

CROWLEY FLECK PLLP
ATTORNEYS

Michael W. Green
P.O. Box 797
Helena, MT 59624-0797
Direct 406.457.2021
Fax 406.449.5149
mgreen@crowleyfleck.com

November 11, 2015

Scott M. Stearns
Natasha Prinzing Jones
BOONE KARLBERG P.C.
P.O. Box 9199
Missoula, MT 59807-9199

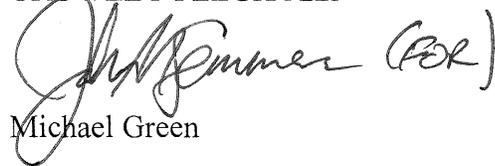
RE: Docket No. D2014.12.99

Dear Counsel:

Enclosed please find Liberty Utilities Co. and Liberty WWH, Inc.'s First Set of Data Requests to the City of Missoula. Please contact our office if you have any questions. Thank you.

Sincerely,

CROWLEY FLECK PLLP



Michael Green

cc: Service List

BILLINGS BISMARCK BOZEMAN BUTTE CASPER HELENA KALISPELL MISSOULA SHERIDAN WILLISTON

CROWLEYFLECK.COM

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

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

**LIBERTY UTILITIES CO. AND LIBERTY WWH, INC.'S FIRST SET OF
DATA REQUESTS TO THE CITY OF MISSOULA
(LIBERTY-001 THROUGH LIBERTY-052)**

DATA REQUESTS

Liberty-001 Re: Expert Witness Notes and Communications

- a. Provide all correspondence among the City or its attorneys for the City (including Boone Karlberg and Perkins Coie) and experts Mr. Hayward and Close, including drafts of testimony, emails and/or any and all correspondence.
- b. Provide all of Mr. Hayward and Close's notes from their review of Liberty's financial model.
- c. Provide all correspondence between Mr. Hayward and Close regarding Mountain Water.

Liberty-002 Re: Hayward Experience
Witness: David Hayward

- a. Provide a list of all investor-owned utilities that are clients of Hayward Consulting Group.
- b. Provide any and all financial analyses, valuation reports or other materials relating to the investor-owned utilities identified in response to subsection (a) above.
- c. On page 2 of his testimony, Mr. Hayward asserts that he has testified or prepared testimony in thirty-four (34) cases regarding regulatory issues. Provide copies of all such testimony or prepared testimony in those cases.
- d. What experience does Mr. Hayward have relating to regulation of public utilities by the Montana Public Service Commission?

- e. Before this case, has Mr. Hayward been involved in any regulatory proceedings before the Montana Public Service Commission? If so, please list all such proceedings.

Liberty-003 Re: Utility Financial Models
Witness: David Hayward, page 2-3

On pages 2 through 3 of his testimony, Mr. Hayward discusses his past work developing and critiquing utility financial models.

- a. Identify the instances where Mr. Hayward has developed or critiqued utility financial or planning models, by identifying the utility for which the model was developed, the reason Mr. Hayward was reviewing or developing, and the client for which he was working at the time.
- b. Provide copies of all utility financial or planning models prepared by Mr. Hayward. Provide copies of all critiques of utility financial or planning models prepared by Mr. Hayward.
- c. Describe why Mr. Hayward was reviewing the financial model of the Metropolitan Water District of Southern California. Provide copies of any and all written materials prepared by Mr. Hayward relating to review of the Metropolitan Water District of Southern California financial model, including any and all correspondence (including emails) from and/or to Mr. Hayward.
- d. Describe the purpose or intended use of the model identified in (c).
- e. Describe any conclusions he reached as a result of his review of the model identified in (b).

Liberty-004 Re: Financial Models
Witness: David Hayward

Has Mr. Hayward built or reviewed a financial model for the City of Missoula?

- a. If not, explain why.
- b. If yes, provide a description of Mr. Hayward's role in its development or review, and provide a copy in native format with links and formulae intact.
- c. Provide copies of all documents prepared by and/or reviewed by Mr. Hayward relating to the City of Missoula and Mountain Water Company, including emails, correspondence, notes, financial models and all other similar documents.

