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

* * * * *

IN THE MATTER OF the Investigation of	)	REGULATORY DIVISION
the Montana Public Service Commission	)	
into whether Mountain Water Company's	)	DOCKET NO. D2016.2.15
rates are Just and Reasonable	)	

Direct Testimony

of

Dr. John W. Wilson

on behalf of

The Montana Consumer Counsel

April 15, 2016

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I. QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND ADDRESS.

A. My name is John W. Wilson. I am President of J.W. Wilson & Associates, Inc. Our offices are at 1601 North Kent Street, Suite 1104, Arlington, Virginia, 22209.

Q. PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND.

A. I hold a B.S. degree with senior honors and a Master's Degree in Economics from the University of Wisconsin. I have also received a Ph.D. in Economics from Cornell University. My major fields of study were industrial organization and public regulation of business, and my doctoral dissertation was a study of utility pricing and regulation.

Q. HOW HAVE YOU BEEN EMPLOYED SINCE THAT TIME?

A. After completing my graduate education I was an assistant professor of economics at the United States Military Academy, West Point, New York. In that capacity, I taught courses in both economics and government. While at West Point, I also served as an economic consultant to the Antitrust Division of the United States Department of Justice.

After leaving West Point, I was employed by the Federal Power Commission, first as a staff economist and then as Chief of FPC's Division of Economic Studies. In that capacity, I was involved in regulatory matters involving most phases of FPC regulation of electric utilities and the natural gas industry. Since 1973 I have been employed as an economic consultant by various clients, including federal, state, provincial and local governments, private enterprise and nonprofit organizations. This work has pertained to a wide range of issues concerning public utility regulation, insurance rate regulation, antitrust matters and economic and financial analysis. In 1975 I formed J.W. Wilson & Associates, Inc., a Washington, D.C. corporation. Since that time I have worked as a consultant on most of the major public utility rate cases before the Montana Public Service Commission (MPSC). In the 1970s I was retained by the Commission Staff, and since the 1980s I have been a consultant to the Montana Consumer Counsel (MCC).

Q. WOULD YOU PLEASE DESCRIBE SOME OF YOUR ADDITIONAL PROFESSIONAL ACTIVITIES?

A. I have authored a variety of articles and monographs, including a number of studies dealing with utility regulation and economic policy. In addition to working for the MPSC and the MCC, I have consulted on regulatory, financial and competitive market matters with the Federal Communications Commission, the National Academy of Sciences, the Ford Foundation, the National Regulatory Research Institute (NRRI), the National Association of Regulatory Utility Commissioners (NARUC), the Electric Power Research Institute (EPRI), The Edison Electric Institute (EEI), the American Public Power Association (APPA), the National Rural Electric Cooperative Association (NRECA), the U.S. Department of Justice Antitrust Division, the Federal Trade Commission Bureau of Competition, the Commerce Department, the Department of the Interior, the Department of Energy, the Small Business Administration, the Department of Defense, the Tennessee Valley Authority, the Federal Energy Administration, and numerous state and provincial agencies and legislative bodies in the United States and Canada.

Previously, I was a member of the Economics Committee of the U.S. Water Resources Council, the Federal Power Commission (FPC) Coordinating Representative for the Task Force on Future Financial Requirements for the National Power Survey, the Advisory Committee to the National Association of Insurance Commissioners (NAIC) Task Force on Profitability and Investment Income, and the NAIC's Advisory Committee on Nuclear Risks.

In addition, I have testified as an expert witness in regulatory and court proceedings dealing with mergers and acquisitions and other financial matters in public utility industries and on regulatory matters before more than 50 Federal and State regulatory bodies throughout the United States and Canada. I have also appeared on numerous occasions as an expert witness at the invitation of U.S. Senate and Congressional Committees dealing with antitrust and regulatory legislation. In addition, I have been retained as an expert on regulatory matters by more than 25 State and Federal regulatory agencies. I have also participated as a speaker, panelist, or moderator in many professional conferences and programs dealing with business regulation, financial issues, economic policy and antitrust matters. I am a member of the American Economic Association and an associate member of the American Bar Association and the ABA's Antitrust, Insurance and Regulatory Law Sections.

II. OVERVIEW OF TESTIMONY

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am presenting testimony in this proceeding on behalf of the Montana Consumer Counsel (MCC).

Q. PLEASE SUMMARIZE YOUR TESTIMONY?

A. Without any prior notice to the Commission and in contradiction of their representations throughout the recent Mountain Water acquisition docket (MPSC Docket No. D2014.12.99), Liberty/Algonquin[1] (together with Carlyle) filed with this Commission a Notice of Closing and Withdrawal of Joint Application on January 11, 2016. Liberty/Algonquin thereby acquired the ownership of Mountain Water, and its parent, Park Water, without obtaining Commission approval. This transfer of ownership of a regulated public utility without the Commission's approval is contrary to the Commission's long-standing application of Montana law and regulatory practice.

[1] Liberty Utilities is a wholly owned subsidiary of Algonquin Power and Utilities Corporation (APUC). APUC managed, organized, evaluated, financed, implemented, promoted and controlled the Park Water/Mountain Water acquisition and placed the acquired utilities within its wholly-owned subsidiary, Liberty. All of the evidence available to the Commission, including APUC's Annual Report to stockholders and the exhibits to my testimony in Docket No. D2014.12.99, make it clear, beyond any doubt, that APUC was the real acquiring party.

