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

*****

IN THE MATTER OF 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

CITY OF MISSOULA'S RESPONSES TO LIBERTY UTILITIES CO. AND LIBERTY WWH, INC.'S FIRST SET OF DATA REQUESTS TO THE CITY OF MISSOULA

The City of Missoula provides the attached responses to Liberty Utilities Co. and Liberty WWH, Inc.'s first set of Data Requests to the City of Missoula.

Dated this 2nd day of December 2015.

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City of Missoula
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GENERAL OBJECTIONS

The City of Missoula ("City") continues to maintain that its condemnation has deprived the Public Service Commission ("PSC") of jurisdiction over this joint application—especially in light of the condemnation commissioner's recent determination of fair market value. At a minimum, this proceeding should be stayed in light of the condemnation act.

The merits of the condemnation action are not before the PSC. Therefore, questions regarding the condemnation action, the City's actions during and after, and the City's future plans are not relevant to this proceeding. Only Algonquin's purchase is before the PSC and, thus, the only relevant information is that related Algonquin's proposed purchase. As Mountain Water Company ("Mountain Water"), Western Water LLC ("Western Water"), Liberty Utilities Company ("Liberty"), and Algonquin Power and Utilities Corporation ("APUC") have repeatedly stated, the merits of the City's condemnation action are not before the PSC:

> **Issues regarding the City's condemnation litigation must not be injected into this docket.**
>
> Response of Liberty Utilities Co. and Liberty WWH, Inc. to Petitions to Intervene of the City of Missoula and the Clark Fork Coalition, D2014.12.99 (Jan. 23, 2015) (emphasis added).
>
> Reviewing and approving the sale and transfer in no way changes the current use or ownership of Mountain Water's utility property, and **therefore the issues in this proceeding are independent from those in the condemnation action.**
>
> Western Water Holdings and Mountain Water Company's Response to the City of Missoula's Motion to Stay, D2014.12.99 (Feb. 23, 2015) (emphasis added).

The number and volume of these data requests is overly broad and unduly burdensome. Liberty has served over 100 requests on the City, many of which are not relevant nor do they request information that will aid the PSC in determining whether or not the proposed Algonquin merger should be approved.

These data requests are designed to harass the City and increase the costs and burden associated with its continued participation in this docket. Many of Liberty's requests on the City are not relevant to the instant proceeding and seek information that will not aid the PSC in its determination of whether or not to approve the Liberty/Algonquin purchase.

The City has no burden of proof in this proceeding. The burden to prove this transaction should be approved rests solely on the Joint Applicants. Any questions seeking information regarding the City actions, past or present, or how the City would operate Mountain Water are not relevant and seek to inappropriately shift the burden to the City.

The PSC lacks jurisdiction to consider the benefits of public ownership versus private ownership. The District Court has already ruled on this matter and it has been determined that it is "more necessary" that the City own Mountain Water.

Many of Liberty's data requests seek information protected by attorney-client privilege and/or work product protection.

All responses provided below are provided without waiving these objections or waiving further, specific objections asserted along with the responses.

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.

OBJECTION:

The City objects to this request. The request is directed at the merits of the condemnation proceeding, which are not relevant to this proceeding. The PSC does not have jurisdiction to consider the benefits of private ownership compared to public ownership. This request, along with others, is vague, overly broad, unduly burdensome, not calculated to lead to the discovery of relevant information, and designed to harass the City and increase its costs. Moreover, the City has no burden of proof in this proceeding.

Question (a) requests information that is not relevant to this proceeding to the extent it asks for *all* correspondence, which would include the City's condemnation communications as well.

Question (c) requests information that is not relevant to this proceeding to the extent that it asks for *all correspondence*, which would include the City's condemnation communications as well.

RESPONSE TO LIBERTY-001:

a. In addition to the objection above, the City also objects based work-product and attorney-client privilege

b. See notes produced from Mr. Hayward (CITY-PSC 00069-000721). Mr. Close does not have notes from his review.

c. There are no documents responsive to this request.

RESPONSE TO LIBERTY-001

ATTACHMENTS
CITY-PSC 000694-000721

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.

OBJECTION:

The City objects to this request. This request, along with others, is vague, overly broad, unduly burdensome, not calculated to lead to the discovery of relevant information, and designed to harass the City and increase its costs. Moreover, the City has no burden of proof in this proceeding.

Questions (a) and (b) are overly broad and unduly burdensome to the extent they ask for a list of *all* clients of Hayward Consulting Group and then ask for *all* financial analyses or materials *relating to* those clients. Presumably, this would include all notes, phone calls, emails, their billing, etc. This is unacceptably broad and unduly burdensome.

Further, questions (a) and (b) request confidential information regarding Mr. Hayward's clients and his work for them.

Question (c) may include testimony that the client considers confidential and is subject to various protections. As such, the City objects to this request to the extent it applies to protected information.

