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

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

REBUTTAL TESTIMONY

OF

GREG SORENSEN

ON BEHALF OF

LIBERTY UTILITIES CO.

AND

LIBERTY WWH, INC.

December 10, 2015

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I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Greg Sorensen. My business address is 701 National Avenue, Tahoe Vista, California 96148.

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

A. I am employed by Liberty Utilities Service Co. ("LUSC"), a subsidiary of Liberty Utilities Co. ("Liberty"), an American corporation that owns and operates regulated gas, water, sewer and electric utilities in ten states—Arizona, Arkansas, California, Iowa, Illinois, Georgia, Missouri, Massachusetts, New Hampshire, and Texas. I currently serve as the President of Liberty Utilities California. I became President of Liberty Utilities California in June 2015. Previously, I was President of Liberty Utilities in Arizona/Texas, and was responsible for operation and management of Liberty's regulated utilities in those two states. I also am the President of Liberty Utilities Co.

Q. Please describe your duties and responsibilities as President of Liberty Utilities California?

A. As President of Liberty Utilities California, I currently am responsible for directing the daily operations and administration of Liberty CalPeco Electric LLC, our electric utility in California. My duties include overseeing financial and operating results, capital and operating cost budgeting, rate case planning and oversight, and rate setting policies and procedures. As President of Liberty Utilities California, I also oversee customer and development services, environmental, health and safety, accounting/finance, human

resources, engineering, and conservation planning. Pending regulatory approval of the proposed merger of Liberty WWH, Inc. and Western Water Holdings, LLC, I also will be responsible for operation and management of the Park Water utilities operating in California.

Q. Please outline your educational and professional background.

A. I earned a Bachelor's degree in Accounting from Wake Forest University in 1993. I then worked for Arthur Andersen in public accounting for five years, after which I was a Director of Financial Reporting & Analysis, Controller, and Vice President of Finance for Excell Agent Services, an international call center company.

Q. What other positions have you held with Liberty Utilities?

A. When I was hired in 2005, I started out as the Divisional Controller and Vice President of Finance. I was responsible for the accounting system and journal entries for 18 water and wastewater utilities in Arizona, Texas, Missouri, and Illinois, including rate cases and other regulatory matters. In 2009, I was promoted to Director of Operations and my responsibilities included oversight of all aspects of water and wastewater operations for Liberty Utilities' regulated utilities in Arizona, Texas, and Missouri, including compliance, operation and maintenance, system planning, and capital budgeting. From 2011-2012, I was Vice President of Service Delivery and General Manager, and was responsible for all aspects of Liberty's water and wastewater utilities in Arizona, Texas, and Missouri. My responsibilities included accounting, environmental/health/safety/security, operations, engineering, rates/regulatory, development services, and customer service. In 2013, I

became President of Liberty Utilities in Arizona/Texas and I remained the senior Liberty Utilities executive in Arizona/Texas until May 31, 2015, as previously discussed.

Q. Have you previously testified before the Montana Public Service Commission or other state regulatory bodies?

A. I have not previously testified before the Montana Public Service Commission ("Commission"). I have testified in numerous Arizona Corporation Commission proceedings on behalf of Liberty Utilities' entities in Arizona, including several rate cases and other regulatory proceedings. I also have twice testified before the Texas House Subcommittee on Resources, and I testified in the City of Missoula right to take trial against Mountain Water/Carlyle.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. I am providing this testimony in support of Liberty's request to approve its purchase of the stock of Western Water. The purpose of this rebuttal testimony is to address certain issues raised in the direct testimony offered by witnesses on behalf of the City of Missoula and Montana Consumer Counsel. Generally speaking, I address issues raised in the testimony presented by intervenors Montana Consumer Counsel ("MCC") and the City of Missoula ("City"), through their witnesses John Wilson (MCC), David Hayward (City) and Craig Close (City). Among other things, I address Mr. Hayward's concerns relating to Liberty's corporate structure and other issues relating to the proposed sale of Western Water stock to Liberty Utilities Co. I also address Mr. Hayward's and Mr. Close's incorrect conclusions

and assumptions on a variety of issues relating to this transaction, including operation of Mountain Water under Liberty.