Liberty-005 Re: City Financial Model
Witness:

Does the City of Missoula have a financial model for its expected acquisition and/or operation of the Mountain Water system?

- a. If not, explain why.
- b. If yes, identify the model, and provide a copy in native format with links and formulae intact.

Liberty-006 Re: Prior testimony by Mr. Hayward
Witness: David Hayward, page 3

Provide copies of all testimony (pre-filed and transcripts) by Mr. Hayward in the cases listed in Appendix A of his testimony.

Liberty-007 Re: Hayward's prior experience
Witness: David Hayward

Identify any other merger or acquisition matters in which Mr. Hayward has participated or is actively participating and describe his role.

Liberty-008 Re: Hayward testimony- page 6, lines 17-18
Witness: David Hayward,

Identify and provide a copy of any material cited as the source of the "cardinal principle of holding company finance."

Liberty-009 Re: PUHCA
Witness: David Hayward, page 10

Explain why Mr. Hayward contends the PUHCA applies to this case.

- a. If he acknowledges it does not apply, explain the rationale for citing it.
- b. If he contends it does apply, describe whether Mr. Hayward has conducted any analysis to determine if the factors he identified are satisfied by this transaction.

Liberty-010 Re: M&A Transactions
Witness: David Hayward

On page 12 line 8 to page 13 line 6 of his testimony, Mr. Hayward purports to offer a summary of M&A transactions in the water utility industry.

- a. Identify all of the transactions of which he is aware, that Mr. Hayward contends are water utility M&A transactions occurring during the time period covered by the summary in his testimony.
- b. Describe how Mr. Hayward selected the transactions he chose to identify in his testimony.

- c. Provide copies of documents on which Mr. Hayward relied to develop his testimony and respond to (a).

Liberty-011 Re: M&A Transactions
Witness: David Hayward

Table 1 on page 14 of Mr. Hayward's testimony provides a non-comprehensive list of transactions involving "Foreign Ownership of U.S. Water Utilities."

- a. Identify all water utility transactions of which Mr. Hayward is aware during the time frame covered by Table 1 that are not listed on Table 1.
- b. Describe how Mr. Hayward selected the transactions listed on Table 1 by explaining why each transaction was listed, and why transactions identified in response to (a) were not listed.
- c. Provide copies of the documents on which he relied for the information in Table 1 and in response to (a).
- d. Explain why Liberty's acquisition of Western Water is listed in this table.
- e. Explain why Liberty's acquisitions of other water systems are not included.

Liberty-012 Re: Transaction Risks, Hayward testimony, page 18 lines 18-20
Witness: David Hayward

- a. Identify the potential risks to Mountain Water customers from this transaction, beyond potential rate increases.
- b. Describe how Mr. Hayward anticipates this transaction could lead to substantial future rate cases.
- c. Admit that rate increases for utilities with municipal ownership are not subject to review and approval by any independent party not affiliated with the municipality. If you deny this request, please explain.

Liberty-013 Re: Private vs. Public ownership and Commission regulation
Witness: David Hayward

From page 19 line 9 to page 34 line 11 of his testimony, Mr. Hayward raises concerns over private ownership of water utilities in general and the Commission's regulatory abilities specifically. Admit these concerns are not related to Liberty's proposed acquisition.

- a. If not, identify all concerns Mr. Hayward has about Liberty's proposed acquisition.

- b. Identify all municipally-owned water and/or sewer utilities that Mr. Hayward is aware that involved the municipality taking over ownership of an investor-owned utility through condemnation.

Liberty-014 Re: York Water
Witness: David Hayward

- a. Provide copies of the documents on which he relied for the information in Table 4.
- b. Describe the number of customers for each Mountain Water and York Water, and explain why those figures were not included in Table 4.
- c. Provide the number of municipalities or identifiable communities served by each Mountain Water and York Water, and explain why those figures were not included in Table 4.
- d. Explain how York Water is comparable to Mountain Water on a stand-alone basis.