RESPONSE TO LIBERTY-002:

a. A comprehensive list does not exist. The investor-owned utilities listed on Hayward Consulting Group's website include: Basic Water Company, Cottonwood Water Works, Inc., Golden State Water Company, Northern Waterworks, NV Nuon (Dutch), Raton Natural Gas Company, and U.S. Water, L.L.C.

b. See objection.

c. Mr. Hayward has copies of the following testimony available: (CITY-PSC 000722-001814):

- Delmarva Power & Light Company—Nov. 1992;
- New York Public Service Commission on behalf of the United States General Services Administration—Sept. 1991;
- Gas Company of New Mexico on behalf of the New Mexico Commission Staff—May 1976;
- Raton Gas Company—Feb. 1994;
- Tribune Swab/Fox Companies on behalf of the New Mexico Commission Staff—June 1988;
- Southern Union Company on behalf of the New Mexico Commission Staff—May 1988;
- Consolidated Edison on behalf of the United States General Services Administration—Sept. 1991;
- Pacific Gas & Electric Company on behalf of the Transmission Agency of Northern California—July 1992;
- Sierra Electric Cooperative on behalf of the New Mexico Commission Staff—Oct. 1984;
- Rio Grande Utility on behalf of the New Mexico Commission Staff—Apr. 1985;
- Sierra Electric Cooperative on behalf of the New Mexico Commission Staff—Apr. 1985;
- Sunlit Hills of Santa Fe on behalf of the New Mexico Commission Staff—no date;

- San Diego Gas & Electric Company on behalf of the Utility Consumer Action Network—Oct. 1995;
- Gas Company of New Mexico on behalf of the New Mexico Commission Staff—Mar. 1988;
- El Paso Electric Company on behalf of the New Mexico Commission Staff—Aug. 1986;
- Raton Natural Gas Company on behalf of the New Mexico Commission Staff—Apr. 1986;
- El Dorado Utilities on behalf of the New Mexico Commission Staff—May 1986;
- Gas Company of New Mexico on behalf of the New Mexico Commission—Feb. 1987;
- Southwest Gas Corporation on behalf of the Residential Utility Consumer Office—May 1994;
- Gas Company of New Mexico on behalf of the New Mexico Commission Staff—Aug. 1987;
- Gas Company of New Mexico on behalf of the New Mexico Commission Staff—Mar. 1988;
- New Mexico-American Water Company on behalf of the New Mexico Commission Staff—Oct. 1988;
- Sunlit Hills of Santa Fe on behalf of the New Mexico Commission Staff—no date;
- Jemez Mountains Electric Cooperative on behalf of the New Mexico Commission Staff—May 1984;
- Southern Union Company on behalf of the New Mexico Commission Staff—Nov. 1983; and
- Gas Company of New Mexico on behalf of the New Mexico Commission Staff—Aug. 1987.

d. While working for J.W. Wilson & Associates, Mr. Hayward assisted Dr. Wilson in preparing a draft of his testimony in Docket No. 90.6.39 (Montana Power Company). In Docket No. 90.1.1 Mr. Hayward assisted Mr. George Donkin in preparing draft testimony (Montana Power Co.).

e. See answer to Liberty-002(d).

RESPONSE TO LIBERTY-001

ATTACHMENTS
CITY-PSC 000694-000721

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).

OBJECTION:

The City objects to this request. This request, along with others, is vague, overly broad, unduly burdensome, not calculated to lead to the discovery of relevant information, and designed to harass the City and increase its costs. Moreover, the City has no burden of proof in this proceeding.

Questions (a), (b), and (e) are overly broad and unduly burdensome in that they ask for providing, describing, and narrating each valuation model Mr. Hayward has ever done.

Questions (a), (b), and (e) also violate client confidentiality in that they seek to gain access to work provided to clients not publicly disclosed.

Question (c) specifically requests emails and correspondence between Mr. Hayward and a client not a party to this proceeding.

RESPONSE TO LIBERTY-003:

a.

Name of Utility	Purpose	Client
El Paso Electric Co.	Merger Analysis	Dona Ana County, NM
El Paso Electric Co.	Phase-in of nuclear Power plant	NM PSC
Washington Gas	IRP	Washington Gas
Canal Electric	Financial Plan	USAID
EPRG	Privatization	USAID
MWD	Litigation	SDCWA

b. Mr. Hayward's financial valuation model—FinMod—is proprietary and disclosing the model could result in substantial economic damage to Mr. Hayward. Copies of critiques of models do not exist. Mr. Hayward does not have a copy of the model he developed for Washington Gas Light Company.

c. The context for reviewing the financial model was litigation involving excessive rates (i.e., economic damages) charged to the San Diego County Water Authority (SDCWA). Correspondence related to the project is not available.

d. The purpose of the model was to estimate economic damages.

e. See objection.

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.

OBJECTION:

The City objects to this request. The request is directed at the merits of the condemnation proceeding and the City's plans upon successful condemnation, which are not relevant to this proceeding. The PSC does not have jurisdiction to consider the benefits of private ownership compared to public ownership. This request, along with others, is vague, overly broad, unduly burdensome, not calculated to lead to the discovery of relevant information, and designed to harass the City and increase its costs. Moreover, the City has no burden of proof in this proceeding.

Questions (a) and (b) request information not relevant to this proceeding. In this proceeding, Mr. Hayward was retained to evaluate Liberty's financial model and has not prepared a financial model for the City.

Question (c) requests information and documents not relevant to this proceeding and is overly broad in that it requests "copies of all documents prepared and/or reviewed relating to the City of Missoula."

RESPONSE TO LIBERTY-004:

Without waiving the above objections, no.

a. Mr. Hayward has not prepared a financial model nor reviewed one for the City. Other than his review of Liberty's financial model, Mr. Hayward has only prepared a valuation of Mountain Water for the City.

b. See (a).

c. See objection and response to Liberty-001.