Q. In reviewing the testimony presented by the Intervenors, what are your overall impressions?

A. Based on the underlying facts and record, the intervenors have not raised any legitimate reason for this Commission to reject the sale of Western Water stock to Liberty. I have been involved in several acquisition dockets in the past and the issues raised by the intervenors here are non-issues. To the contrary, the evidence is overwhelming that Liberty is a fit, qualified, and financially capable owner of Mountain Water. I have been a state president under Liberty for several years and I can attest to the fact that the issues raised by the intervenor witnesses are nothing more than red herrings with respect to how Mountain Water actually will operate under Liberty ownership.

III. RESPONSE TO HAYWARD TESTIMONY

Q. In his testimony, Mr. Hayward expresses concerns about Liberty's corporate structure and how it will impact Mountain Water upon approval of the sale. Based on your experience within the Liberty model, are Mr. Hayward's concerns valid and how do regulated utilities actually operate under the Liberty corporate structure?

A. Put simply, Mr. Hayward's issues are not legitimate areas of concerns relating to Liberty. He expresses concern about the Liberty corporate structure, financing and other corporate related issues in his testimony. Based on my experience in Arizona, Texas, Missouri and California, Liberty's corporate structure is very beneficial to its regulated utilities and

customers. Liberty's structure allows regulated utilities to benefit from centralized services. Liberty Utilities and the Liberty family share a common set of organizational values to help guide day-to-day business decisions. Those organizational values are Quality, Efficiency and Care. Those values are the underpinning of the Liberty Utilities culture and provide guidance on day-to-day business operations. Overarching all of those organization values is Safety. Liberty Utilities considers Safety a meta-level value and places the safety of customers, employees and community first and foremost. In addition to local operations, strategic oversight and administrative support services are provided centrally from the Liberty Utilities Canada and APUC level to the local utility businesses. We take this approach because we believe these services can be provided more cost effectively and in a manner that ensures consistent quality across all of our operating utilities if provided on a shared services basis. We strive to ensure, however, that doing so will not detract from the local presence that is valued by our customers and regulators. Customers receive significant benefits from this shared services model and the local approach in the provision of high quality utility service.

Q. How does the Liberty business model work in operation?

A. APUC serves as the overall corporate parent and has two major operating subsidiaries, Algonquin Power Co. ("APCo") and Liberty Utilities. Liberty Utilities owns regulated water, wastewater, gas and electric utilities in ten states. APUC is structured as a publicly traded holding company and provides substantial benefits to its regulated utilities and generation facilities through access to capital markets. As the ultimate corporate parent,

APUC provides financial, strategic management, corporate governance, administrative and support services to Liberty Utilities.

Q. Please describe Liberty's corporate philosophy regarding the management and operation of regulated utilities.

A. Our corporate structure emphasizes local management and control of utilities with efficiencies and cost savings from centralized corporate services provided through our structure, including access to capital, accounting services, management services, tax services, engineering and operational services and other similar services that substantially benefit customers. Liberty Utilities and the Liberty family share a common set of organizational values to help guide day-to-day business decisions. Those organizational values are Quality, Efficiency and Care. Those values are the underpinning of the Liberty Utilities culture and provide guidance on day-to-day business operations. Paramount among those organizational values is safety. Liberty Utilities considers safety a meta-level value and places the safety of customers, employees, and community first and foremost. Furthermore, strategic oversight and administrative support services are provided centrally from the Liberty Utilities Canada and APUC level to local utilities. We take this approach because we believe these services can be provided more cost effectively and in a manner that ensures consistent quality across all of our operating utilities if provided on a shared services basis. At the same time, our local management structure ensures that our utilities are responsive to local needs and accessible to consumers. Our utility consumers receive significant benefits from this shared services model and our local approach to the provision of high quality utility service.

Q. Do you believe that Mountain Water's customers will benefit from Liberty's corporate structure?

A. Absolutely. Based on my experience in Arizona, Texas, Missouri and California, Liberty's corporate structure is beneficial to its utility consumers. Liberty's consumers benefit from the economies of scale, institutional knowledge, and expertise attributable to Liberty's experience as a large, stable, and experienced utility company. At the same time, Liberty's utilities are operated and managed at the local level and, therefore, are directly responsive to consumer needs. Liberty operates according to the following mantra: "Local, Responsive, We Care." Each state has a President who directs the utilities in that state. They have local decision making authority and responsibility. We have local customer service representatives to interact with our customers directly—on the phone and in person. Our customers appreciate the fact that they are being served by employees who work in the service territory. We do not handle customer calls in a centralized call center– we believe that local is the way to go. We involve ourselves in the community through several programs. We have local personnel responsible for promoting water conservation and community relations. Liberty's local focus, combined with its centralized corporate services, provides substantial economies of scale that benefit consumers with high quality, cost efficient services.