Liberty-015 Re: York Water Comparison
Witness: David Hayward

- a. Identify all other "stand-alone" water utilities in the U.S. which Mr. Hayward considers comparable to what Mountain Water would be if it were a stand-alone utility modeled after York Water.
- b. Identify how many of the utilities identified in (a) were created since 1990.
- c. Identify all challenges of which Mr. Hayward is aware to the creation of a stand-alone utility with the size, current condition, location and regulatory environment of Mountain Water.
- d. Provide copies of the documents on which Mr. Hayward relied in responding to this request.

Liberty-016 Re: Affiliate Transactions, Hayward Testimony, page 31 lines 12-15
Witness: David Hayward

- a. Is it Mr. Hayward's position that affiliate transactions never provide an economic benefit to ratepayers?
- b. Please provide all documents used, referred to, or relied upon in responding to subpart (a).

Liberty-017 Re: Organizational Structure, Hayward Testimony, page 31 lines 12-15
Witness: David Hayward

- a. Explain the basis for Mr. Hayward's statement about the "optimal organizational structure."
- b. Explain how this statement will assist the Commission in its review in this case.

Liberty-018 Re: Ownership of Water Utilities, Hayward Testimony, page 33 lines 10-12
Witness: David Hayward

Admit the majority of privately-owned water systems in the U.S. of which Mr. Hayward is aware are owned by investors, "some of whom do not even live in the utilities service territory." If your answer is anything other than an unqualified admission, please explain your answer in detail.

Liberty-019 Re: Transfer of Assets, Hayward Testimony, page 33 lines 18-21
Witness: David Hayward

Describe how Mr. Hayward contends the "critical assets" of Mountain Water could be legally transferred to "unknown parties."

Liberty-020 Re: Hayward Testimony, page 34 lines 5-11
Witness: David Hayward

Describe how Mr. Hayward's example of Azurix North America is relevant to the Commission's decision in this matter.

Liberty-021 Re: Hayward Testimony, page 36 lines 4-10
Witness: David Hayward

- a. Provide the metrics Mr. Hayward contends should be applied to measure Mountain Water's financial strength.
- b. Provide the City's analysis of these metrics to its planned ownership and operation of Mountain Water.

Liberty-022 Re: Hayward Testimony, page 36 lines 18-21
Witness: David Hayward

Provide the legal requirement for a Montana Utility to provide a business plan.

Liberty-023 Re: Business Plan
Witness: David Hayward

- a. Provide the City's business plan for its planned ownership and operation of Mountain Water, which would comply with Mr. Hayward's requirement.
- b. Provide a detailed summary of how the City intends to operate Mountain Water Company, including a listing of key management roles and responsibilities for operation of the utility.

Liberty-024 Re: Risk Factors
Witness: David Hayward

At page 37, lines 6-21 of his testimony, Mr. Hayward discusses risk factors he believes should be discussed regarding a utility transaction.

- a. Describe the risk factors Mr. Hayward contends should be considered in the context of a public acquisition of a water utility.
- b. Provide the City's analysis of risk factors identified in Mr. Hayward's testimony and (a).

Liberty-025 Re: Hayward Testimony, page 38 lines 19-21
Witness: David Hayward

Identify the economies of scale Mr. Hayward contends Liberty has attributed to anticipated increases in Mountain Water connections.

Liberty-026 Re: Required Upgrades, Hayward Testimony, page 38 line 25 to page 39 line 2
Witness: David Hayward

- a. Identify the source of the "\$66 to \$96 million in upgrades" cited in Mr. Hayward's testimony.
- b. Does Mr. Hayward agree those projections are reasonable?
- c. Does Mr. Hayward believe that those projected investments are prudent for Mountain Water under private ownership?
- d. Would Mr. Hayward support a commitment by Liberty to make the additional investment required to satisfy those projections?

