33.3% Number of Employees 33.3% O&M 33.3%	This function is driven by factors which include Net Plant, as typically the higher the value of plant, the more legal work it attracts; similarly, a greater number of employees are typically more indicative of larger facilities that require greater levels of attention; and O&M costs tend to be a third factor indicative of size and legal complexity.	Employee labor and related administration and programs; third party legal

Tax Services	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by a variety of factors that influence the size and relative tax complexity, including Revenues, O&M and Net Plant. Tax activity can be driven by each of these factors.	Employee labor and related administration and programs, including Third party tax advice and services
Audit	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by a variety of factors that influence the size and complexity of Audit, including Revenues, O&M and Net Plant. Audit activity can be driven by each of these factors.	Employee labor and related administration and programs, including t Third party accounting and audit services
Investor Relations	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Employee labor and related administration and programs, including third party Investor day communications and materials
Director Fees and Insurance	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Board of Director fees, insurance and administration

Licenses, Fees and Permits	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Third party costs
Escrow and Transfer Agent Fees	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Third party costs
Other Professional Services	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Third party costs
Office Administration	Oakville Employees 50% Square Footage 50%	This function is driven by factors which are indicative of number of employees and square footage utilized by these employees.	Office space and utility costs. Employee labor and related administration

Notwithstanding the above, if a charge is related either solely to the regulated utility business, i.e., LUC, or to the power generation business, i.e., APCo, then all of those costs will be allocated to the business segment for which they are incurred (i.e. it is a direct charge).

Lastly, if a cost can be directly attributable to a specific entity, it will be directly charged to that entity. For an example of how an invoice would be allocated, please see Appendix 3.

Certain costs, which are incurred for the benefit of APUC's businesses, are not allocated to any subsidiary. These include costs such as donations, certain corporate travel, and certain overheads.

3.2. Labor Services and Cost Allocation From APCo To LUC

From time to time, APCo may provide Engineering and Technical Labor to LUC or its utilities. These charges plus an allocation for corporate overheads such as rent, materials/supplies, etc. are capitalized and directly charged to the relevant utility.

From time to time, APCo employees may provide administrative support to LUC or its utilities. These charges are direct charged using time sheets.

4. SCOPE OF SERVICES PROVIDED BY LUC TO ITS SUBSIDIARIES, APUC AND APCO, AND HOW THOSE COSTS ARE ALLOCATED

LUC provides its regulated utilities with the following services: accounting, administration, corporate finance, human resources (including training and development), information technology, rates and regulatory affairs, environment, health and safety, and security, customer service, procurement, risk management, legal, and utility planning. The following are examples of some of the services provided: (i) budgeting, forecasting, and financial reporting services including preparation of reports and preservation of records, cash management (including electronic fund transfers, cash receipts processing, managing short-term borrowings and investments with third parties); (ii) development of customer service policies and procedures; (iii) development of human resource policies and procedures; (iv) selection of information systems and equipment for accounting, engineering, administration, customer service, emergency restoration and other functions and implementation thereof; (v) development, placement and administration of insurance coverages and employee benefit programs, including group insurance and retirement annuities, property inspections and valuations for insurance; (vi) purchasing services including preparation and analysis of product specifications, requests for proposals and similar solicitations; and vendor and vendor-product evaluations; (vii) energy procurement oversight and load forecasting; and (viii) development of regulatory strategy.

LUC will charge costs that can be directly attributable to a specific utility. These include direct labor and direct non-labor costs. However, the indirect LUC costs cannot be directly attributed to an individual utility. LUC allocates its indirect labor and indirect non-labor costs, including capital costs, to its regulated utilities using a Utility Four Factor Methodology. LUC uses the Utility Four Factor Methodology to allocate costs incurred for the benefit of all of its regulated assets ("System-Wide Costs") to all of its utilities.

The Utility Four Factor Methodology allocates costs by relative size of the utilities. The methodology used by LUC involves four allocating factors, or drivers, (1) Utility Plant, (2) Total Customers, (3) Non-Labor Expenses, and (4) Labor, with each factor assigned an equal weight, as shown in Table 2 below.