Subsequently, as a result of Mountain Water's new cost structure, the Commission issued a Procedural Order in this proceeding on March 8, 2016 to inquire into whether Mountain Water Company's current water rates for its Missoula, Montana customers are just and reasonable.

As the Commission stated in its March 8 Order, Montana State law provides the Commission with "full power of supervision, regulation, and control of public utilities." Mont. Code Ann. § 69-3-102 (2015). Pursuant to Mont. Code Ann. § 69-3-324, the Commission may at any time "upon its own motion, investigate any of the rates, tolls, charges, rules, practices, and services" of a utility.

Q. DID THE COMMISSION IDENTIFY SPECIFIC ISSUES THAT IT WISHED TO INVESTIGATE IN THIS PROCEEDING?

A. Yes. In its March 8 Procedural Order the Commission stated that in this Docket it intends to investigate Mountain Water's rates to determine if they are just and reasonable under the current capital structure and cost of capital now that Liberty Utilities is the owner of Mountain Water (restricting the scope of this docket to issues involving Mountain Water's current capital structure and cost of capital).

My testimony responds to this inquiry. More specifically, my testimony addresses the following major areas of concern:

1) Assuming the acquisition financing as reported by APUC, whether Mountain Water's rates are just and reasonable under the acquisition capital structure and the related cost of capital incurred by Algonquin/Liberty.
2) Assuming Liberty's acquisition of Mountain Water and the acquisition financing as reported by APUC, what, if any, adjustment to Mountain Water's authorized revenue requirement is required in order to achieve just and reasonable rates for this Montana public utility service?

Q. WHAT ARE YOUR CONCLUSIONS WHETHER MOUNTAIN WATER'S RATES ARE JUST AND REASONABLE UNDER THE CURRENT CAPITAL STRUCTURE AND COST OF CAPITAL NOW THAT LIBERTY UTILITIES IS THE OWNER OF MOUNTAIN WATER?

A. In view of the financing by APUC to achieve the acquisition of Carlyle's Park Water equity,[2] Mountain Water's current rates are no longer just and

[2] Park is the parent of Mountain Water. Liberty's ownership of Mountain Water was achieved by Algonquin/Liberty's acquisition of Carlyle's Park Water equity.

reasonable. This is because Algonquin/Liberty achieved a very substantial cost reduction as a result of its acquisition financing and there has been no water utility rate adjustment in Missoula to reflect this cost reduction.[3] This is in contrast to the usual practice in public utility mergers and acquisitions of passing through acquisition-related cost savings to ratepayers, as is generally required and customary under just and reasonable public utility cost-of-service regulation and in accord with the Commission's review procedures to assure that public utility acquisition transactions are in the public interest and produce net benefits and no harms to consumers.

APUC has reported that it financed at least $160 million of the $250 million acquisition cost of Carlyle's equity interest in Park Water with debt capital costing 4.13 percent annually for thirty years.[4] Because Carlyle's equity capital currently reflected in Missoula's rates has a Commission-authorized and ratepayer-funded cost of more than 16 percent (including

[3] Liberty's parent, Algonquin Power and Utilities' ("APUC") financed the purchase of most of Carlyle's ownership of Park Water's common equity capital with low cost debt capital, and has retained the finance cost savings for its own financial benefit.

[4] Although Algonquin's financial reports (as recently as its March 16, 2016 SEC Form 40-F) continue to describe this acquisition financing, Liberty has provided a data request response in this case indicating that this $160 million of long term financing was replaced in January with $235 million of (presumably even lower cost) shorter term acquisition debt financing maturing in 2017. Since, APUC's March 16, 2016 SEC Report continues to describe the 4.13% $160 million debt financing as the acquisition financing, I have maintained that representation in this testimony. Further, Mountain has insisted that its new financing be concealed from public disclosure under a protective order (to which I have declined to be a signatory). This testimony uses the 4.13% rate that Mountain has reported in order to permit an open discussion of the financial impact of the acquisition financing.

income tax allowance), this acquisition-based financing achieved a very large finance cost reduction of approximately $20 million per year for APUC.[5] Generally, in utility mergers and acquisitions, any acquisition-enabled cost savings are passed through to ratepayers as a necessary condition to gain regulatory approval for the acquisition.[6] In fact, that pass-through is essential in order to preserve the fundamental regulatory standard of cost-of-service regulation. That pass-through could not occur here because Liberty/Algonquin withdrew its case without obtaining the Commission's approval for the acquisition

III. REGULATORY APPROVAL

Q. WHAT BROUGHT ABOUT THIS CASE?

A. As stated above, without any prior notice to the Commission and in contradiction of their representations throughout the recent acquisition

[5] $160 million x (.16-.04) = $19.2 million. Alternatively, if the $235 million credit facility, carries an estimated cost of 2.0 percent, the cost savings would be $235 million x (.16-.02) = $32.9 million.