Liberty-027 Re: Employment at American Water Works Service Company, Inc. (AWWS)
Witness: Craig Close

- a. Describe Close's role in regulatory matters for AWWC, including identifying any regulatory matters in which he offered testimony or provided pre-filed testimony.
- b. Describe Close's role in transactions (sales, acquisitions, and mergers) for AWWC.
- c. Describe the ownership chart for AWWC during Close's employment.

- d. What was American Water's capitalization policy for its regulated utilities during Mr. Close's employment with AWWC?

Liberty-028 Re: Close Testimony, page 3-13
Witness: Craig Close

On pages 3 through 13 of his testimony, Mr. Close raises concerns over private ownership of water utilities and the condition of Mountain Water's current system specifically. Admit these concerns are not related to Liberty's proposed acquisition.

Liberty-029 Re: Close Testimony, page 7 lines 1-10
Witness: Craig Close

- a. What issues does Mr. Close believe are caused by Mountain Water's fully depreciated meter base?
- b. What issues does Mr. Close believe are caused by unmetered customers?
- c. Describe the costs Mr. Close contends could be saved by fully metering the water system with meters up to industry standards.
- d. What impact on revenue for Mountain Water Company, if any, would occur if all non-metered customers were placed on meters?
- e. Does Mr. Close assert that investing \$16 to \$20 million in customer meters is a prudent requirement or investment for public utility ratemaking purposes?

Liberty-030 Re: Close Testimony, page 9 lines 12-13 and page 11 lines 18-21
Witness: Craig Close

- a. Identify the wells and equipment Mr. Close considers "additional wells" which could be eliminated.
- b. Identify the rate base associated with the wells and equipment identified in (a).
- c. How does Mr. Close contend retired well equipment would be removed from rate base?

Liberty-031 Re: Close Testimony, page 11 lines 11-17
Witness: Craig Close

- a. Identify the additional facilities Mr. Close contends were installed "just to pump water for leakage."
- b. Identify the rate base associated with those facilities.
- c. How does Mr. Close contend the equipment identified in response to (a) would be removed from rate base?

- d. What is Mountain Water's cost to pump groundwater per AF?

Liberty-032 Re: Close Testimony
Witness: Craig Close

Admit that all or virtually all water losses from the Mountain Water system are recharged directly into the Missoula aquifer.

- a. If you deny this request, please explain.
- b. If you deny this request, please identify the percentage amount of water loss from the Mountain Water system that you claim is not recharged into the underlying aquifer.

Liberty-033 Re: Close Testimony, page 13 lines 9-16
Witness: Craig Close

- a. Identify the cost savings the City contends will be realized by the capital investments Mr. Close has identified.
- b. Provide any and all documentation of such savings, including cost estimates, financial projections and all other similar documents.

Liberty-034 Re: City's Position on Capital Investment
Witness: Craig Close

- a. Does the City contend the projected capital investment identified by Mr. Close is reasonable for Mountain Water under private ownership?
- c. Does the City contend those projected investments are prudent for Mountain Water under private ownership?
- d. Would the City support the application if Liberty made a commitment to make the additional investment required to satisfy those projections?

Liberty-035 Re: Close Testimony, pages 15-20
Witness: Craig Close

- a. Admit Option 3 as described in pages 17 through 20 of Mr. Close's testimony most accurately represents the transaction before the Commission in this proceeding (Docket No. D2014.12.99). If your answer is anything other than an unqualified admission, please explain in detail.

- b. Admit Mr. Close's projected rate increases in Option 3 do not distinguish between current ownership and ownership by Liberty. If your answer is anything other than an unqualified admission, please explain your answer in detail.
- c. Identify any and all rate cases where Mr. Close has provided testimony (written or oral) relating to propose rate increases. Provide copies of any and all such testimony.

