PUBLIC SERVICE COMMISSION
STATE OF MONTANA

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1701 Prospect Avenue
PO Box 202601
Helena, MT 59620-2601
Voice: 406.444.6199
Fax #: 406.444.7618
http://psc.mt.gov
E-Mail: psc_webmaster@mt.gov

November 16, 2015

Mr. Robert Nelson
Montana Consumer Counsel
111 N. Last Chance Gulch
Suite 1B, Box 201703
Helena, MT 59601

RE: PSC data requests in Docket D2014.12.99

Dear Mr. Nelson:

Enclosed please find data requests of the Montana Public Service Commission to the Montana Consumer Counsel (numbered PSC-041 through PSC-049) in the above-referenced docket. Please begin the response to each new numbered data request on a new page. If you have any questions, please contact me at (406) 444-6193.

Sincerely,

Scott Fabel
Regulatory Division
Montana Public Service Commission

Enclosure

cc: Service list

Service Date: November 16, 2015

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

DATA REQUESTS PSC-041 THROUGH PSC-049 OF THE MONTANA PUBLIC SERVICE COMMISSION TO THE MONTANA CONSUMER COUNSEL

PSC-041

Regarding: Carlyle Cost of Equity/Capital Structure, PSC Jurisdiction
Witness: Wilson

a. In PSC Docket No. D2012.7.81, Order No. 7251c, ¶ 34, the PSC approved an ROE for Mountain Water of 9.8%. The Order also noted that the California Utilities Commission had recently approved an ROE of 9.7% (¶ 36). Please explain the statement on pp. 6-7 and p. 14 of your testimony that Carlyle's equity capital has a Commission-authorized cost of more than 16% (including income tax allowance).

b. The PSC, in the same Order referenced in part (a), approved the Park Water debt/equity capital structure for Mountain Water of 43.88% debt and 56.12% equity (the capital structure was not contested). If the acquisition cost savings were flowed through to ratepayers, what would be the resulting Park Water capital structure?

c. Please provide documentation for the statement on p.7 of your testimony that pass-through of finance cost savings is a fundamental standard of cost-of-service regulation.

d. Please explain the statement in footnote 4 and p. 17 of your testimony concerning the immediate abandonment of cost-of-service regulation. In what manner is cost-of-service regulation being abandoned?

e. If the acquisition premium was not immediately flowed through to ratepayers, what would prevent the Montana PSC from requiring a rate case filing to recover the premium for ratepayers through a reduction in authorized return based on a significant shift in capital structure, thus decreasing rates?

PSC-042
Regarding: Capital Structure/Cost of Capital
Witness: Wilson

a. How much funding of the Park Water purchase by Liberty/Algonquin is funded through debt and how much is funded through equity?

b. Do you have an opinion on what the capital structure of Mountain Water would be or should be, were the transaction approved?

c. What would the required rate of return be for Mountain Water were the transaction approved, assuming the debt cost is as was reported, and assuming that the ROE you last proposed was adopted? *See In re Mountain Water*, Dkt. No. D2012.7.81, Order 7251c ¶ 17-19 (Nov. 14, 2013).

d. Please make the same calculation as in (c), substituting your ROE assumption for the most recently approved ROE. *Id.* ¶ 34.

e. If this transaction goes through, was do you believe is an appropriate regulatory cost of debt?

PSC-043
Regarding: Adjustments to Capital Structure and Actual Cost
Witness: Wilson

If the Commission approved the sale on the condition the reevaluated capital structure and actual cost of debt be incorporated into rates, would your opinion about what the Commission should order in this docket change? Please explain.

PSC-044
Regarding: Fitness to Operate
Witness: Wilson

a. Please explain the statement on p. 11 of your testimony that Liberty would only be able to receive financial support from Algonquin "if Algonquin has…submitted itself to the regulatory jurisdiction of this Commission with respect to the ownership and operation of Mountain Water." That is, what would prevent Algonquin from supplying financial support if they were not regulated by the Commission?

b. Regarding the statement on p. 13 of your testimony that "Algonquin does not propose to pass through or share these substantial cost savings with its water utility ratepayers," what methods are used to share these cost savings?

c. Please provide detailed examples of cases where acquisition cost savings have been shared with ratepayers.

d. What percentage of the referenced $20 million in annual finance cost savings should be allocated to Mountain Water?

