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

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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

Liberty Utilities Co. and Liberty WWH, Inc.'s Responses to Data Requests MCC-001 Through MCC-018

Liberty Utilities Co. ("Liberty Utilities") and Liberty WWH, Inc. ("Liberty WWH" and collectively "Liberty"), by and through its undersigned counsel, hereby submits to the Montana Public Service Commission ("Commission") these responses to the data requests from the Montana Consumer Counsel. Data Requests MCC-001 through MCC-009 are directed at WWH or Mountain Water Company, and Liberty does not possess any independent responsive information for those requests and does not repeat those requests in this response.

Submitted this 4th day of May, 2015.

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ATTORNEYS FOR LIBERTY UTILITIES CO. AND LIBERTY WWH, INC.

MCC-010

Regarding: Enterprise Value.
Witness: David Pasieka

Please provide a working copy, including data, supporting spreadsheets and all formulas and links intact, of the financial model used in evaluating the acquisition of Park Water Company by Liberty Utilities Co.

Response: Liberty objects to this request because it seeks information which is not relevant to this matter and is protected from disclosure as confidential and containing proprietary trade secrets. Liberty's due diligence work papers and financial projections are not relevant because they have no impact on Mountain Water's consumers. The documents are not tied to the service consumers will receive, the operations of Mountain Water, or the rates consumers will pay. Moreover, Liberty's internal valuation will not affect Mountain Water's rates or the level of service, as stated in Liberty's application, because Liberty does not intend to seek an acquisition adjustment to the existing rate base. Regardless of these considerations, all future rate changes will be subject to the Commission's review and approval. Accordingly, this request seeks information that has no bearing on the Commission's decision in this matter, and as such seeks information that is irrelevant and not reasonably calculated to lead to the discovery of admissible information.

The requested information is also protected from disclosure because it is proprietary and contains confidential trade secrets. Liberty's due diligence efforts, including any financial analyses of potential investments, are based upon years of research and investment at a substantial cost to Liberty Utilities. The underlying financial and other analyses and overall bid strategy and methodologies that Liberty implements in responding to solicitations relating to the sale of regulated utilities are proprietary and contain confidential trade secrets. Moreover, compelling winning bidders to disclose their successful strategy will necessarily have a chilling effect on the participation in the market of future offerings of utility assets. Disclosure of such information, even under seal, would be harmful to the business interests of Liberty, because both the seller and the City of Missoula are parties who potentially could obtain these materials, and the Commission cannot provide certainty that information produced, even under protective order, would not be subject to disclosure on challenge by a party or outside interested party.

MCC-011

Regarding: Merger Savings.
Witness: David Pasieka

Has Liberty Utilities identified any operation cost savings or other savings (e.g., financial costs, etc.) that can be achieved at Mountain Water by its acquisition? If so, please provide complete estimates and documentation of those potential merger savings.

Response: Liberty has not identified any "potential merger savings" as stated in this request. As indicated in response to other data requests, Liberty anticipates Mountain Water will benefit from acquisition by and integration into Liberty, including potential shared services savings. Liberty cannot quantity any such potential cost savings at this time. Liberty does expect Mountain Water will benefit over time from the enhanced economies of scale and operational efficiencies as a result of incorporation of Liberty's nationwide utility organization.

MCC-012

Regarding: Liberty Utilities' Philosophy.
Witness: David Pasieka

In your testimony at pages 6 and 7 you describe the philosophy of Liberty Utilities regarding the operation of its regulated utility businesses. Do you believe that if Liberty Utilities takes control of Park Water, and specifically Mountain Water, its operations will be more efficient, productive or cost effective, resulting in benefits to Montana customers? Please provide a detailed explanation of your response, including a discussion of how such benefit would be (i) achieved, and (ii) shared with Montana customers.