Q. **Does Liberty's corporate structure also benefit its regulated utilities?**

A. Yes. Liberty's shared services business model serves a significant and very important role for regulated utilities. Under this structure, Liberty's regulated utilities enjoy access to wide-ranging expertise and resources that are typically not available to stand-alone utilities. That

is a direct result of Liberty's nationwide utility footprint as well as the corporate structure under Liberty Utilities Co. Through this business model, controls and processes are in place to ensure that accounting methodologies are consistent with generally accepted accounting principles. That means that Mountain Water will benefit from sound accounting, capital investment and operational expertise. By sharing regional resources with other utilities, Mountain Water also will enjoy the benefits of lower overall cost structures while at the same time maintaining local management of its day-to-day operations and customer contacts. Finally, through this business model, Liberty Utilities and its regulated utilities have substantial access to capital (both debt and equity) to fund utility operations, improvements, and acquisitions. Liberty's historical capital expenditures demonstrate it is willing to and consistently has invested in its utilities beyond depreciation expense, which is a good indicator of a committed and sound utility owner.

Q. How have regulatory bodies in other states viewed Liberty's business model and corporate structure?

A. Favorably. Liberty Utilities Co. owns and operates over twenty (20) regulated water, sewer, electric and gas utilities in ten states under the corporate structure described above. Our track record with respect to owning and operating those utilities is outstanding. Regulatory commissions in Arizona, California, Texas, and Missouri have viewed Liberty's corporate structure as beneficial and favorable to utilities and consumers alike in terms of operational efficiencies, access to capital, and other similar issues. Put simply, the applicable regulatory commission in all ten states in which Liberty operates regulated utilities have reviewed and acknowledged the benefits of Liberty's corporate structure.

IV. FITNESS TO SERVE

Q. Some witnesses have raised issues as to which entity's fitness to serve the Commission should be reviewing. What entity do you assert should be the focus of the Commission's fitness to serve review?

A. The Commission should evaluate the company that will be legally responsible for providing services to Mountain Water customers and subjected to rate regulation by the Commission. Thus, I believe the Commission should evaluate the Mountain Water Company's fitness to serve its customers within the organizational structure as will exist post-transaction.

Q. If the Commission chooses to analyze Liberty's fitness, do you believe Liberty is a qualified and experienced operator of regulated utilities?

A. Yes. Our track record of owning and operating over twenty (20) regulated utilities in ten states demonstrates that Liberty is a qualified and experienced operator of regulated utilities. Liberty currently provides reliable and adequate gas, electric, water and sewer service to over 480,000 regulated customers. The suggestion that Liberty is not a qualified and experienced operator is simply not grounded in fact.

Q. Have other regulatory bodies expressly found Liberty fit to serve?

A. Yes. All ten of Liberty's applicable regulatory commissions have determined that Liberty is a qualified and experienced owner/operator of regulated utilities. A perfect illustration of that fact is that a few years ago the Arizona Corporation Commission asked Liberty to purchase two troubled water systems in southern Arizona that were not providing adequate water service to customers. Liberty, in turn, acquired those companies and invested in the

systems to provide adequate and reliable water service. Under Liberty's ownership, those systems are now providing adequate and reliable water service to customers.

Q. Has any regulatory body ever found Liberty unfit to serve?

A. No.

V. LIBERTY'S PLAN AND BENEFITS OF TRANSACTION

Q. How does Liberty intend to operate Mountain Water Company?

A. Liberty intends to have Mountain Water be locally managed and operated. John Kappes will continue to be the primary operational and management authority over Mountain Water. Liberty's "corporate oversight" will be Mountain Water specific. Our strategy is set in the corporate office while execution of that strategy will be directed by Mountain Water employees in Missoula. Budgets (capital and operating) are created by the local team. Adherence to budgets is managed by the state president and his/her reports. Corporate policies are adjusted for local needs (pay practices, local holidays). Corporate EHSS (Environment, Health, Safety and Security) policies are adapted for local/state requirements or local business requirements (ex: early summer work start times in AZ). Local functional leads (HR, Finance, Ops, EHSS, Customer Service, etc.) report directly to the state president. In summary, Liberty's operational policy for Mountain Water will be based on centralized strategy, but local operation and control.