PSC-045

Regarding: Fitness to Operate
Witness: Wilson

Is it the testimony of the MCC that the estimated $20 million in actual finance cost savings is sufficient to allow for a $20 million acquisition premium for that would otherwise not be available? As a result, will Liberty/Algonquin be in essence charging an additional $20 million in annual rates to Mountain Water ratepayers than would otherwise be permissible?

PSC-046

Regarding: Fitness to Operate
Witness: Wilson

Your direct testimony objects strongly to the structure of the sale of Mountain Water Co. to Liberty. Do you also object to Liberty's ability to run the utility's daily operations given the company's statement to retain all Mountain Water Co. employees for at least five years (see Direct Testimony of Michelle Halley)?

PSC-047

Regarding: Fitness to operate
Witness: Wilson

On pages 9-11 of your Testimony, you identify a fitness to operate problem with Algonquin's absence in this proceeding. In Order 7392n of this Docket, the Commission stated:

> In past proceedings, the Commission considered whether a parent's proposed ownership of a subsidiary presents the likelihood that the subsidiary's capital structure will deteriorate and become unacceptably leveraged. [*In re Babcock & Brown Infrastructure*, Dkt. No. D2006.6.82, Or. 6754e p. 48 (Jul. 31, 2007).] While the Commission has been able to

> make this determination in part by reviewing a proposed parent corporation's financial projections, *id.*, a proposed parent's active participation and voluntary presence increase the chances that it will meet its burden of proof under the public interest standard, the no-harm to consumers standard, or the net-benefit to consumers standard. The involvement of parent corporations in sale and transfer dockets will continue to bear on the applicant's burden of proof when personal jurisdiction over that parent corporation is lacking.

Order 7392n ¶ 47 (Sept. 24, 2015). Do you agree with this conclusion and do you see this an adequate treatment of the problem you have identified in your testimony?

PSC-048
Regarding: Ring-fencing
Witness: Wilson

a. What ring-fencing conditions should the Commission impose, were it to grant the application?

b. Why are the ring-fencing conditions already imposed on Mountain Water, after its upstream owner became Carlyle, insufficient? *See In re Mountain Water*, Dkt. No. D2011.1.8, Order 7149d ¶¶ 58-70 (Dec. 14, 2011).

c. Would ring-fencing requirements similar to those imposed on Energy West Montana, Energy West, Inc., and Gas Natural, Inc. in other dockets be sufficient here; if not, why not? *See, e.g. In re EWI Bank of America Financing Approval*, Dkt. No. 2014.9.87, Order 7376b (Jul. 7, 2015).

PSC-049
Regarding: Access to Company's Acquisition Analysis
Witness: Wilson

a. On page 23 of your testimony you state that the company has acknowledged that its financial model "is simply some Excel spread sheets." Where specifically has the company made this statement?

b. Having not accessed the company's acquisition analysis, as you acknowledge on page 25 of your testimony, are you in a position to judge whether or not the company's acquisition analysis "is simply some Excel spread sheets?"

c. You testify on page 25 of your testimony that that you made the choice not to access the financial model, even though it was made available to you, because you would be subjected to "severely limited ability to communicate with the MCC… about the results of [your] evaluation." In what manner would your communications with the

MCC about the financial model be limited? Was such a restriction included in a Commission order?

d. Should the lack of transparency that you allege in your testimony regarding the financial model be considered a burden of proof issue?

e. You testify on page 27 of your testimony that you chose not to view the company's modeling because some of what you attempted to portray in your testimony would have constituted "an improper disclosure of information." Are you aware that the City's experts viewed the modeling and submitted testimony on the same?