Liberty-036 Re: Projected Debt Service
Witness: Craig Close

- a. What is the annual debt coverage amounts Mr. Close calculated for both models A and B in his Option 4?
- b. Provide the projected annual debt service for each year included in Mr. Close's Option 4 models if the assumed purchase price were \$60 million?
- c. Provide the projected annual debt service for each year included in Mr. Close's Option 4 models if the assumed purchase price were \$75 million?
- d. Provide the projected annual debt service for each year included in Mr. Close's Option 4 models if the assumed purchase price were \$100 million?
- e. Provide the projected annual debt service for each year included in Mr. Close's Option 4 models if the assumed purchase price were \$120 million?

Liberty-037 Re: Close Testimony, page 17-20
Witness: Craig Close

Has HDR analyzed the difference between projected rates under the current ownership and rates expected under Liberty's ownership?

- a. If not, explain why.
- b. If yes, describe your conclusions and provide all documents related to that analysis in native format with links and formulae intact.
- c. Provide any and all work papers, spreadsheets, notes and other materials regarding rates expected under Liberty ownership and rates expected under City ownership.

Liberty-038 Re: Close Testimony, page 17-20
Witness: Craig Close

- a. Admit that Option 1 and 2 of Mr. Close's analysis would require a change to rates by the Commission to allow some recovery of or on the acquisition premium. If

your answer is anything other than an unqualified admission, please explain your answer in detail.

- b. Identify any matters, by utility name and docket number, in which the Commission has authorized the type of recovery anticipated in Options 1 or 2 of Mr. Close's analysis.

Liberty-039 Re: Close Testimony
Witness: Craig Close

Generally, at several points throughout his testimony Mr. Close criticizes Liberty for projecting rate increases based on capital expenditures, while also criticizing Liberty for not projecting sufficient capital expenditures to "remedy the significant infrastructure problems present at Mountain Water."

- a. Please explain how Mr. Close justifies these seemingly contradictory criticisms.
- b. Please admit that investments by Mountain Water at the level of capital investment Mr. Close contends is necessary would result in higher rate increases than Liberty has projected. If your answer is anything other than an unqualified admission, please explain your answer in detail.
- c. Please admit that the response to (b) is the same regardless of the outcome of this Commission proceeding. If your answer is anything other than an unqualified admission, please explain your answer in detail.

Liberty-040 Re: Close Testimony, page 21 line 11
Witness: Craig Close

- a. Explain the significance of the number of revisions to Liberty's financial model.
- b. How many revisions does Mr. Close contend an acquirer's financial model should undergo during a transaction due diligence process?

Liberty-041 Re: Close Testimony, page 23, lines 1-2
Witness: Craig Close

- a. Please explain how an acquisition can be financed with "heavy levels of debt and equity."
- b. Please provide what Mr. Close contends would be the appropriate amount of debt and equity for financing the acquisition of Western Water Stock.
- c. Please provide all documents referred to or relied upon in responding to subpart (b) to this request.

Liberty-042 Re: Close Testimony, page 23 lines 2-4
Witness: Craig Close

Identify all concerns Mr. Close has about Emera.

Liberty-043 Re: Close Testimony, page 23 lines 5-6
Witness: Craig Close

Identify the basis for Mr. Close's testimony that Park Water will be leveraged with \$167.2 million in debt as a result of this transaction.

Liberty-044 Re: Close Testimony, page 23, lines 8-9.
Witness: Craig Close

Please provide all available documentation to support Mr. Close's statement that Algonquin's holding company FFO/Debt ratio is "highly aggressive."

Liberty-045 Re: Close Testimony, page 25, lines 3-6.
Witness: Craig Close

- a. What is "capitalized ROE" as referenced in that statement?
- b. Provide all specific examples that Mr. Close is aware of where a company has sought to sell a utility because their "capitalized ROE goes over 20%."
- c. Please provide all available documentation to support Mr. Close's position that "many companies seek to sell when their capitalized ROE goes over 20%."

Liberty-046 Re: Close Testimony, page 25, lines 3-6.
Witness: Craig Close

Admit the amount of goodwill identified in the referenced testimony is the acquisition premium that Liberty has committed not to seek recovery of through rates. If your answer is anything other than an unqualified admission, please explain in detail.