Table 2: Utility Four Factor Methodology Factors and Weightings

Factor	Weight
Utility Plant	25%
Customer Count	25%
Non-Labor Expenses	25%
Labor	25%
Total	**100%**

LUC also uses the Utility Four Factor Methodology to allocate to its regulated utilities the system-wide indirect labor and indirect non-labor costs allocated to LUC from APUC.

Table 3 provides a simplified hypothetical example to demonstrate how the Utility Four Factor Methodology would be calculated based on ownership of only two hypothetical utilities.

Table 3: Utility Four Factor Methodology Example

Factor	Utility 1	Utility 2	Total All Utilities	Utility 1 % of Total	Factor Weight	Utility 1 Allocation
Utility Plant ($)	727	371	1098	66%	25%	17%
Customer Count (#)	6000	1000	7000	86%	25%	21%
Labor ($)	57	32	89	64%	25%	16%
Non-Labor Expenses ($)	108	41	149	72%	25%	18%
Total Allocation						72%

As can be seen from these hypothetical numbers in Table 3, Utility 1 would be allocated 72% of the total Administrative/Overhead Costs incurred by LUC, based on its relative size and application of the Utility Four Factor Methodology. Utility 2 would be allocated the remaining 28%. LUC has developed and utilized this methodology to better allocate costs, recognizing that larger utilities require more time and management attention and incur greater costs than smaller ones.

LUC may also provide services to APUC and APCo. In these instances, LUC staff provide time sheets that depict the amount of time that is to be direct charged to either APUC or APCo.

In addition, LUC provides certain services that benefit the entire company, i.e., APCo and the utilities. These indirect costs are allocated using the following methodology shown in Table 4, which are designed to closely align the costs with the driver of the activity.

Table 4: Summary of Corporate Allocation Method of LUC Indirect Costs

Type of Cost	Allocation Methodology	Rationale	Examples
Risk Management	Net Plant 33.3% Revenue 33.3% O&M 33.3%	This function is driven by factors which reflect the relative size and complexity of Risk Management -	Software platform, fees and administration

		Revenues, Net Plant and O&M costs.	
Information Technology	Number of Employees 90% O&M 10%	IT function is driven by factors which include number of employees and O&M. The larger the number of employees, the more support, software and IT infrastructure is required.	Enterprise wide support, architecture, etc. Third party fees
Human Resources	Number of Employees 100%	HR function is driven by number of employees. A greater number of employees requires additional HR support	HR policies, payroll processing, benefits, employee surveys
Training	Number of Employees 100%	Training is directly proportional to the number of employees per function	Courses, lectures, in house training sessions by third party providers
Facilities and Building Rent	Square Footage 100%	Office space occupied accurately reflects space requirements of each subsidiary	Corporate office building
Financial Reporting and Administration	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and complexity of Financial Reporting and Admin. - Revenues, Net	Employee labor and related administration and third party fees

		Plant and O&M costs.	
Environment, Health, Safety and Security	Number of Employees 100%	EHSS training, etc. is directly proportional to the number of employees per function	Enterprise wide programs, employee labor and related administration
Legal Costs	Net Plant 33.3% Number of Employees 33.3% O&M 33.3%	This function is driven by factors which include Net Plant, as typically the higher the value of plant, the more legal work it attracts; similarly, a greater number of employees are typically more indicative of larger facilities that require greater levels of attention; and O&M costs tend to be a third factor indicative of size and legal complexity.	Employee labor and related administration and programs, including third party legal
Treasury	Capital Expenditures 25% O&M 50% Net Plant 25%	Treasury activity is typically guided by the amount of necessary capex/plant for each utility, and operating costs/cashflow	Third party financing, employee labor and related administration and programs
Internal Audit	Net Plant 25% O&M 75%	This function is driven by factors which reflect the relative size and	Third party fees, employee labor and related administration

		complexity of Internal audit activity. Larger Plant and operating costs drive of a given facility drive more activity from IA.	and programs
Procurement	O&M 50% Capital Expenditures 50%	Procurement function is based on typical proportion of expenditures	Enterprise wide support and related administration
Communications	Number of Employees 100%	Communications cost is directly proportional to the number of employees	Enterprise wide support and related administration

5. LIBERTY UTILTIES SERVICE CORP.

All US utility employees are employed by Liberty Utilities Service Corp. (LUSC). All employees' costs, such as salaries, benefits, insurances etc. are paid by LUSC and direct charged to the extent possible. Services provided from LUSC to each regulated utility shall be done on a time sheet basis to the extent possible. In instances where time sheeting may not be possible, the allocation factors shown in Table 5 are to be used.