[6] Generally, there are three standards that regulatory commissions employ in evaluating sales, mergers, and acquisitions: the public interest standard, the no-harm to consumers standard, or the net-benefit to consumers standard. Order No. 6754e at P 20, In the Matter of the Joint Application of NorthWestern Corp. and Babcock & Brown Infrastructure Limited, Docket No. D2006.6.82 (August 1, 2007). In this case none of these standards was met. First, no net benefit to consumers was shown or demonstrated, as has been clearly shown. Second, there has been a loss of just and reasonable rates as the direct result of a public utility acquisition in which many millions of dollars of acquisition-enabled finance cost savings have not been passed through to ratepayers. Instead, that substantial acquisition-enabled cost reduction has been retained as additional above cost profits for the acquiring holding company, a result which cannot be deemed as being in the public interest. Third, although Liberty/Algonquin, which benefit immediately from the abandonment of the just and reasonable cost-of-service ratemaking standard may argue that the absence of an *immediate* rate increase for consumers is consistent with the no harm standard, it is obvious that such a short term perspective would impose great harm over time with the abandonment of cost-of-service rates and just and reasonable ratemaking principles.

docket (MPSC Docket No. D2014.12.99), Liberty/Algonquin and Carlyle filed a Notice of Closing and Withdrawal of Joint Application with the Commission on January 11, 2016, thus appearing to accomplish their proposed transfer of ownership of a regulated Montana utility without Commission approval.

Q. IS THIS COMMISSION'S APPROVAL REQUIRED FOR THE TRANSFER OF OWNERSHIP OF A REGULATED MONTANA UTILITY?

A. Yes. This Commission has consistently asserted its jurisdiction over sales and mergers. In D2013.7.57, *Devon Gas and Havre Pipeline,* Order No. 7307a, for example, the Commission declined to issue a declaratory ruling requested by Devon and Havre Pipeline to not assert jurisdiction over the sale. Later, the Commission asserted jurisdiction. See *Devon Gas and Havre Pipeline*, D2013.7.57, Order No. 7307b (2013 Mont. PUC LEXIS 62, 4-7 (Mont. PSC, 2013)). The Commission's analysis was as follows:

> Pursuant to its authority, the Commission has jurisdiction over and must approve any sale or transfer of a public utility, its assets, or utility obligations in order to assure generally that utility customers will receive adequate service and facilities, that utility rates will not increase as a result of the sale or transfer, and that the acquiring entity is fit, willing, and able to assume the service responsibilities of a public utility." Order No. 6907b at P 6, *In the Matter of the Joint Application of Energy West Incorporated and Cut Bank Gas Company*, Docket No. D2008.3.27 (November 2, 2009). The jurisdiction of the Commission over the sale and transfer of Devon's

> ownership interest in Havre Pipeline to NWE is based on Havre Pipeline's status as a regulated utility.
>
> The Commission has, in an abundance of previous dockets, exercised its authority over mergers, sales, and transfers of utilities and utility property. Order No. 7149c at P 19, *In the Matter of the Consolidated Petition by Mountain Water Company for Declaratory Rulings and Application for Approval of Sale and Transfer of Stock in Park Water Company*, Docket No. D2011.1.8 (September 14, 2011). The Montana Supreme Court has found that a utility may not abandon service without the Commission's consent. *Great Northern Ry. v. Board of R.R. Comm'rs*, 130 Mont. 250, 252, 298 P.2d 1093 (May 10, 1956). This Commission has asserted in the past, and reaffirms now, that the transfer of a utility's assets is a cessation or abandonment of service. Order No. 7149c at P 20.

In D2009.11.152, *Petition by Utility Solutions for Declaratory Ruling and Application for Approval of Transfer of Assets*, the Commission refused to issue a declaratory ruling renouncing jurisdiction over the sale and transfer of a regulated utility's assets. See Order No. 7062 issued January 27, 2010 in D2009.11.152. The Commission stated that it "has repeatedly carefully considered that it has limited jurisdiction and that doubt as to its power should be resolved against the existence of a power. The Commission has consistently exercised authority over mergers, sales, and transfers of utilities and utility property for many years." *Id.*, ¶ 19, citing dockets from 2008 going back in time to 1982. The Commission further noted that it has expressly over-ruled any implication that it has interpreted its statutes as lacking jurisdiction over transfers and sales of public utilities. *Id.*, ¶¶ 20-21.

Q. CAN IT BE CONTENDED THAT THE COMMISSION HAS NO JURISDICTION OVER A STOCK TRANSFER, AS HERE, TO AN UPSTREAM ENTITY IN A MULTI-LEVEL HOLDING COMPANY STRUCTURE?

A. While Algonquin/Liberty may make that argument, it is unquestionable that the sale here transferred ultimate control of regulated utility services to a new and unknown foreign entity. Whether service will be safe and reliable and rates will be just and reasonable under the auspices of the new owner, how the financial circumstances and plans of the new owner will affect rates and service, and whether that new owner is deemed fit to provide essential public utility service, are all issues that are within the authority of the Commission to determine, and cannot be negated simply by the adoption of a particular internal corporate structure.