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.

OBJECTION:

The City objects to this request. The request is directed at the merits of the condemnation proceeding and the City's plans upon successful condemnation, which are not relevant to this proceeding. The PSC does not have jurisdiction to consider the benefits of private ownership compared to public ownership. This request, along with others, is vague, overly broad, unduly burdensome, not calculated to lead to the discovery of relevant information, and designed to harass the City and increase its costs. Moreover, the City has no burden of proof in this proceeding.

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.

OBJECTION:

The City objects to this request. This request, along with others, is vague, overly broad, unduly burdensome, not calculated to lead to the discovery of relevant information, and designed to harass the City and increase its costs.

RESPONSE TO LIBERTY-006:

See materials provided in response to Liberty-002(c) as these are the same instances.

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.

OBJECTION:

The City objects to this request. This request, along with others, is vague, overly broad, unduly burdensome, not calculated to lead to the discovery of relevant information, and designed to harass the City and increase its costs.

RESPONSE TO LIBERTY-007:

M&A	Role
Sale of Westpac Utility Assets	Valuation Analysis
Apple Valley Ranchos Water Co.	Valuation Analysis
Monarch Water Utility	Regulatory policy
Northern Waterworks, Inc.	Valuation Analysis
Basic Water Company	Valuation Analysis
Power Holding Co. of Nigeria	Privatization
Johnson Utilities	Valuation Analysis
Montenegro Electric Co.	Privatization
El Paso Electric Co	Regulatory policy, valuation

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."

RESPONSE TO LIBERTY-008:

The source of this information is: America's Electric Utilities: Past Present, and Future, pp. 142-143. Under the copyright laws of the U.S. these pages may not be reproduced without permission.

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.

OBJECTION:

The City objects to this request. This request, along with others, is vague, overly broad, unduly burdensome, not calculated to lead to the discovery of relevant information, and designed to harass the City and increase its costs.

Further, this question mischaracterizes Mr. Hayward's testimony in that it asserts Mr. Hayward stated the PUHCA applies to this case.

RESPONSE TO LIBERTY-009:

Mr. Hayward is merely outlining the merger standard used by the SEC when evaluating utility mergers. This standard is not used in Montana, but is illustrative for what other regulatory bodies use.

a. Mr. Hayward is merely outlining the merger standard used by the SEC when evaluating utility mergers. This standard is not used in Montana, but is illustrative for what other regulatory bodies use.

b. Mr. Hayward did not conduct that analysis. .

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).

OBJECTION:

The City objects to this request. This request, along with others, is vague, overly broad, unduly burdensome, not calculated to lead to the discovery of relevant information, and designed to harass the City and increase its costs. Moreover, the City has no burden of proof in this proceeding.

Question (a) requests information well beyond the scope of Mr. Hayward's testimony. Mr. Hayward provided a "summary" of the transactions that occurred during that period, not an exhaustive list.

RESPONSE TO LIBERTY-010:

a. See objection. The context of the testimony from page 12, line 8 through page 13, line 6 is large M&A transactions. During the period referenced in the testimony, the U.S. water utility industry has experienced thousands of mergers and acquisitions. The majority of these transactions are the "tuck-in" variety (see Hayward Testimony pages 13, lines 20-22; and page 14, lines 1-2). Mr. Hayward does not have a comprehensive

list of these mergers.

b. The companies discussed were: (1) publicly-traded investor-owned utilities and covered by the trade press, or (2) discussed in various books and publications. Mr. Hayward is unaware of any central data base or source that lists all water utility mergers and acquisitions.

c. See the list of "Information Reviewed" (CITY-PSC 001815 - 001817) provided and copies of various articles reviewed by Mr. Hayward (CITY-PSC 001818 - 001989):

- The New "Water Barons": Wall Stret Mega-Banks are Buying up the World's Water (Global Research, May. 25, 2015);
- Will New Federal Law Lead to Privatization of U.S. City Water Systems? (Occupy.com June 2, 2014);
- Merger Madness Continues in the Utility Sector (Conrad's Utility Investor, June 27, 2014);
- Water Acquisitions Rise: Will Venture Capital Follow? (Forbes, Feb. 28, 2012);
- Do Mergers and Acquisitions Enhance or Destroy Shareholder Value? (Forbes, Oct. 4 2011);
- Water for the New World Order (Derry Brownfield, May. 13, 2003);
- Merger Acquisition in the Water Industry (Verta Assets, Oct. 15,2014);
- Are We Better Off Privatizing Water? (Wall St. Journal, Oct. 8, 2012);
- Privatizing U.S. Water (Institute for Agriculture and Trade Policy, June 2007);
- Overview of Investor-Owned Utilities (APPA, no date);
- Liquid Assets: Enron's Dip into Water Business Highlights Pitfalls of Privatization (Public Citizen's Critical Mass Energy and Environment Program, March 2002);
- Monopolies on the Local Water Front (Questia, no date);
- American Water Works Company (SourceWatch, no date);
- Merger and Acquisition Activity in the Water Industry (Water Online, Oct. 2014);
- PSA Acquires AquaSource Water and Wastewater Utilities (Business

Wire, Aug. 2008);