Table 5: Summary of Corporate Allocation Method of LUSC Indirect Costs

Type of Cost	Allocation Methodology	Rationale	Examples
Customer Care and Billing	Customer count 100%	Customer count accurately reflects the resource requirements of the Customer Care and	Customer Care and Billing employees and related administrations

		Billing group	
IT/Tech Support	Number of Employees 100%	Technical support requirements are related to the number of employees	Tech support staff, associated administration, and required software, hardware, etc.
Human Resources	Number of Employees 100%	HR function is driven by number of employees. A greater number of employees requires additional HR support	HR policies, payroll processing, benefits, employee surveys
Gas Control	Net Plant 100%	The greater the plant, the more control required	Gas Control labor, administration, and associated programs
Legal	Net Plant 33.3% Number of Employees 33.3% O&M 33.3%	Allocated based on the relative size of affiliate and employee count.	Employee labor and related administration and programs, including third party legal
Regulatory	Net Plant 33.3% Number of Employees 33.3% O&M 33.3%	Allocated based on the relative size of affiliate and employee count.	Utility-wide studies or third party costs beneficial to all utilities
Environment, Health, Safety and Security	Number of Employees 100%	EHSS training, etc. is directly proportional to the number of employees	Utility-wide programs, employee labor and related administration
Procurement	O&M 50% Capital Expenditures 50%	Based on typical proportion of expenditures	Utility-wide support and related administration

Please note the allocation methodology can be adjusted based on the number of participating utilities. For example, Customer Service representatives who serve only the New Hampshire utilities will only have their costs allocated based on the number of customers within New Hampshire. Labor cost associated with energy procurement is directly billed to the utilities using timesheets.

6. CORPORATE CAPITAL

From time to time, APUC or LUC makes capital investments for the benefit of all the utilities or facilities it owns (examples include corporate headquarters, IT systems, etc.). All the capital investments will be kept at corporate level and charged monthly in the form of corporate capital rents to the regulated utilities. All costs associated to service the investment will be allocated to each utility based on that department's allocation where the capital investment is made. For example, if the capital investment is made in HR then the allocation methodology used for HR to allocate non-capital indirect costs as shown in Table 4 will be used to allocate the rent associated with the corporate capital expenditures, including the cost of capital, depreciation, property tax, operation and maintenance costs and all other cost associated with it. .

7. APPENDICES

APPENDIX 1 - NARUC GUIDELINES FOR COST ALLOCATIONS

Guidelines for Cost Allocations and Affiliate Transactions:

The following Guidelines for Cost Allocations and Affiliate Transactions (Guidelines) are intended to provide guidance to jurisdictional regulatory authorities and regulated utilities and their affiliates in the development of procedures and recording of transactions for services and products between a regulated entity and affiliates. The prevailing premise of these Guidelines is that allocation methods should not result in subsidization of non-regulated services or products by regulated entities unless authorized by the jurisdictional regulatory authority. These Guidelines are not intended to be rules or regulations prescribing how cost allocations and affiliate transactions are to be handled. They are intended to provide a framework for regulated entities and regulatory authorities in the development of their own policies and procedures for cost allocations and affiliated transactions. Variation in regulatory environment may justify different cost allocation methods than those embodied in the Guidelines.

The Guidelines acknowledge and reference the use of several different practices and methods. It is intended that there be latitude in the application of these guidelines, subject to regulatory oversight. The implementation and compliance with these cost allocations and affiliate transaction guidelines, by regulated utilities under the authority of jurisdictional regulatory commissions, is subject to Federal and state law. Each state or Federal regulatory commission may have unique situations and circumstances that govern affiliate transactions, cost allocations, and/or service or product pricing standards. For example, The Public Utility Holding Company Act of 1935 requires registered holding company systems to price "at cost" the sale of goods and services and the undertaking of construction contracts between affiliate companies.