In the prior Mountain Water sale transaction (Carlyle's acquisition of Park and Mountain Water), the Commission concluded in its Final Order that it's "jurisdiction in this case rests on its power to protect customers from harmful consequences of a purchase in the form of rate increases or deterioration of service." D2011.1.8, Final Order 7149d ¶5. Those conditions remain true regardless of whether the buyer is three times removed from Mountain Water or the direct parent of Mountain Water. In fact, the more removed the parent, the more critical it is for the

Commission to ensure that Montana consumers are protected through its oversight and monitoring of consequences from a purchase of a public utility service provider. Carlyle, as buyer, was subject to the jurisdiction of the Commission regarding the sale of the very same stock that Algonquin/Liberty now claims the Commission has no jurisdiction over when Carlyle is the seller.

IV. JUST AND REASONABLE RATES

Q. ASSUMING THE ACQUISITION FINANCING AS REPORTED BY APUC AND LIBERTY, ARE MOUNTAIN WATER'S RATES JUST AND REASONABLE UNDER THE ACQUISITION CAPITAL STRUCTURE AND THE RELATED COST OF CAPITAL INCURRED BY LIBERTY/ALGONQUIN?

A. No. As I explained in my direct testimony filed in Docket D2014.12.99, the water utility rates paid by Missoula ratepayers should reflect the cost of providing water utility service. The capital costs of ownership incurred by Liberty/Algonquin are dramatically different than those that were incurred by the water utility's previous owner, Carlyle. In this acquisition, Liberty/Algonquin bought out (replaced) Carlyle's equity capital with debt capital costing only a small fraction of Carlyle's equity cost. A rate adjustment to reflect Algonquin's cost of service, based on Mountain's share of the acquisition-based capital cost reduction of approximately $20 million each year, is appropriate and necessary to maintain just and reasonable cost-of-service rates.

Contrary to long standing cost-of-service regulatory principles that have governed public utility ratemaking in Montana for many decades, Liberty/Algonquin has not and does not propose to pass through or share these substantial cost reductions with its water utility ratepayers in Missoula. The Commission should therefore implement a rate adjustment to reflect the acquisition-enabled cost of capital reduction.

Q. WHAT WOULD OCCUR IF THE COMMISSION DOES NOT IMPLEMENT THIS RATE ADJUSTMENT?

A. If the Commission does not implement a rate adjustment to reflect finance cost reductions, the result will be a very substantial difference between actually incurred costs and those reflected in rates (with corresponding cost-of-service overcharges to water utility ratepayers) on an ongoing basis. These financial gains will result from the replacement of a large portion of Carlyle's higher cost equity capital with much lower cost debt capital. Carlyle was authorized to charge water utility rates that included approximately a 16 percent pre-tax cost of capital allowance (inclusive of income taxes) in rates approved by this Commission.[7] As a result of this acquisition, at least $160 million of Carlyle's equity capital was bought out by Algonquin with debt capital costing Algonquin 4.13 percent or less.[8] The replacement of Carlyle's relatively high cost equity capital with APUC's much lower cost debt capital will result in cost of capital savings that will amount to about $20 million *per year*.[9] Although Liberty/Algonquin have not acknowledged these capital cost reductions in any of their filings before this Commission, they have done so when touting the Park Water/Mountain Water acquisition in advisories and statements to their investors.

Q. UNDER SOUND PUBLIC UTILITY REGULATION SHOULD ANY FINANCE COST SAVINGS RESULTING FROM THIS ACQUISITION BE PASSED THROUGH TO THE COMPANY'S WATER UTILITY RATEPAYERS AS A CONDITION OF ACQUISITION APPROVAL?

A. Certainly. That is required under cost of service rate regulation in order to maintain just and reasonable water utility rates. The essence of sound

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7 Pre-tax cost of capital allowance = ROE/1-tax rate = 10/1-0.4 = 16.67%.

8 See Exhibit JW-1.

9 See footnote 3, above.

ratemaking is that rates must equal the costs that are prudently-incurred in providing service to customers.

Q. HAVE MOUNTAIN WATER'S CURRENT RATES PREVIOUSLY BEEN FOUND TO BE JUST AND REASONABLE?

A. Yes. Those rates were premised on a cost of service determination, including the cost of Carlyle's equity capital to finance the utility. Now that those capital costs have undergone substantial change, it is appropriate and necessary to change Mountain Water's rates to ensure they are just and reasonable.

Without a pass-through of these acquisition cost savings to ratepayers, Mountain Water's current rates will be unjust and unreasonable as a result of the acquisition.

Q. HOW DO YOU KNOW ABOUT ALGONQUIN'S ACQUISITION FINANCING?

A. Although Liberty/Algonquin has not reported its substantial financial savings to the Commission, APUC has extensively publicized the details of its acquisition in other contexts. My access to this publicly available information, which I discussed in my testimony in Docket No. D2014.12.99 supports this testimony.