Liberty-047 Re: Close Testimony, page 25, lines 12-14.
Witness: Craig Close

- a. Is it Mr. Close's position that Algonquin/Liberty will eventually seek to recover the transactional costs through rates? Please explain your answer in detail, including a description of exactly how that would happen
- b. Please provide all documents used or relied upon in formulating your response to subpart (a).

Liberty-048 Re: Close Testimony, page 26 lines 10-11
Witness: Craig Close

Identify where Algonquin or Liberty admitted that 3 miles of main replacement per year is necessary.

Liberty-049 Re: Close Testimony, page 26 lines 13-15
Witness: Craig Close

Describe, in dollars and percentages, the amount of increase to Mountain Water's rate base that would be required to satisfy the capital expenditures Mr. Close contends are necessary to "catch up and bring the system up to industry standards" at page 13 of his testimony.

Liberty-050 Re: Bickell Testimony, page 3, line 9
Witness: Dale Bickell

- a. What percentage debt or "leveraged financing" does Mr. Bickell believe is reasonable for the purchase of stock in Western Water?
- b. What percentage debt or "leveraged financing" does Mr. Bickell believe is reasonable for the purchase of a stand-alone water utility?
- c. What percentage debt or "leveraged financing" does Mr. Bickell believe is reasonable for the purchase of utility assets?

Liberty-051 Re: Bickell Testimony, page 3, line 9
Witness: Dale Bickell

- a. What percentage debt or "leveraged financing" is the City of Missoula planning to use to fund its purchase of Mountain Water's assets?
- b. What interest rate does the City of Missoula expect to pay on the bonds that will be used to finance its acquisition of Mountain Water's assets?
- c. Please provide all available documentation regarding the City of Missoula's plans to fund its acquisition of Mountain Water's assets.

Liberty-052 Re: Bickell Testimony, page 3, lines 15-16
Witness: Dale Bickell

Please provide all documentation used or referred to by Mr. Bickell to support the statement "Standard and Poor's rating agency would describe this as 'aggressive risk.'"

CERTIFICATE OF SERVICE

I hereby certify that on November 11, 2015, the foregoing Liberty Utilities Co. and Liberty WWH, Inc.'s Data Requests Liberty-001 through Liberty-052 was served via electronic and U.S. mail on:

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

Christopher Schilling, CEO
Leigh Jordan, Executive VP
Park Water Company
9750 Washburn Road
Downey, CA 90241
cschilling@parkwater.com
leighj@parkwater.com

John Kappes
President & General Manager
Mountain Water Company
1345 West Broadway
Missoula, MT 59802-2239
johnk@mtnwater.com

Todd Wiley
Assistant General Counsel
Liberty Utilities
12725 West Indian School Road
Suite D-101
Avondale, AZ 85392
Todd.Wiley@libertyutilities.com

Jim Nugent
City Attorney
The City of Missoula
435 Ryman Street
Missoula, MT 59802
JNugent@ci.missoula.mt.us

Scott M. Stearns
Natasha Prinzing Jones
BOONE KARLBERG P.C
P.O. Box 9199
Missoula, MT 59807-9199
sstearns@boonekarlberg.com
npjones@boonekarlberg.com

Robert Nelson
Monica Tranel
Montana Consumer Counsel
111 North Last Chance Gulch, Suite 1B
Box 201703
Helena, MT 59620-1703
robnelson@mt.gov
mtranel@mt.gov

Barbara Chillcott
Legal Director
Clark Fork Coalition
140 S 4th Street West, Unit 1
P.O. Box 7593
Missoula, MT 59801
barbara@clarkfork.org

Gary M. Zadick
UGRIN, ALEXANDER, ZADICK &
HIGGINS, P.C.
#2 Railroad Square, Suite B
P.O. Box 1746
Great Falls, MT 59403
gmz@uazh.com