The Guidelines were developed by the NARUC Staff Subcommittee on Accounts in compliance with the Resolution passed on March 3, 1998 entitled "Resolution Regarding Cost Allocation for the Energy Industry" which directed the Staff Subcommittee on Accounts together with the Staff Subcommittees on Strategic Issues and Gas to prepare for NARUC's consideration, "Guidelines for Energy Cost Allocations." In addition, input was requested from other industry parties. Various levels of input were obtained in the development of the Guidelines from the Edison Electric Institute, American Gas Association, Securities and Exchange Commission, the Federal Energy Regulatory Commission, Rural Utilities Service and the National Rural Electric Cooperatives Association as well as staff of various state public utility commissions.

In some instances, non-structural safeguards as contained in these guidelines may not be sufficient to prevent market power problems in strategic markets such as the generation market. Problems arise when a firm has the ability to raise prices above market for a sustained period and/or impede output of a product or service. Such concerns have led some states to develop codes of conduct to govern relationships between the regulated utility and its non-regulated affiliates. Consideration should be given to any "unique" advantages an incumbent utility would have over competitors in an emerging market such as the retail energy market. A code of conduct should be used in conjunction with guidelines on cost allocations and affiliate transactions.

A. DEFINITIONS

1. Affiliates - companies that are related to each other due to common ownership or control.

2. Attestation Engagement - one in which a certified public accountant who is in the practice of public accounting is contracted to issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party.

3. Cost Allocation Manual (CAM) - an indexed compilation and documentation of a company's cost allocation policies and related procedures.

4. Cost Allocations - the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).

5. Common Costs - costs associated with services or products that are of joint benefit between regulated and non-regulated business units.

6. Cost Driver - a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.

7. Direct Costs - costs which can be specifically identified with a particular service or product.

8. Fully Allocated costs - the sum of the direct costs plus an appropriate share of indirect costs.

9. Incremental pricing - pricing services or products on a basis of only the additional costs added by their operations while one or more pre-existing services or products support the fixed costs.

10. Indirect Costs - costs that cannot be identified with a particular service or product. This includes but not limited to overhead costs, administrative and general, and taxes.

11. Non-regulated - that which is not subject to regulation by regulatory authorities.

12. Prevailing Market Pricing - a generally accepted market value that can be substantiated by clearly comparable transactions, auction or appraisal.

13. Regulated - that which is subject to regulation by regulatory authorities.

14. Subsidization - the recovery of costs from one class of customers or business unit that are attributable to another.

B. COST ALLOCATION PRINCIPLES

The following allocation principles should be used whenever products or services are provided between a regulated utility and its non-regulated affiliate or division.

1. To the maximum extent practicable, in consideration of administrative costs, costs should be collected and classified on a direct basis for each asset, service or product provided.

2. The general method for charging indirect costs should be on a fully allocated cost basis. Under appropriate circumstances, regulatory authorities may consider incremental cost, prevailing market pricing or other methods for allocating costs and pricing transactions among affiliates.

3. To the extent possible, all direct and allocated costs between regulated and non-regulated services and products should be traceable on the books of the applicable regulated utility to the applicable Uniform System of Accounts. Documentation should be made available to the appropriate regulatory authority upon request regarding transactions between the regulated utility and its affiliates.

4. The allocation methods should apply to the regulated entity's affiliates in order to prevent subsidization from, and ensure equitable cost sharing among the regulated entity and its affiliates, and vice versa.

5. All costs should be classified to services or products which, by their very nature, are either regulated, non-regulated, or common to both.

6. The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, should be identified and used to allocate the cost between regulated and non-regulated services or products.

7. The indirect costs of each business unit, including the allocated costs of shared services, should be spread to the services or products to which they relate using relevant cost allocators.

C. COST ALLOCATION MANUAL (NOT TARIFFED)

Each entity that provides both regulated and non-regulated services or products should maintain a cost allocation manual (CAM) or its equivalent and notify the jurisdictional regulatory authorities of the CAM's existence. The determination of what, if any, information should be held confidential should be based on the statutes and rules of the regulatory agency that requires the information. Any entity required to provide notification of a CAM(s) should make arrangements as necessary and appropriate to ensure competitively sensitive information derived therefrom be kept confidential by the regulator. At a minimum, the CAM should contain the following:

1. An organization chart of the holding company, depicting all affiliates, and regulated entities.

2. A description of all assets, services and products provided to and from the regulated entity and each of its affiliates.