Q. HAS LIBERTY CLAIMED THAT IT WILL NOT SEEK RECOVERY OF AN ACQUISITION PREMIUM IN FUTURE MOUNTAIN WATER COMPANY RATES?

A. Liberty has stated that it will not seek an acquisition adjustment "to the existing rate base" and claimed that the acquisition of the utility from Carlyle has no impact on Mountain Water's customers. However, as I have explained above and in more detail in my testimony in Docket No. D2014.12.9, Algonquin's financing of the Park Water/Mountain Water acquisition has actually achieved many millions of dollars of cost-of-service reductions annually, without any pass-through of these cost-of-service reductions to ratepayers. That, in turn, is now forcing Park Water/Mountain Water ratepayers to compensate APUC for the acquisition premium paid to Carlyle through their payment of rates that far exceed Liberty/Algonquin's actual cost-of-service. Unless the finance cost savings are recognized in lower rates, the acquisition premium will be fully paid by Park Water/Mountain Water Company ratepayers.

V. ADJUSTMENT TO RATES

Q. ASSUMING LIBERTY'S ACQUISITION OF MOUNTAIN WATER AND THE ACQUISITION FINANCING AS REPORTED BY APUC TO ITS INVESTORS ON APRIL 30, 2015 AND AGAIN TO THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 16, 2016, WHAT, IF ANY, ADJUSTMENT TO MOUNTAIN WATER'S RATES FOR WATER UTILITY SERVICE IN MONTANA IS REQUIRED IN ORDER TO ACHIEVE JUST AND REASONABLE RATES FOR THIS PUBLIC UTILITY SERVICE?

A. This Commission has a variety of options in dealing with this issue. I believe it would be an appropriate exercise of ratemaking authority to conclude that Liberty is not entitled to receive any equity return on its unapproved acquisition and ownership of Mountain Water's equity, at least until such time as the Commission resolves the matter or the parties reach an agreement regarding the consummation of the transaction. Until that time one option for the Commission is that Mountain Water's rates for consumers in Missoula be reduced to eliminate the equity return that was previously approved for Carlyle's financing.

Q. WHAT WAS THE TOTAL RATE OF RETURN AND THE EQUITY RETURN THAT THE COMMISSION PREVIOUSLY APPROVED FOR CARLYLE'S FINANCING AND OWNERSHIP OF MOUNTAIN WATER?

A. Mountain Water's previously approved post-tax return on rate base was 9.18 percent, comprised of a weighted cost of debt of 3.68 percent plus a weighted cost of equity of 5.50 percent. Mountain Water's rates for consumers in Missoula could be reduced to eliminate the equity return component, resulting in an allowed return on rate base of 3.68 percent, until (if and when) the Commission approves the Algonquin/Liberty acquisition.

Q. IS THERE AN INCOME TAX LOADING THAT SHOULD BE ADDED TO THIS ALLOWED RATE OF RETURN?

A. No. Income tax loadings are customarily allowed on the ROE capital cost component of the return on rate base, which is the taxable component of the rate of return allowance. Since there is no ROE component in this recommended return and therefore no income tax cost burden, there is no required income tax loading.

Q. WHAT IS THE REVENUE REDUCTION THAT THAT WOULD BE REQUIRED FOR MOUNTAIN WATER'S CUSTOMERS UNDER THIS RATE OF RETURN APPROACH?

A. Under this approach, Mountain Water Company's rate of return on rate base would be reduced from 12.75 percent (inclusive of income taxes) to 3.68 percent. Given the test year rate base of $36,185,831 established by the Commission in Mountain Water's last rate case, the required revenue reduction would be $3,282,055.

Q. WHAT WAS APUC'S ACTUAL COST OF ACQUIRING CARLYLE'S EQUITY OWNERSHIP INTEREST IN MOUNTAIN WATER?

A. As reported by APUC to its investors on April 30, 2015[10] and again to the United States Securities and Exchange Commission on March 16, 2016 APUC financed at least $160 million of the $250 million acquisition cost of Carlyle's equity interest in Park Water and Mountain Water with debt capital costing 4.13 percent annually for thirty years. Because Carlyle's equity capital has a Commission-authorized and ratepayer-funded cost of more than 16 percent (including income tax allowance),[11] this acquisition

[10] See Exhibit JW-1.

[11] Carlyle's allowed equity return was 9.8%. The Company's combined federal and Montana income tax rate is 39.3875%.

financing will achieve a very large finance cost savings of almost $20 million per year for APUC. As noted above, in utility mergers and acquisitions, the acquisition-enabled cost savings are generally passed through to ratepayers as a necessary condition to gain regulatory approval for the acquisition. That did not happen in this case because Liberty/Algonquin did not obtain the Commission's approval for the acquisition.

In my opinion, a pass-through of cost savings to consumers is essential in order to preserve the fundamental regulatory standard of cost-of-service regulation. In contradiction of these cost-of-service principles, it was APUC's strategy in this case to retain these finance cost savings for its own benefit so as to enhance profits and to cause Missoula ratepayers to fund the very substantial acquisition premium that APUC paid to Carlyle.

APUC's total cost of acquiring Carlyle's equity ownership interest in Mountain Water was the cost of this $160 million of 4.13% debt plus an additional $90 million amount of the $250 million total purchase price, plus the assumption of existing debt.

9.8%/1-.393875 = 16.168%

Q. HOW DID APUC FUND THE ADDITIONAL $90 MILLION AMOUNT OF THE TOTAL PURCHASE PRICE OF CARLYLE'S EQUITY IN PARK WATER AND MOUNTAIN WATER?