- PSA to Acquire New Hampshire Water Utility (PSC, April, 2002);
- Azurix (Wikipedia, no date);
- Kelda Group plc, Acquarion Close on the Acqusition of American Water Works New England Operations (Aquarion Company, May, 2002);
- Macquarie Bank to Acquire Aquarion Water Co. (Aquarion Water, Feb. 2006);
- Thames Water (Wikipedia, no date);
- Philadelphia Suburban Corporation to Acquire AquaSource's Investor-owned Water Utilities and Select Integrated O&M Contracts (Aqua, Jul. 2002);
- Macquarie-led Consortium to Acquire Duquesne Light Holdings for $1.59 billion; Transaction Enterprise Value of $3.15 Billion (Macquarie, July 2006);
- Algonquin Power & Utilities (Wikipedia, no date);
- Thames to Buy Elizabethtown Water (AP, Nov. 23, 1999);
- Aquarion Acquired by Yorkshire Water (waterindustry.org, no date); and
- Valuation Mergers & Acquisitions: An Overview (Financial Press, Aug. 2013).

RESPONSE TO LIBERTY-010

ATTACHMENTS
CITY-PSC 001815-001817
CITY-PSC 001818-001989

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.

OBJECTION:

The City objects to this request. This request, along with others, is vague, overly broad, unduly burdensome, not calculated to lead to the discovery of relevant information, and designed to harass the City and increase its costs. Moreover, the City has no burden of proof in this proceeding.

This request seeks information beyond the scope of Mr. Hayward's testimony. As noted in Table 1, it was not intended to be a comprehensive list, merely illustrative. Mr. Hayward did not testify that he had perfect knowledge of all utility transfers that occurred during the time frame.

RESPONSE TO LIBERTY-011:

a. See response to Liberty-010(b) noting the criteria for the transactions

listed. Mr. Hayward did not intentionally omit any transactions.

b. Mr. Hayward attempted to list large water utility transactions in during the period of the late 1990s through the current period. As noted in the response to Liberty-010(b) above a comprehensive data base of such transactions does not exist.

c. See the documents provided in response to Liberty-010 as well as the sources noted in "Information Reviewed," also provided in response to Liberty-010.

d. Liberty is a wholly owned subsidiary of Algonquin Power and Utilities Corporation ("APUC"). APUC is a Canadian corporation; hence it is a "foreign" corporation.

e. As noted in the table, it was not intended to be a comprehensive list. It included the proposed transaction as illustrative of APUC's past purchases.

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.

RESPONSE TO LIBERTY-012:

a. Potential risks include, but are not limited to: (a) deteriorating service, (b) financial instability of the Company, and (c) negative impact on the local, regional, and state economies.

b. Liberty's own financial models predict substantial rate increases.

c. Admit. The Montana Legislature removed PSC jurisdiction over municipally controlled utilities when it amended Montana Code Annotated 69–3–102 (2015).

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.

OBJECTION:

The City objects to this request. The request is directed at the merits of the condemnation proceeding, which are not relevant to this proceeding. The PSC does not have jurisdiction to consider the benefits of private ownership compared to public ownership. This request, along with others, is vague, overly broad, unduly burdensome, not calculated to lead to the discovery of relevant information, and designed to harass the City and increase its costs. Moreover, the City has no burden of proof in this proceeding.

RESPONSE TO LIBERTY-013:

Deny. The PSC's ability to regulate Liberty's proposed utility structure is directly before the PSC in this proceeding.

a. This is best answered by looking to Mr. Hayward's testimony where he listed out those specific concerns in detail. Those concerns included the PSC's ability to regulate Liberty if the proposed acquisition is approved and specific concerns regarding Liberty's proposed acquisition itself.

b. See objection.

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.

RESPONSE TO LIBERTY-014:

a. See the attached copy of The York Water Company 10-K Report for the fiscal year ending December 31, 2014 (CITY-PSC 001990-002054).

b. Number of customers (12/31/2013): (1) York, 64,118 (2) Mountain, 23,336. These numbers were not included in Table 4 since the number of customers per employee would provide a better comparison. Had this metric been used, the result would be: Mountain (598) and York (605) which supports the position that these companies are comparable.

c. See Table 4, line No. 11 of Mr. Hayward's testimony.

d. See Table 4, line Nos. 4, 6, 8, 9, 10, 11, and 13 of Mr. Hayward's testimony.

RESPONSE TO LIBERTY-014

ATTACHMENTS
CITY-PSC 001990-002054

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.

RESPONSE TO LIBERTY-015:

a. Mr. Hayward did not complete a comprehensive survey of stand-alone water utilities as a potential model for Mountain Water. That was not the purpose. Rather, York was chosen because it was: (a) a publicly-traded investor owned water utility that must submit financial statements to the SEC, and (b) has operational characteristics similar to Mountain. The comparison to York Water is for illustration purposes.

b. Since Mr. Hayward did not complete a comprehensive survey, he does not have this information.

c. Mr. Hayward is not proposing creating a new water utility. Rather, he is suggesting the reorganization of Mountain along with changes in the PSC's regulatory policies (e.g., affiliate transactions). The combination of these changes would likely provide more transparent information to the public and possibly lower costs to Mountain's customers.

d. Please see the 10-K Report filed by York Water with the SEC provided in response to Liberty-014.

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).

OBJECTION:

The City objects to this request. This request, along with others, is vague, overly broad, unduly burdensome, and designed to harass the City and increase its costs.

Further, the cited testimony of Mr. Hayward does not discuss "affiliate transactions" or "economic benefits." His testimony on page 31, lines 12-15 outlines what he argues is the optimal organization for Mountain Water.