3. A description of all assets, services and products provided by the regulated entity to non-affiliates.

4. A description of the cost allocators and methods used by the regulated entity and the cost allocators and methods used by its affiliates related to the regulated services and products provided to the regulated entity.

D. AFFILIATE TRANSACTIONS (NOT TARIFFED)

The affiliate transactions pricing guidelines are based on two assumptions. First, affiliate transactions raise the concern of self-dealing where market forces do not necessarily drive prices. Second, utilities have a natural business incentive to shift costs from non-regulated competitive operations to regulated monopoly operations since recovery is more certain with captive ratepayers. Too much flexibility will lead to subsidization. However, if the affiliate transaction pricing guidelines are too rigid, economic transactions may be discouraged.

The objective of the affiliate transactions' guidelines is to lessen the possibility of subsidization in order to protect monopoly ratepayers and to help establish and preserve competition in the electric generation and the electric and gas supply markets. It provides ample flexibility to accommodate exceptions where the outcome is in the best interest of the utility, its ratepayers and competition. As with any transactions, the burden of proof for any exception from the general rule rests with the proponent of the exception.

1. Generally, the price for services, products and the use of assets provided by a regulated entity to its non-regulated affiliates should be at the higher of fully allocated costs or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.

2. Generally, the price for services, products and the use of assets provided by a non-regulated affiliate to a regulated affiliate should be at the lower of fully allocated cost or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.

3. Generally, transfer of a capital asset from the utility to its non-regulated affiliate should be at the greater of prevailing market price or net book value, except as

otherwise required by law or regulation. Generally, transfer of assets from an affiliate to the utility should be at the lower of prevailing market price or net book value, except as otherwise required by law or regulation. To determine prevailing market value, an appraisal should be required at certain value thresholds as determined by regulators.

4. Entities should maintain all information underlying affiliate transactions with the affiliated utility for a minimum of three years, or as required by law or regulation.

E. AUDIT REQUIREMENTS

1. An audit trail should exist with respect to all transactions between the regulated entity and its affiliates that relate to regulated services and products. The regulator should have complete access to all affiliate records necessary to ensure that cost allocations and affiliate transactions are conducted in accordance with the guidelines. Regulators should have complete access to affiliate records, consistent with state statutes, to ensure that the regulator has access to all relevant information necessary to evaluate whether subsidization exists. The auditors, not the audited utilities, should determine what information is relevant for a particular audit objective. Limitations on access would compromise the audit process and impair audit independence.

2. Each regulated entity's cost allocation documentation should be made available to the company's internal auditors for periodic review of the allocation policy and process and to any jurisdictional regulatory authority when appropriate and upon request.

3. Any jurisdictional regulatory authority may request an independent attestation engagement of the CAM. The cost of any independent attestation engagement associated with the CAM, should be shared between regulated and non-regulated operations consistent with the allocation of similar common costs.

4. Any audit of the CAM should not otherwise limit or restrict the authority of state regulatory authorities to have access to the books and records of and audit the operations of jurisdictional utilities.

5. Any entity required to provide access to its books and records should make arrangements as necessary and appropriate to ensure that competitively sensitive information derived therefrom be kept confidential by the regulator.

F. REPORTING REQUIREMENTS

1. The regulated entity should report annually the dollar amount of non-tariffed transactions associated with the provision of each service or product and the use or sale of each asset for the following:

a. Those provided to each non-regulated affiliate.
b. Those received from each non-regulated affiliate.
c. Those provided to non-affiliated entities.

2. Any additional information needed to assure compliance with these Guidelines, such as cost of service data necessary to evaluate subsidization issues, should be provided.

Source:
http://www.naruc.org/Publications/Guidelines%20for%20Cost%20Allocations%20and%20Affiliate%20Transactions.pdf

APPENDIX 2 – DETAILED EXPLANATION OF APUC COSTS

1. APUC Strategic Management Costs

Strategic management decisions are critical for any public utility. The need for strategic management is even more pronounced for APUC as a publicly traded company, which depends on access to capital funding through public sales of units. APUC seeks to hire talented strategic managers that aid in running each facility owned by the company as efficiently and effectively as possible. This ensures the long term health of each utility and ensures that rates are kept as low as possible without compromising the level of service. It also facilitates each regulated utility's access to necessary capital funding at reduced costs. The costs included in Strategic Management Costs fall into the following categories.