Q. Will the Mountain Water Company fundamentally change as a result of the proposed transaction?

A. No. We expect Mountain Water, as a legal corporate entity, will remain a Montana corporation, and a subsidiary in the corporate organization to Park Water and Western Water Holdings. Mountain Water will continue to maintain its own bank accounts, plant and equipment, and will keep separate books and records as required by the Commission. Liberty has committed to maintain all of Mountain Water's employees in their current positions and in Missoula, but will likely migrate them from being Mountain Water employees, to being employees of Liberty Utilities Service Corp. ("LUSC"), a direct subsidiary of Liberty Utilities, and the employer of all Liberty employees in the United States. This consolidation under a single employer provides a variety of efficiencies and economies of scale, without undermining local control, which is the focus of Liberty's operating philosophy. As indicated previously, Mountain Water's current President, John Kappes, will become Liberty's Montana president, and will have local decision-making authority and responsibility, including operational and financial authority over Mountain Water.

Q. How does the proposed transaction benefit the Mountain Water Company and its customers?

A. If the Commission approves the proposed transaction, Mountain Water's local staff will remain, but will gain access to the full range of Liberty's corporate and support services as well as APUC's financial resources. As discussed previously, we believe that Mountain Water and its customers will benefit from the centralized services provided by Liberty with respect to operation, financing, and management of Mountain Water. Mountain Water's

customers absolutely will benefit from Liberty's ownership and operations of the Mountain Water Company.

Q. Mr. Hayward criticizes the lack of a business plan as part of information provided the Commission. Does Liberty have a business plan for Mountain Water?

A. Yes. The plan can best be described as stay the course while evaluating opportunities for improvement. As described in David Pasieka's direct testimony, in the short term, Liberty intends to continue the operations and capital plans developed and being carried out by Mountain Water's existing management team. It would be disingenuous and inadvisable to create a business plan that may vary significantly from the plan of its long time management team for the operations of Mountain Water prior to owning the utility and fully immersing ourselves in its operations. Over the long term, Liberty will lend its utility expertise where appropriate, but fully expects to continue to rely on local management to develop and implement the business plan for Mountain Water. Both Liberty and the local management team will continue to balance the need for investments with the impact on customer rates. Our past acquisition experience indicates that providing continuity of local management during the transition, and empowering local managers in the long term leads to the best results.

VI. INVESTMENT AND RATES

Q. Mr. Hayward and Mr. Close both claim that an additional capital expenditure of $66 to $96 million is necessary for Mountain Water in the next 10 years to bring the Mountain Water system up to industry standards. Do you agree?

A. No. First, I am not aware of any objective "industry standards" dictating the level of investment they suggest, or dictating the specific improvements they suggest are necessary. Second, each water system is somewhat unique, so an "industry standard" based on conditions different from those in Missoula does not provide a reasonable basis for making the type of wholesale investment strategy changes the City's experts are suggesting. From our review, we understand that Mountain Water is well run and a functioning system. We believe Mountain Water's management is in the best position to determine the ongoing capital needs and to make the specific types of cost/benefit analysis and prudent decision making that ratepayers expect and regulators require. The City's witnesses also fail to address the true business component of reducing Mountain Water's water loss.

Q. Mr. Hayward identified annual rate increases as an issue with Liberty's acquisition. Is the need for annual rate cases by Mountain Water related to this transaction?

A. No. It is my understanding that Mountain Water management planned annual rate cases to avoid rate shock for its customers in the face of planned capital investment.

Q. Does Liberty agree with Mountain Water's strategy of annual rate cases? Why?

A. Yes. While we disagree as to the required level its experts suggest, Liberty agrees with the City that Mountain Water will require significant capital investment in future years. Those investments likely will increase rates. Under the current ratemaking approaches used in Montana, an annual rate case approach seems to be the best available method to smooth rate increases. One substantial benefit of annual rate cases is avoidance of rate shock resulting from large rate cases filed every few years, rather than lesser rate cases filed more often. Our

operational history in other states has shown that customers prefer regular, gradual rate increases, rather than less frequent but larger rate increases. Liberty pursues annual rate cases because its customers prefer gradual rate increases. Consistent with that goal, Liberty would prefer to avoid annual rate cases through the use of some mechanistic approach to recover capital investment, but it is premature to assume or propose such option at this time. These types of issues are better left to future rate cases before this Commission. I have seen that firsthand in our other states with regulated utilities.