RESPONSE TO LIBERTY-016:

a. No. Mr. Hayward believes that under some circumstances affiliate transactions could provide economic benefits to ratepayers.

b. No responsive documents.

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.

RESPONSE TO LIBERTY-017:

a. A stand-alone water utility would avoid the contentious issue of the PSC monitoring affiliate transactions. Given the similarities between Mountain and York listed in Table 4, The York Water Company provides a reasonable template for Mountain's organization.

b. Liberty is proposing to make a drastic shift in the corporate structure of Mountain Water with this transaction. Under Carlyle's ownership, there was no real change in how the corporation was organized, however, as demonstrated in Liberty's other acquisitions, there will be significant organizational shifts, including foreign ownership. Mr. Hayward's articulation of an ideal model serves to provide a comparison to Liberty's proposed structure.

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.

RESPONSE TO LIBERTY-018:

Admit.

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."

OBJECTION:

The City objects to this request. This question mischaracterizes Mr. Hayward's testimony, specifically with reference to the term "legally."

RESPONSE TO LIBERTY-019:

Without waiving this objection, see Mr. Hayward's response to MW/WWH-085.

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.

RESPONSE TO LIBERTY-020:

The example of Azurix North America illustrates how under the proposed acquisition by Liberty, coupled with the current inadequate financial reporting requirements, substantial liabilities (e.g., guarantees) could be hidden from the PSC. In effect, an off-balance sheet liability could be created. The ultimate impact could result in the deterioration of water service to Mountain's customers.

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.

OBJECTION:

The City objects to request Liberty-021(b). The request is directed at the merits of the condemnation proceeding and the City's plans upon successful condemnation, which are not relevant to this proceeding. The PSC does not have jurisdiction to consider the benefits of private ownership compared to public ownership. This request, along with others, is vague, overly broad, unduly burdensome, not calculated to lead to the discovery of relevant information, and designed to harass the City and increase its costs. Moreover, the City has no burden of proof in this proceeding.

RESPONSE TO LIBERTY-021:

a. The metrics include:

- Profitability;
- Liquidity;
- Leverage;
- Profit Trend;
- Growth and Efficiency; and
- Efficiency and Profitability.

The financial metrics Mr. Hayward proposes were developed by the National Regulatory Research Institute (NRRI) in their paper: "Evaluating Water Utility Capacity With Ratio Analysis and Discounted Cash Flows," July 1997, pp. 14-16 (CITY-PSC 002055-002114). These metrics were identified by NRRI to allow utility regulators to consistently

identify water utilities that were distressed and in need of regulatory attention.

b. See objection.

RESPONSE TO LIBERTY-021

ATTACHMENTS
CITY-PSC 002055-002114

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.

RESPONSE TO LIBERTY-022:

There is no such requirement. However, it is concerning that such a requirement does not exist; and Liberty appears to not have one.

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.

OBJECTION:

The City objects to this request. The request is directed at the merits of the condemnation proceeding and the City's plans upon successful condemnation, which are not relevant to this proceeding. The PSC does not have jurisdiction to consider the benefits of private ownership compared to public ownership. This request, along with others, is vague, overly broad, unduly burdensome, not calculated to lead to the discovery of relevant information, and designed to harass the City and increase its costs. Moreover, the City has no burden of proof in this proceeding.

This request seeks attorney/client information.

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).

OBJECTION:

The City objects to this request. The request is directed at the merits of the condemnation proceeding and the City's plans upon successful condemnation, which are not relevant to this proceeding. The PSC does not have jurisdiction to consider the benefits of private ownership compared to public ownership. This request, along with others, is vague, overly broad, unduly burdensome, not calculated to lead to the discovery of relevant information, and designed to harass the City and increase its costs. Moreover, the City has no burden of proof in this proceeding.

This request seeks attorney/client information.

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.

RESPONSE TO LIBERTY-025:

Mr. Hayward is referencing Liberty's own notes in its valuation model where it appears to, on page 55, note: "This [savings] is HIGHLY speculative, needs airing out. Logic may even be problematic." To Mr. Hayward's knowledge, there has been no specific allocation of economies of scale to Mountain Water.

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?

RESPONSE TO LIBERTY-026:

a. See report provided by Mr. Close of HDR in response to MW/WWH-013.

b. Mr. Hayward is not offering an opinion on the reasonableness of such investments, merely that the City's experts have identified the system is in poor condition.

c. Mr. Hayward does not have the expertise to evaluate the prudency of the projected investments. Historically, the prudency of investments is addressed in a utility's rate case.

d. The term "commitment" is vague and meaningless. Moreover, one underlying assumption in regulation is that the utility operates and maintains its system such as to provide safe and reliable service to its customers. Bringing the system up to industry standards could facilitate the above assumption. Again, Mr. Hayward does not have expertise in this area.

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?