a. Board of Directors

The Board of Directors provides strategic oversight on all company affairs including high level approvals of strategy, operation and maintenance budgets, capital budgets, etc. In addition, the Board of Directors provides corporate governance and ensures that capital and costs are incurred prudently, which ultimately protects ratepayers.

b. General Legal Services

General legal services involve legal matters not specific to any single facility, including review of audited financial statements, annual information filings, Sedar filings, review of contracts with credit facilities, incorporation, tax issues of a legal nature, market compliance, and other similar legal costs. These legal services are required in order for APUC to provide capital funding to individual utilities, without which the utilities could not provide adequate service. Additionally, the services ensure that APUC's subsidiaries remain compliant in all aspects of operations and prevents those entities from being exposed to unnecessary risks.

c. Professional Services

Professional Services including strategic plan reviews, capital market advisory services, ERP System maintenance, benefits consulting, and other similar professional services. By providing these services at a parent level, the subsidiaries are able to benefit from economies of scale. Additionally, some of these services improve APUC's access to capital which benefits all of its subsidiaries.

2. Access to Capital Markets

One of APUC's primary functions is to ensure its subsidiaries have access to quality capital. APUC is listed on the Toronto Stock Exchange, a leading financial market. In order to allow its subsidiaries to have continued access to those capital markets, APUC incurs the following costs. These services and costs are a prerequisite to the subsidiaries continued access to those capital markets.

a. License and Permit Fees

In connection with APUC's participation in the Toronto Stock Exchange, APUC incurs certain license and permit fees such as Sedar fees, annual filing fees, licensing fees, etc. These licensing and permit fees are required in order to sell units on the Toronto Stock Exchange, which in turn provides funding for utility operations.

b. Escrow Fees

In connection with the payment of dividends to unit holders, APUC incurs escrow fees. Escrow fees are incurred to ensure continued access to capital and ensure continuing and ongoing investments by shareholders. Without such escrow fees, APUC's subsidiaries would not have a readily available source of capital funding.

c. Unit Holder Communications

Unit holder communication costs are incurred to comply with filing and regulatory requirements of the Toronto Stock Exchange and meet the expectations of shareholders. These costs include items such as news releases and unit holder conference calls. In the absence of shareholder communication costs, investors would not invest in the units of APUC, and in turn, APUC would not have capital to invest in its subsidiaries. With such communications services, the subsidiaries would not have a readily available source of capital funding.

3. APUC Financial Controls

Financial control costs incurred by APUC include costs for audit services and tax services. These costs are necessary to ensure that the subsidiaries are operating in a manner that meets audit standards and regulatory requirements, which have strong financial and operational controls, and financial transactions are recorded accurately and prudently. Without these services, the regulated utilities would not have a readily available source of capital funding.

a. Audit Fees

Audits are done on a yearly basis and reviews are performed quarterly on all facilities owned by APUC on an aggregate level. These corporate parent level audits reduce the cost of the stand-alone audits significantly for utilities which must perform its own separate audits. Where stand-alone audits are not required, ratepayers receive benefits of additional financial rigor, as well as access to capital, and financial soundness checks by third parties. Finally, during rate cases, the existence of audits provides staff and intervenors additional reliance on the company records, thus reducing overall rate case costs. The aggregate audit is necessary for the regulated utilities to have continued access to capital markets and unit holders.

b. Tax Services

Taxes are paid on behalf of the regulated utilities at the parent level as part of a consolidated United States tax return. Tax services such as planning and filing are provided by third parties. Filing tax returns on a consolidated basis benefits each regulated utility by reducing the costs that otherwise would be incurred by such utility in filing its own separate tax return.

4. APUC Administrative Costs

Finally, administrative costs incurred by APUC such as rent, depreciation of office furniture, depreciation of computers, and general office costs are required to house all the services mentioned above. Without these administrative costs, the employees of APUC could not perform their work and provide the necessary services to the regulated utilities. These administrative costs also include training for corporate employees.

APPENDIX 3 – LIFE OF AN INVOICE

A hypothetical example is being provided of an invoice received by APUC for services to be allocated to its subsidiaries. The diagram below is intended to visually explain APUC's allocation to APCo and Liberty Utilities.