Q. Is Liberty concerned about leakage in Mountain Water System? How do you view the cost-benefit analysis of investment necessary to cure leakage?

A. We trust Mr. Kappes and his team with respect to water loss within the Mountain Water system. In evaluating water loss, we agree with Mr. Kappes and the Commission that it is critical to evaluate both the costs and benefits of the substantial capital expenditures needed to address water loss. The water leakage issues have been extensively addressed and considered by the Mountain Water, the MCC, and this Commission in prior rate cases. A future rate case is the appropriate place to address, consider, and resolve the water leak issues, and not as part of this approval docket. In summary, Liberty is willing to provide capital as needed to address the water loss issues. But such investment must be balanced against the impact on rates resulting from such capital infusion. At this point, Mountain Water and the Commission have clearly determined it is not cost beneficial to customers to undertake the extensive capital intensive leak reduction plan proposed by the City. Even so, if the Commission and/or MCC want Liberty to co-develop a plan with them, we are

certainly more than willing to work with them in an effort to consider the viewpoint of all parties.

VII. APUC AS A PARTY

Q. The City and the Montana Consumer Counsel assert that APUC should be a party in this proceeding. Generally speaking, can you describe whether APUC currently is regulated by any commission in the United States?

A. No. APUC is a Canadian company and is not regulated by any regulatory commission in the United States. Furthermore, APUC has not been involved as a party in any prior regulatory approval dockets relating to Liberty's acquisition of regulated utilities in Arizona, Arkansas, California, Georgia, Iowa, Illinois, Massachusetts, Missouri, New Hampshire, and Texas. My understanding is that those regulatory commissions have recognized and understood that they do not have jurisdiction over APUC, which stands to reason given that APUC is a not a public utility company in any state and is not a direct parent of any regulated entities.

Q. Has the lack of jurisdiction over APUC, or any other upstream corporate entity, prevented other regulatory commissions from scrutinizing the ability of a particular Liberty subsidiary utility to serve customers or evaluate costs in ratemaking?

A. Absolutely not. APUC has not appeared as a party in any state utility regulatory matter. In acquisition dockets like this case, it is common for the specific purchasing entity and Liberty to appear. The Liberty entity that is a party to the docket provides information about the operation of the entire Liberty "family," including the access to capital through APUC. In rate cases, the utility seeking the rate change is the only entity involved. The utility provides

the information required or sought by Commissions and interveners regarding Liberty and any other relevant upstream entity. The testimony and supporting schedules establish the basis for all direct and common costs for which the utility seeks recovery. None of this is unusual—holding companies operating multiple utility systems through shared-services models are common across the United States. Liberty's regulated utilities commonly provide cost information and other data from APUC in rate cases and other regulatory dockets. The regulatory commissions in our other states have not taken issue with this framework. Again, I have firsthand experience on these issues in other states, including Arizona, California, Texas and Missouri.

VIII. PRIVATELY OWNED WATER UTILITIES

Q. Finally, Mr. Hayward suggests in his testimony that water utilities are sufficiently different from electric and gas utilities that private ownership is inappropriate. Do you agree?

A. No. Before explaining why, it is important to note that the debate over public and private ownership is not before the Commission in this case. As the City has acknowledged, the City's desire for public ownership of Mountain Water is not before the Commission and Mr. Hayward's testimony on that front is entirely irrelevant and should be disregarded. The sole issue here is whether the purchase of Western Water stock by Liberty should be approved, and whether Liberty is a fit and capable operator of Mountain Water. On that issue, there is no doubt that Liberty is a fit, qualified, and financially capable operator of water, sewer, electric, and gas utilities. Liberty has demonstrated that fact by operating within ten states and serving over 480,000 customers.

Mr. Hayward's suggestion that water utilities are not appropriate for private ownership are disproven by the fact that Liberty, and a host of other Investor Owned Utilities, have successfully owned and operated water utilities. Further, Liberty has acquired several water systems from municipalities, which were not able to properly finance and operate their municipal water systems. On this issue, Mr. Hayward's testimony speaks more to his client's litigation strategy, than any operational or regulatory issue pertaining to water utilities. Liberty owns and operates over 15 water/sewer utilities and has an exemplary track record of owning and operating those utilities. Likewise, the current and prior owners of Mountain Water have a long history of providing adequate and reliable water service to customers.

Q. Does this conclude your testimony?

A. Yes it does. Thank you.