RESPONSE TO LIBERTY-027:

a. Mr. Close was responsible for the justification to the commissions of capital improvements, operating and maintenance expenses, and all retirements/depreciation of assets for the four western region operating companies for AWWC. In this capacity I prepared and filed pre-file testimony and testified in over 15 rate case proceedings in California, Arizona, and New Mexico.

b. Mr. Close was responsible for conducting the due diligence of acquisitions and mergers which included the assessment of the asset condition, forecast capital improvements/investments, assess operating and maintenance practices and prepare proforma CIPs and O&M budgets. This is included evaluation of staffing, operating procedures, organizational structure, business processes and the culture of the organization. All of the due diligence data was then used to support the preparation of the purchase price. Additionally Mr. Close supported the request for approval of the sale from the state public utilities commission. Once approve by

the commission Mr. Close was responsible for the integration of the "new" operation in to the AWWC operating company.

c. American Water Works Company (AWWC) was the parent company traded on the NYSE. Each of the operating companies was a wholly owned subsidiary in each state that was regulated by that particular state's public utility commission. The management of the operating companies was conducted by American Water Works Service Company (AWWSC), another wholly owned subsidiary of AWWC, and did not earn a profit. Regional management of AWWSC served as the management of operating companies as well. For example, the President, VP of Finance, and the VP of Operations for each of the operating companies were Regional Directors of AWWSC and served on the Board of Directors of the operating company. Mr. Close was the VP of Operations and Engineering for California American Water Company, Arizona American Water Company, New Mexico American Water Company, and Hawaii American Water Company and was also the AWWSC Western Region Operations Director. AWWC also had several non-regulated wholly owned subsidiaries that provided various non-regulated services; land ownership; military services, contract operations, residential in-home utility services, etc.

d. The capitalization policy was different in each operating company but was typically in the range of a 50/50 up to a maximum of a 60/40 debt-equity ratio. Non-regulated ventures were capitalized at a higher debt-equity ratio.

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.

RESPONSE TO LIBERTY-028:

Deny. The condition of the system is directly related to this proceeding in that it will have an impact on any future owner.

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?

RESPONSE TO LIBERTY-029:

a. Fully depreciated water meters, or aged meters that have reached or exceeded their useful lives typically under record actual water usage which directly impacts revenues. If water meters are recording less water than actually used than the utility is under collecting revenues and then in turn they must go to the commission and request an increase in rates to recover that "lost" revenue in order to earn their authorized rate of return. The impact to rate payers is that customers that have meters that are accurately measuring water usage are now over paying for their water service and others are under paying, and the ratepayers receives no additional benefit to their water service for this increase in rates. Additionally aged water meters contributes to the amount of unaccounted-for-water (UAF) produced by the utility and more accurate meters would allow improved data of customer usage/demands used for assessing and sizing water facilities and how they are distributed across the distribution system as well as provide

better data to identify and local water leaks in the distribution piping system.

b. Non-metered customers contributes to UAF usage that is not recorded and not billed. Again this tends to result in lower revenues to the utility which they in turn request rate increases to recover that "lost" revenue and customers that are metered are over paying and subsidizing the non-metered customers. Additionally not having actual customer demand/water usage data tends to require conservative estimation of water usage resulting in over sizing of facilities and inefficient operations. Lastly having non-metered customers makes it more difficult to identify and locate leaks within the system which contributes to the excessive leakage within the system.

c. As indicated in the response to question (a) above, new meters will provide more accurate recording of water usage in the water system which will increase revenues and not require unnecessary rate increases, provide improved customer demand/water usage data for assessing the capacity needs and sizing of facilities, and provide improved data to locate leaks within the water system. Reducing leaks in the system and improving the operating efficiency of the distribution system will reduce operating and maintenance costs.

d. It is unclear what the revenue impact would be. First, it is most likely that water revenues will increase with all metered usage which will offset the need to increase rates later; second over time metering customers may lower consumption as customers are incentivize to not waste water. Or, third, metering may aid Mountain Water in determining where its 50% leakage is at, thus helping it remove the costs associated with producing leaking water.

e. Yes but Mr. Close does not recommend replacing all the meters at once. He contends that a thoughtful and well planned meter replacement program over 5 to 10 years would achieve the results desired and avoid a rate shock to customers initially and again when the "new" meters reach the end of their useful life in 15 to 20 years.

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?

RESPONSE TO LIBERTY-030:

a. There are not specific "additional wells." Instead, there is 50% leakage which the Mountain Water system must produce in order to get enough water to each customer. Thus, there are "additional wells" in the system that exist to pump water that merely leaks back into the ground.

b. Again, Mr. Close did not conduct a specific determination of which ones should be taken off line. Rather, his focus on the sheer amount of leakage and the wells and pumps needed to keep up with it.

c. First, only the non-depreciated value of the wells and the associated equipment/structures is removed from rate base if the well is taken out of service. If a well facility and all ancillary equipment is fully depreciated there is no impact on rate base. Each pressure zone needs to be evaluated to ensure that Max Day + Operational Storage (peak hour)+ fire flow capacity is provided. Mr. Close contends that MWC has too little distribution storage as compared to industry standards and that constructing additional storage is cost effective as compared to building additional wells and operating/maintaining aging wells that are reaching or exceeded their useful life in order

to meet demands, especially peak hour and fire flow demands. As water leakage is reduced an assessment of each pressure zone should be conducted included a comprehensive storage analysis to identify what actual well capacity and storage capacity is needed. Then an assessment of the well facility efficiencies/condition should be completed to retire the least efficient and worst condition wells in each pressure zone and remove them 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. Identity 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?

RESPONSE TO LIBERTY-031:

a. Mr. Close did not identify specifically which facilities were installed to deal with leakage. However, of a system leaks 50% of the water it produces back into the ground, then it is producing 2x what it needs to produce if there were no leakage. This makes some of the well and pump facilities dedicated to pumping leaking water.

b. Mr. Close did not specifically identify those facilities so there was no determination of the rate base associated with them.

c. See response to Liberty-030.

d. Insufficient data was provided by MWC to calculate the overall cost of water produced.