Response: Yes. See response to 11 above. Mr. Pasieka believes Mountain Water customers will benefit from Liberty's ownership over time, but it is impossible to identify or quantify specific customer benefits at this time. Mountain Water is an extremely well run utility, but Mr. Pasieka believes it will benefit from being integrated into Liberty's growing utility organization. Mountain Water's local management will benefit from participation in a larger community of ideas among Liberty's large group of utility managers, as well as the economies of scale afforded by allocation of centralized costs among Liberty's larger base. Liberty also expects a small expansion of Mountain Water's local staff in the near term. Liberty expects Mountain Water customers to benefit over time from the acquisition in the form of cost mitigation and enhanced local service capabilities.

MCC-013

Regarding: Typical State Operating Structures.
Witness: David Pasieka

In your testimony at page 8, lines 9 to 10, you state: "Overtime, we expect we may actually grow our Montana work force as we create one of our typical state operating structures around Mountain Water." Please explain this anticipated workforce growth in detail, including the functions that will be performed and cost estimates for the anticipated work force growth. Also, explain in detail and with specific examples what is meant by "our typical state operating structures."

Response: This portion of the testimony refers to Liberty's expectation to add staff at Mountain Water. Liberty is considering adding a rate or regulatory employee, a utility planner, and a municipal or local government relations coordinator.

Liberty's typical state operating structure consists of a state president headquartered at the location of one of the utilities in a state. The state president is responsible for Liberty's utility operations and support functions in his or her state. In Montana, Liberty expects John Kappes will be its state president.

MCC-014

Regarding: Liberty Utilities' Credit Facility.
Witness: David Pasieka

In your testimony at page 11, lines 7 to 8, you state: "Liberty Utilities has a $200 million credit facility and it spent approximately $178 million in 2014 for capital expenditures":

(a) Please provide complete details about terms, holder, draws, current balance, etc. of this credit facility.

Response: The following table provides details on the terms and composition of the credit facility.

Credit Facility Agreement maturity date:	September 30, 2018	
Borrowing Rate		
ABR Loans	Prime Rate + 25.0 bps	
Libor Loans	LIBOR + 125.0 bps	
Lender's commitment:		
Lender	Title	Commitment
JPMorgan Chase Bank, N.A.	Administrative Agent	45,000,000.00
Bank of America, N.A.		37,500,000.00
Wells Fargo Bank, National Association		37,500,000.00
CoBank, ACB		20,000,000.00
Bank of Montreal, Chicago Branch		20,000,000.00
The Bank of Nova Scotia		20,000,000.00
TD Bank, N.A.		20,000,000.00
		200,000,000.00

(b) Please explain the process and requirements that subsidiary utilities must follow to draw from this credit facility.

Response: Each Liberty subsidiary has the ability to draw funds as needed under the Liberty credit facility. The credit facility is available to subsidiary utilities to meet their daily cash and capital expenditure requirements.

(c) Please provide a breakdown of the current use of this credit facility by each Liberty Utilities subsidiary.

Response: A breakdown of the current use of this credit facility is provided in the following table.

Credit Facility Borrowings breakdown	
Credit Facility Borrowings balance as of April 28,15	**81,000,000.00**
Equity/ Long Term notes	**46,330,000.00**
	127,330,000.00
Short term borrowings	
Liberty Water	**7,430,000.00**
Calpeco	**27,200,000.00**
Granite State	**19,400,000.00**
Energy North	**69,500,000.00**
Pine Bluff	**3,500,000.00**
White Hall Sewer	**300,000.00**
	127,330,000.00

MCC-015

Regarding: Liberty Utilities' Access to Capital.
Witness: David Pasieka

If Mountain Water is acquired by Liberty Utilities, will Mountain Water's access to capital be better and under better terms than currently is the case? Please explain your answer in detail.