A. Although it was not discussed by APUC or its witnesses in the recent acquisition Docket (MPSC Docket No.2014.12.99), $33 million of APUC's acquisition equity financing was provided by a larger Canadian holding company, Emera, Inc. Emera, which already had a substantial ownership interest in APUC (also not discussed in the Application or testimony of Algonquin/Liberty witnesses in Docket No. 2014.12.99) enlarged its APUC ownership to about 25 percent with this new $33 million investment.[12]

[12] At page 55 of APUC's 2014 Annual Report to its stockholders (as published in 2015) APUC stated that:

> "On December 2, 2014, the Corporation issued 3,316,583 subscription receipts of APUC at a purchase price of $9.95 per subscription receipt for an aggregate subscription price of $33.0 million. The investment was made under the Strategic Investment Agreement between Emera and APUC, in support of the acquisition by APUC of Park Water Company ***in Montana*** (the "Park Water Acquisition"). [emphasis added] The proceeds of the subscription are intended to be used by APUC to partially finance the Park Water Acquisition. Subject to the adjustments as provided in the applicable subscription agreement, Emera may convert the Subscription Receipts into common shares of APUC on a one-for-one basis on December 29, 2015 (the first anniversary of the closing of the subscription transaction) or the closing of the Park Water Acquisition, whichever is first to occur.
>
> Conversion of the aforementioned Subscription Receipts into common shares is conditional on Emera's holdings not exceeding 25% of the outstanding common shares of APUC at the time of conversion.
>
> As of March 15, 2015, in total, Emera owns 50,126,766 APUC common shares representing approximately 21.0% of the total outstanding common shares of the Company, and there are 12,024,753 subscription receipts currently held by Emera."

Except as may be inferred by its status as a wholly-owned subsidiary of APUC, Liberty Utilities Company does not appear to be a party to, or a signatory of, the Strategic Investment Agreement

Assuming that the remaining $57 million of acquisition financing was also equity-financed, APUC's acquisition of Carlyle's $250 million equity value of Park Water/Mountain Water was funded with $160 million of 4.13% 30-year debt and $90 million of equity capital. In addition, APUC assumed responsibility for $77 million of existing Park Water debt, for a total acquisition cost of $327 million.

Q. WHAT PORTION OF THE APPROXIMATELY $20 MILLION OF ANNUAL FINANCING COST SAVINGS THAT YOU HAVE IDENTIFIED AND EXPLAINED SHOULD BE ASSIGNED TO MOUNTAIN WATER CUSTOMERS?

A. According to Statement F provided by Mountain Water in the Company's last Montana rate case, Mountain Water accounted for 31.81% of Park Water's consolidated capital. Based on this most recent test year percentage, Mountain Water customers could be assigned 31.81% of the annual financing cost savings, or $6.127 million per year.[13]

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between Emera and APUC, in support of the acquisition by APUC of Park Water Company in Montana.

[13] [$160 million x 9.8%/(1 - .393875) -4.13%] x .3181 = $6.127 million

Q. IS THERE AN ALTERNATIVE COMPROMISE THAT WOULD SHARE ACQUISITION COST SAVINGS BETWEEN LIBERTY/ALGONQUIN AND THE COMPANY'S MISSOULA RATE PAYERS?

A. Yes. The Commission in its discretion could also choose to "share" some of the acquisition cost savings between ratepayers and Liberty/Algonquin. Such an alternative allocation method that would share acquisition cost savings between the Company and ratepayers would be to replace Carlyle's equity in the capital structure adopted by the Commission in Mountain Water's last rate case with the lower cost acquisition capital that APUC used to buy Carlyle's equity. As shown below, that would credit Mountain Water ratepayers with $2.445 million per year and allow APUC to retain $3.682 million of the annual savings.

	Prior rate case	
Equity	.5612 x (9.8/.60613)	= 9.0736
Debt	.4388 x 8.39	= 3.6815
Total		12.755

Reflect buy-out financing

Equity	.5612 x 4.13	= 2.3178
Debt	.4388 x 8.39	= 3.6815
Total		5.9993

Difference = 6.7557

Rate Base X difference = $36,185,831 x .067557 = $2,444,594

This sharing would, in effect, award Liberty/Algonquin with a partial acquisition premium, which I do not support.

Q. IN ADDITION TO THE ACQUISITION-ENABLED COST OF CAPTIAL REDUCTION THAT YOU HAVE DISCUSSED ARE THERE ANY OTHER AVENUES OF INVESTIGATION INTO MOUNTAIN WATER'S COST OF CAPITAL FOR THIS COMMISSION TO CONSIDER?

A. Yes; there is one other component of Mountain Water's cost of capital for the Commission to consider and decide whether to adjust rates to reflect the associated reduced capital cost. In response to data request PSC-007d), Mountain Water indicates that Park Water's average cost of long-term debt at the closing of the transaction with Carlyle was 6.039%. This compares with 8.39% from the most recent Mountain Water rate case that was used to determine the overall rate of return. The Commission could replace the 8.39% cost of debt for Mountain with the 6.039% from PSC-007d). Making such an adjustment would result in the following revenue reduction:

(8.39% - 6.04%) * 43.88% * $36,185,831 = $373,300. This adjustment is separate from and could be applied in addition to any of the previously mentioned options that address the change in the cost of equity for Mountain Water because the actual financing of that equity was achieved largely with low cost debt.