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.

RESPONSE TO LIBERTY-032:

Admit that the majority of water leakage, depending on localized soil conditions, flows back into the aquifer. However, not all of the water returns to the aquifer as water that leaks from mains and services is partially consumed by vegetation, e.g. trees, shrubs, etc. (consumptive use) and some water may enter the stormwater conveyance system and diverted from the aquifer. There are other associated problems with losses such as potential spreading of contaminants. The "consumptive use" of water in agricultural uses can be as high as 33% as documented in several states water rights legislation when agricultural use is converted to municipal use. A more comprehensive study of leakage and aquifer recharge is needed before a percentage of leakage that is not returned to the aquifer can be estimated. However Mr. Close contends that 100% of water leakage is not returned.

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.

OBJECTION:

The City objects to this request. This request, along with others, is vague, overly broad, unduly burdensome, not calculated to lead to the discovery of relevant information, and designed to harass the City and increase its costs. Moreover, the City has no burden of proof in this proceeding.

Further, this mischaracterizes Mr. Close's testimony in that it implies both he and the City contend there will be cost savings associated with capital investments. That is incorrect. Mr. Close merely stated what needs to be done to bring the Mountain Water system to industry standards.

RESPONSE TO LIBERTY-033:

There will be cost savings, reduced leakage reducing well capacity and power/chemical costs, reduced maintenance, and improved pump efficiencies saving power costs. However, HDR did not perform a detailed estimate of the cost savings.

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?

b. Does the City contend those projected investments are prudent for Mountain Water under private ownership?

c. Would the City support the application if Liberty made a commitment to make the additional investment required to satisfy those projections?

RESPONSE TO LIBERTY-034:

a. Yes the recommended capital improvements to bring the system up to industry standards would be prudent regardless of whether it's under public or private ownership.

b. Yes the recommended capital improvements to bring the system up to industry standards would be prudent regardless of whether it's under public or private ownership.

c. Mr. Close cannot speak for or represent the position of the City in whether they would or should support Liberty installing the recommended improvements. A comprehensive rate analysis to understand the rate impacts and customer benefits of the improvements and the timing would first be necessary before any such consideration by City.

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.

RESPONSE TO LIBERTY-035:

a. Admit.

b. Admit.

c. Mr. Close has provided written pre-file testimony and direct testimony in over 15 rate cases from 1988 through 2000 in front of the California, Arizona, and New Mexico state commissions in support of the AWWC operating companies in those states during his tenure at AWWSC. Mr. Close does not have access to those pre-file or direct testimonies as they are the property of AWWC.

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?

OBJECTION:

The City objects to this request. The request is directed at the merits of the condemnation proceeding and what the City could pay for Mountain Water, which are not relevant to this proceeding. The PSC does not have jurisdiction to consider the benefits of private ownership compared to public ownership. This request, along with others, is vague, overly broad, unduly burdensome, not calculated to lead to the discovery of relevant information, and designed to harass the City and increase its costs. Moreover, the City has no burden of proof in this proceeding.

RESPONSE TO LIBERTY-036:

a. The debt coverage used was 1.25x, but based on the existing rates, the actual calculated coverage was greater than 1.25x.

b. See objection.

c. See objection.

d. See objection.

e. See objection.

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.

RESPONSE TO LIBERTY-037:

No. There was no specific reason a rate analysis was not done regarding potential Liberty 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.

RESPONSE TO LIBERTY-038:

a. Admit.

b. The City and Mr. Close are not aware of any dockets where Options 1 or 2 were authorized by the PSC.

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.

d.

OBJECTION:

The City objects to this request. The request is directed at the merits of the condemnation proceeding, which are not relevant to this proceeding. The PSC does not have jurisdiction to consider the benefits of private ownership compared to public ownership. This request, along with others, is vague, overly broad, unduly burdensome, not calculated to lead to the discovery of relevant information, and designed to harass the City and increase its costs. Moreover, the City has no burden of proof in this proceeding.

RESPONSE TO LIBERTY-039:

a. Mr. Close's position is that Liberty's proforma shows a significant rate

increase at the purchase of MWC and then regular rate increases over the forecast period. These rate increases are projected even though Liberty is projecting a low capital investment over this forecast period which concludes that improvements planned will do little if nothing to reducing O&M costs. In the Liberty rate model there was a constant increase in O&M costs over the forecast period and no projected savings. Capital improvements should be made with the intent to reduce operating costs and Liberty fails to do that. Additionally Liberty does not project to make sufficient capital improvements to bring the system up to industry standards again continuing an inefficient and non-cost effective utility.

b. Deny. Not necessarily, as shown by HDR's rate model, depending on the purchase price of Mountain Water, the improvements could be done without rate increases.

c. See objection.

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?

RESPONSE TO LIBERTY-040:

a. The significance is not so much in the number of revisions, but what those revisions do to the model. As pointed out in Mr. Close's testimony, the EPS was negative until adjustments were made and synergies were changed because of an "email from Ian." The number is not significant, what those changes do is.

b. Mr. Close has no opinion on the number of revisions a financial model should go through.

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.