Response: Liberty cannot definitively confirm that access to capital will be "better" under its ownership than the current situation. There are too many factors and assumptions that prevent such an absolute comparison. Liberty, however, has ready access to capital through APUC and Liberty Utilities Co. which are both are BBB rated. On April 30, 2015, Liberty closed a private placement of $160 million of senior unsecured 30 year notes at a coupon of 4.13%. See http://investors.algonquinpower.com/file.aspx?IID=4142273&FID=29251136

Park Water's (like other smaller utilities) debt has historically been raised by pledging security/assets. Liberty's credit facility does not have this requirement, so Mountain Water's assets will not be subject to security requirements.

The credit facility is issued on a diversified, portfolio approach to lenders. Thus, the risk is diversified over multiple geographies and utility types. From time to time, one utility may have short term immediate needs that can be quickly met via the credit facility. A stand-alone utility would likely have to fund such an unexpected and immediate need by providing security and/or other more unfavorable terms and conditions.

MCC-016

Regarding: Leakage and Aging Infrastructure.
Witness: David Pasieka

In reference to the leakage and aging infrastructure of Mountain Water, you state in your testimony at pages 19 - 20 that it is Liberty Utilities' intent to facilitate the current plans the existing team of water professionals have created. Please provide a copy and full explanation of the detailed plans you are referring to.

Response: Liberty reviewed the capital plan provided by the Seller in its CIM. This $200 million capital plan from 2014 to 2019 included the projected capital spending for the three Park Water utilities in aggregate, not just Western Water. The Mountain Water portion of this total was $34 million. Mountain Water's current five year capital budget was attached in its response to PSC-030. At this time, Liberty does not have any "detailed plans" beyond this capital budget. As noted in PSC-034, future capital investment plans will be developed locally and Liberty is willing to support the capital investment needs as determined by local management, including additional capital investment if warranted and needed, as well as meeting the criteria for inclusion in rates by the Commission. Further, the capital budgeting process for each Liberty utility is developed by local management for that utility. With respect to Mountain Water, Liberty will support the existing capital investment plans developed by Mountain Water's local management team, as well as additional capital investment plans if warranted and necessary.

MCC-017

Regarding: Ring Fencing Conditions.
Witness: David Pasieka

In your testimony at page 20, lines 5 to 13, you state that Liberty Utilities is prepared to accept "similar" ring fencing conditions to those imposed in Docket D2011.1.8. You also state: "The changes to the dividend and cash management ring-fencing provisions we proposed were intended to preserve that flexibility to allow integration."

(a) Do you understand and agree that all of the present ring-fencing conditions will remain in place until, when and if, the Commission explicitly modifies those conditions.

Response: Yes.

(b) Please identify specifically and explain in complete detail what changes you are proposing to existing ring-fencing conditions, and specifically how each of the changes that you propose will "preserve flexibility" and "allow integration."

Response: Conditions (b) and (j)- Liberty proposed to revise Condition (b) and delete Condition (j) to allow Liberty to fully integrate Mountain Water into Liberty's cash management system. This system allows for the most efficient use of Liberty's cash and capital while ensuring each utilities continued liquidity. The revised condition would continue to require Mountain Water's accounts to be maintained separately and to be accessible at its offices in Missoula. Condition (j) has the stated goal of "protecting MWC's credit." However, Liberty does not believe that Mountain Water's credit will have a material impact on its operations after conclusion of this transaction (even if it does now). Liberty has not identified recognized industry "best practices," but has historically operated a shared money pool for all its utility affiliates, as approved by the respective regulators. This arrangement has not had a negative impact on the credit rating of the affiliates. Cash management is a centralized function at Liberty Utilities and is run through the Treasury Group. Treasury, through Liberty Utilities Co, will provide sufficient liquidity to assist all of its operating utilities, as it will the Park utilities in the future, in meeting their daily cash needs. As a result, the cash management system should have no discernible impact on credit ratings to the extent Mountain Water receives a separate credit rating.