Q. YOU HAVE OUTLINED A NUMBER OF OPTIONS FOR THE COMMISSION TO CONSIDER, DO YOU HAVE A PREFERRED APPROACH?

A. All of the above options represent legitimate efforts to reflect in Missoula water consumers' rates the capital cost reductions that resulted at the time of the Liberty/Algonquin purchase from Carlyle. While I leave it to the discretion of the Commission as to their preferred approach I do think it critical that this Commission be fully satisfied that rates reflect, as closely as possible, capital cost savings that were enabled by APUC's acquisition financing so that an "acquisition premium in disguise" is not passed on to

Mountain Water's ratepayers. In my opinion that would most accurately be accomplished by fully recognizing the acquisition enabled cost of capital reduction of $6.127 million in rates.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY IN THIS CASE?

A. Yes.

Exhibit JW-1

D2016.2.15

Investigation of the Montana Public Service Commission into whether Mountain Water Company's rates are Just and Reasonable

Algonquin Power & Utilities Corp. Announces Completion of Private Placement Debt Financing

Company Release - 04/30/2015 11:33

OAKVILLE, ON, April 30, 2015 /CNW/ - Algonquin Power & Utilities Corp. ("APUC" or the "Company") (TSX: AQN) today announced that APUC's regulated distribution utility business (the "Distribution Group") has closed a U.S. $160 million private placement of senior unsecured 30 year notes bearing a coupon of 4.13%. The proceeds will be used to partially fund the previously announced acquisition of the Park Water System occurring later in 2015, and for general corporate purposes.

The funds are being drawn in two tranches: U.S. $90 million immediately on closing and U.S. $70 million in the second quarter of 2015. The financing is the fourth series of notes issued pursuant to the Distribution Group's master indenture.

"We are very pleased with the confidence and support that our U.S. private placement investors continue to have in our Company's strong, stable utility operations," stated David Bronicheski, APUC's Chief Financial Officer. "This long term 30 year financing, with a very attractive all in coupon, is an important element in achieving the expected accretion from our pending acquisition of the Park Water System."

The senior notes have been assigned a credit rating of BBB (high) by DBRS Limited.

About Algonquin Power & Utilities Corp.

Algonquin Power & Utilities Corp. is a $4.1 billion North American diversified generation, transmission and distribution utility. The distribution business group operates in the United States and provides rate regulated water, electricity and natural gas utility services to over 488,000 customers. The non-regulated generation business group owns or has interests in a portfolio of North American based contracted wind, solar, hydroelectric and natural gas powered generating facilities representing more than 1,050 MW of installed capacity. The transmission business group invests in rate regulated electric transmission and natural gas pipeline systems in the United States and Canada. Algonquin Power & Utilities delivers continuing growth through an expanding pipeline of renewable energy development projects, organic growth within its regulated distribution and transmission businesses, and the pursuit of accretive acquisitions. Common shares and preferred shares are traded on the Toronto Stock Exchange under the symbols AQN, AQN.PR.A and AQN.PR.D. Visit Algonquin Power & Utilities at www.AlgonquinPowerandUtilities.com and follow us on Twitter @AQN_Utilities.

SOURCE Algonquin Power & Utilities Corp.

Exhibit JW-2

D2016.2.15

Investigation of the Montana Public Service Commission into whether Mountain Water Company's rates are Just and Reasonable

September 19, 2014

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ACQUISITION FACT SHEET

TSX: AQN

LIBERTY UTILITIES: ACQUISITION OF WATER UTILITIES IN CALIFORNIA AND MONTANA

Acquisition Overview

- Acquisition of Park Water Company comprised of three water distribution utilities in California (2) and Montana (1), serving approximately 74,000 customer connections
- Aligned with Liberty Utilities' on-going roll-up strategy of U.S. regulated utilities
    - Represents 8th regulated utility acquisition in the U.S. since 2010
- Maintains Algonquin Power & Utilities Corp's (APUC) strategic business mix of regulated utilities and non-regulated power generation, positioning the company for future growth
- Expands Liberty Utilities' California presence, builds on strong water utility expertise and easily integrates operations into existing U.S. platform by leveraging current infrastructure
- Purchase price of U.S. $327 million, expected EV/2016 EBITDA of 9.6x
- Continuing opportunities for capital investment in growth and infrastructure replacement programs expected to drive 7.5% EBITDA CAGR through 2020
- Increased regulated earnings improve APUC's business risk profile, strengthens credit rating metrics and improves financial flexibility
- Closing subject to regulatory approvals

Key Facts	
Purchase Price	U.S. $327 million
Net property, plant and equipment and regulatory assets expected at closing (Net of accumulated depreciation of U.S. $98 million)	U.S. $259 million
Customer Connections	73,590
Employees	160

Distribution and Seasonality	Q1	Q2	Q3	Q4	Total
Approximate Gallons Distributed (Billions)	3.0	4.1	5.9	3.6	16.6
EBITDA Seasonality Percentages	18%	25%	35%	22%	100%

"THE PARK WATER AQUISITION BUILDS ON OUR STRONG WATER UTILITY EXPERTISE, PROVIDES CONTINUING OPPORTUNITY FOR ORGANIC GROWTH AND IS ALIGNED WITH OUR ON-GOING ROLL-UP STRATEGY OF U.S. REGULATED UTILITIES." - IAN ROBERTSON, CEO

Liberty Utilities

Liberty Utilities Co., the Company's distribution utility business, provides regulated water , natural gas and electric utility services to nearly 500,000 customers through operations in nine states.