OBJECTION:

The City objects to this request. This request, along with others, is vague, overly broad, unduly burdensome, not calculated to lead to the discovery of relevant information, and designed to harass the City and increase its costs. Moreover, the City has no burden of proof in this proceeding.

RESPONSE TO LIBERTY-041:

a. When the purchase price being paid for the utility includes a "premium" (amount above rate base approved by the commission during the sale approval) then that "premium" can be fully leveraged or funded by 100% of debt that does not fall under the PSC regulatory control. The regulated portion of the purchase price, rate base, would remain having a capital structure of 50/50 or as high as 60/40, but overall the utility would be highly leveraged and more of a risk when the "premium" costs are taken in to consideration. Liberty's proposed purchase would dramatically increase debt levels for Park Water, unless the parent company finances the "premium" costs

b. Of the regulated portion of the purchase price a reasonable debt/equity

ratio of 50/50 would be appropriate with a maximum of 60/40. The debt/equity ratio of the overall acquisition including the non-regulated portion of the purchase price ("premium") should not exceed 75/25.

c. This is based on Mr. Close's experience and approaches taken for acquisitions during his tenure at AWWC.

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

Identify all concerns Mr. Close has about Emera.

RESPONSE TO Liberty-042:

The concerns regarding Emera largely stem from several facts. First, it is unknown what control Emera has over Algonquin. Liberty continues to contend it is the appropriate entity for this docket, even though Algonquin is its parent corporation. If Algonquin were a party to this transaction, Emera's near 25% ownership stake in Algonquin could be examined thoroughly.

Second, the City finds it concerning that, in addition to Algonquin not being a party to this proceeding, there is a company with a large ownership share in Algonquin who has financed are large portion of Liberty's agreement to purchase Park Water.

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.

RESPONSE TO LIBERTY-043:

Liberty's financial models note an assumed debt of $77.1 million and incremental dent of $90.1 million. These add up to $167.2 million.

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."

RESPONSE TO LIBERTY-044:

Mr. Close's statement contends that Algonquin acquisition strategy is aggressive by purchasing a utility for such a high purchase price resulting in FFO being negative during the first years of ownership, to then through aggressive rate increases attempt to recover that "lost" profit in later years or sell the utility at a profit in the future. For the documents supporting the statement that such a structure is "highly agressive," see the documents produced in response to Liberty-052.

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%."

RESPONSE TO LIBERTY-045:

a. All this meant was the Return on Equity (ROE) on capital improvements made over the proforma forecast through 2039.

b. This was a metric used at AWWC in assessing acquisitions and I don't recall the specific acquisitions where this occurred.

c. Mr. Close's answer is based on his industry expertise.

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.

RESPONSE TO LIBERTY-046:

Admit.

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).

RESPONSE TO LIBERTY-047:

a. Mr. Close was commenting that the acquisition costs were listed as an asset, not an expense. If they are an asset, that means Liberty is planning to recover them.

b. See Liberty's balance sheet in its financial model.

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.

RESPONSE TO LIBERTY-048:

Liberty's financial model discussed the appropriate levels of main replacement per the KANEW study and noted it was 3 miles.

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.

OBJECTION:

The City objects to this request. This request, along with others, is vague, overly broad, unduly burdensome, not calculated to lead to the discovery of relevant information, and designed to harass the City and increase its costs. Moreover, the City has no burden of proof in this proceeding.

RESPONSE TO LIBERTY-049:

For the details requested, see the rate analysis provided in Mr. Close's testimony. As noted by the rate study, this answer depends on the acquisition cost. At a cost near that proposed by Liberty's acquisition, there would need to be regular, sizeable rate increases as noted in the rate study.

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?

RESPONSE TO LIBERTY-050:

a. Mr. Bickell does not have a specific opinion regarding the exact debt/equity ratio for Western Water as a privately owned entity, except to the extent that it should be sufficient to protect the financial integrity of the utility. In Mr. Bickell's opinion, the ideal capital structure would be governmental ownership of the utility which negates the need for capital structure balancing.

b. Mr. Bickell does not have a specific opinion regarding the exact debt/equity ratio for a privately owned stand-alone entity, except to the extent that it should be sufficient to protect the financial integrity of the utility. In Mr. Bickell's opinion, the ideal capital structure would be governmental ownership of the utility which negates the need for capital structure balancing.

c. Mr. Bickell does not have a specific opinion regarding the exact debt/equity ratio for purchasing a privately owned entity, except to the extent that it should be sufficient to protect the financial integrity of the utility. In Mr. Bickell's opinion, the ideal capital structure would be governmental ownership of the utility which negates the need for capital structure balancing.

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.

OBJECTION:

The City objects to this request. The request is directed at the merits of the condemnation proceeding, which are not relevant to this proceeding. The PSC does not have jurisdiction to consider the benefits of private ownership compared to public ownership. This request, along with others, is vague, overly broad, unduly burdensome, not calculated to lead to the discovery of relevant information, and designed to harass the City and increase its costs. Moreover, the City has no burden of proof in this proceeding.

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."'

RESPONSE TO LIBERTY-052:

See Standard and Poor's Rating Services Ratings Direct document from

November 19, 2013 provided (CITY-PSC 002115-002194).

RESPONSE TO LIBERTY-052

ATTACHMENTS
CITY-PSC 002115-002194

CERTIFICATE OF SERVICE

This is to certify that the foregoing was duly served by mail and email upon the following counsel of record at their addresses this 2ND day of December 2015:

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