Condition (f)- Liberty proposed elimination of the advance notice of dividend declaration. Liberty does not anticipate declaration of dividends at the Mountain Water level, and therefore the condition requiring advanced notice for dividends or transfers exceeding 5% of Mountain Water's equity would be inapplicable. Liberty chose to include a provision in the Joint Application that is consistent with the commitments made, and approved, in California when it purchased the assets of the CalPeco Electric system. Liberty believes that its commitment to maintain the financial integrity of Mountain Water through its Cash Management Plan sufficiently protects Mountain Water and its customers. A more specific requirement, such as the 30 day requirement to notify the Commission, creates the increased potential for conflict with financial public disclosure provisions. Moreover, the advance notice is not necessary and may limit Liberty's ability to adequately manage and maintain the financial integrity of the utility, and would unnecessarily differentiate Mountain Water from the other Liberty affiliates participating in the Cash Management Plan.

(c) Please explain in complete detail and with specific examples exactly what you mean by "flexibility" and "integration" in this context.

Response: See b.

(d) As regards cash management ring-fencing, please explain in complete detail and with specific examples what you mean by best practices for protecting MWC's credit from the risks associated with participating in such an agreement.

Response: Objection. This request improperly attributes to Mr. Pasieka language from the ring fencing provisions from Appendix 1, to Order 7149d. The "best practices" language was not suggested by Liberty and has not been proposed in this docket. Liberty is unable to provide any information about the intent of the language of the Ring Fencing Appendix to which MCC was a party in the prior docket.

MCC-018

Regarding: Financing.
Witness: David Pasieka

In reference to your testimony at pages 22 and 23:

(a) At page 23, lines 13 to 15, you state “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.” Do you also understand and agree that a rate of return on rate base above Liberty’s actual cost of capital is a non-issue and will not impact water rates for customers of Mountain Water?

Response: Objection. This request is vague and ambiguous. It conflates the concepts of rate base addressed in Mr. Pasieka’s testimony with rates of return in a way that is not supported by the testimony or the applicable legal standards. Liberty states affirmatively that the Joint Applicants have not sought any rate base adjustment in this docket. As a result, neither rate of return nor rate base are at issue in this docket. Mr. Pasieka’s testimony addresses Liberty’s willingness to forego a request for an acquisition adjustment to rate base, which eliminates any potential rate base impact from this acquisition. Mr. Pasieka did not address the Commission’s approval of allowable rates of returns. Liberty reaffirms it is not seeking an adjustment to Mountain Water’s rate of return in this matter.

(b) Specifically, at page 22, lines 8 to 9 and lines 14 to15, you state: “Liberty Utilities does not expect to recover the acquisition premium it is paying for Park Water through rates… and, because we are not seeking an acquisition adjustment, the notion of recovering an acquisition premium does not apply.” Does this mean that Liberty will not attempt to recover a premium by charging rates that reflect a rate of return that exceeds Liberty’s actual cost of capital? If not, please provide a full explanation.

Response: Objection. This request is vague and ambiguous. It conflates the concepts of rate base addressed in Mr. Pasieka’s testimony with rates of return in a way that is not supported by the testimony or the applicable legal standards. In attempt to respond to the request without reference to Mr. Pasieka’s testimony, Liberty does not intend to seek an “acquisition premium” (is not aware of any such request in the past) adjustment to its requested rates of return in future rate cases. Liberty notes, however, rates of returns are generally highly contested matters in nearly any rate case, and Liberty intends to present and fully defend reasonable rates of return in future rate cases. Liberty intends to present expert testimony supporting a reasonable rate of return in compliance with the Commission’s applicable standards for rates of return. Liberty will not attempt to recover a return in rates for the purchase price that exceeds the approved rate bases of the utilities at the time of the transaction. The rate of return to be included in rates will be determined in rate cases of the respective utilities in future rate proceedings.

CERTIFICATE OF SERVICE

I hereby certify that on May 4, 2015, the foregoing Liberty Utilities Co. and Liberty WWH, Inc.'s Responses to Data Requests MCC-001 through MCC-018 was served via electronic and U.S. mail on:

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