Algonquin

Algonquin Power Co., our electric generation subsidiary owns and has interest in 39 clean, renewable energy facilities representing more than 1,100 MW of gross installed capacity and 500 MW of capacity under development/construction.

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AFFIRMING OUR SUCCESSFUL APPROACH TO GROWTH

Regulatory Environment

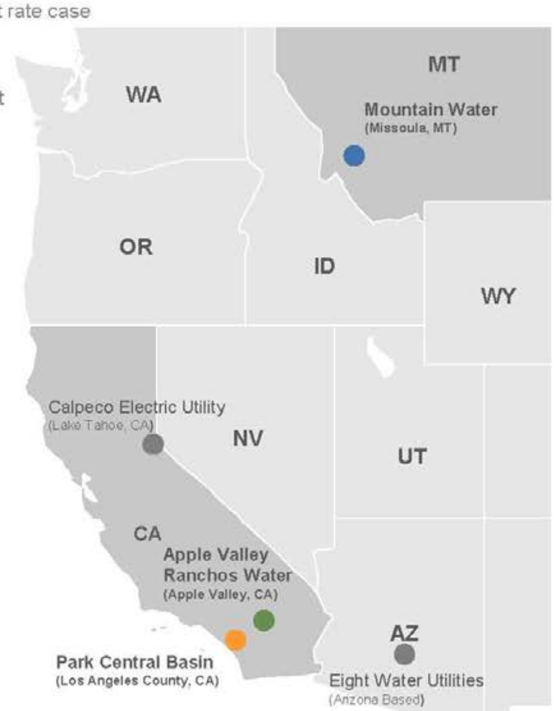
- Constructive regulatory environments in California and Montana
- Several regulatory mechanisms serve to support stable and predictable earnings, including:
  - Rate adjustment and tracking mechanisms providing recovery of costs related to purchased water and power with minimal regulatory lag
  - Recovery of post rate case inflation impact on operating costs in California
- California rate cases on mandated three year cycle with forward looking test year
  - 9.79% approved return on equity with 57.0% equity thickness in last rate case
  - New rates expected to be implemented in 2015 in both California service territories
- Montana rate cases historically filed every 2-3 years
  - 9.80% return on equity with 56.1% equity thickness approved in last rate case

Acquisition and Utility Financing

- Acquisition includes assumption of U.S. $77 million of existing long term debt
  - fixed effective borrowing cost of 6.8% reflected in current tariffs
- APUC's strong balance sheet and credit metrics support financing the acquisition with more than 50% debt
- Developer advances/contributions in aid of construction of U.S. $64 million and accumulated deferred income taxes of U.S. $27 million expected at closing
- Consistent with previous utility acquisitions, financing for the balance of acquisition costs to be arranged closer to the acquisition date

Continuing Capital Investment Program

- Expected 5-year capital investment program representing ~U.S. $195 million, with U.S. $31 million and U.S. $38 million targeted for investment in 2016 and 2017, respectively
- On-going capital investment program to renew aging infrastructure and serve new customers expected to drive ~7.5% CAGR in EBITDA from 2016 through 2020
- Expected net property, plant and equipment and regulatory assets of U.S. $259 million at closing (1/1/2016) with average depreciable life remaining of ~27 years



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CAUTION REGARDING FORWARD-LOOKING INFORMATION

Certain statements included in this document contain information that is forward-looking within the meaning of certain securities laws, including information and statements regarding prospective results of operations, financial position or cash flows. These statements are based on factors or assumptions that were applied in drawing a conclusion or making a forecast or projection, including assumptions based on historical trends, current conditions and expected future developments. Since forward-looking statements relate to future events and conditions, by their very nature they require making assumptions and involve inherent risks and uncertainties. Algonquin Power & Utilities Corp. ("APUC") cautions that although it is believed that the assumptions are reasonable in the circumstances, these risks and uncertainties give rise to the possibility that actual results may differ materially from the expectations set out in the forward-looking statements. Material risk factors include those set out in the management's discussion and analysis section of APUC's most recent annual report and quarterly report, and APUC's Annual Information Form. Given these risks, undue reliance should not be placed on these forward-looking statements, which apply only as of their dates. Other than as specifically required by law, APUC undertakes no obligation to update any forward-looking statements or information to reflect new information, subsequent or otherwise.

NON-GAAP FINANCIAL MEASURES

The term "earnings before interest, taxes, depreciation and amortization" ("EBITDA") may be used in this document. EBITDA is not a recognized measure under GAAP. There is no standardized measure of EBITDA, consequently APUC's method of calculating this measure may differ from methods used by other companies and therefore may not be comparable to similar measures presented by other companies. A calculation and analysis of EBITDA can be found in APUC's most recent Management Discussion & Analysis.