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

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

DATA RESPONSES OF THE MONTANA CONSUMER COUNSEL TO THE MONTANA PUBLIC SERVICE COMMISSION

PSC-022
Regarding: Return on Equity
Witness: Wilson

a. On page 18 of your direct testimony you suggest that Liberty should not receive any return on equity until the Commission resolves the sale issue. Are you suggesting that any and all return on equity be stopped?

b. If any and all return on equity is stopped, why would an entity move forward with infrastructure improvements knowing there could be no return?

c. Notwithstanding your other recommendations for the company and rate payer to share the cost savings of the transaction, can you please explain in more detail if your recommendation for a zero return on equity allows for carve outs for beneficial infrastructure improvements to rate payers.

d. If the sale is approved by the Commission would you suggest that rate payers need to pay for any under collection caused during the zero return on equity recommendation you are making?

Response:

a. Yes.

b. The stoppage would presumably be temporary – only until the MPSC resolves the acquisition proceeding. Until then, rates would include all approved costs including the cost of debt capital, and the Company's public service obligation would remain.

c. Yes. That would be a matter of Commission discretion. But again, this proposal pertains only to the time that it takes to resolve the acquisition matter, which, presumably, would not be long lasting.

d. No.

PSC-023

Regarding: Debt Interest Rate
Witness: Wilson

a. What would be your response if APUC retracted the public information from Exhibit JW-1 and JW-2, and claimed the debt issued to the company at that time had been used to finance other projects, and the notes the Company is using or used to finance the purchase are a higher interest rate? Could you still rely on those exhibits to support your recommendations?

b. Would the absence of those two exhibits continue to support your claim that APUC has extensively publicized the details of its acquisition?

Response:

a. The Company's March, 2016 SEC filing continues to identify the 4.13% debt as the acquisition capital. APUC "retracting" the information from JW-1 and JW-2 would seem to be no more than a convenient and undocumented obfuscation to attempt to deny the documented cost savings that were enabled by the acquisition. Certainly without far more compelling documentation and without a full and acceptable explanation as to why obviously attainable cost reductions were given up, it would be appropriate to rely on the information documented in Exhibits JW-1 and JW-2 and in the Company's March, 2016 SEC filing.

b. Dr. Wilson does not claim to know all of the ways that APUC publicized the details of its Park Water/Mountain Water acquisition. In addition to Exhibits JW-1 and JW-2, acquisition details were provided in APUC's annual reports and in the Company's March, 2016 Form 40-F SEC filing.

PSC-024

Regarding: Pass Through Savings
Witness: Wilson

On page 9, footnote 5 of your direct testimony, please explain further the estimated 2.0 percent estimated cost of savings on your calculation to arrive at the $32.9 million savings amount.

Response:

The two percent estimate is the estimated interest rate on such short term financing. This is very short term financing, maturing in 2017. My information and belief is that such short term private financing is now well under 2.0 percent. Even much longer term 10 year treasuries are currently under 2.0 percent.

PSC-025

Regarding: Pass Through Savings
Witness: Wilson

On page 21 of your direct testimony, you claim that in utility mergers and acquisitions, the acquisition-enabled cost savings are generally passed through to rate payers as necessary to gain regulatory approval. To what mergers and acquisitions within the state of Montana are you referring?

Response:

There have been relatively few such cases in Montana as compared with other states. However, see for example:

Docket No. 92.1.3, Order No. 5616 Consumers Gas sale to Town of Sunburst. Benefit: Reduction in rates to end-use customers of up to $3.00/MCF.

Docket No. 93.5.23 US WEST Sale of Exchanges. Settlement agreement with MCC provided for $6.0 million rate reduction; US WEST to increase depreciation expense by $ 1.0 million per year without rate increase.

Docket No. 86.3.9, Order No. 5205. Pacific Power and Light Co. transfer of water utility to City of Libby. City agreed to a 20% reduction in base rates to consumers residing within the City limits.

Docket No. D98.10.218, Order No. 6103d. Sale of PacifiCorp Kalispell-area electric system to Flathead Electric Coop. Entire $4 million above-book proceeds dedicated to system improvements.

Docket No. 2001.1.5, Order No. 6353c. Sale of MPC transmission and distribution business to NorthWestern Corporation. $30 million fund established by parties to resolve issue of disposition of gain on sale; fund credited to MPC electric distribution customers on a per kWh basis until fund exhausted.

PSC-026

Regarding: Alternate Compromise
Witness: Wilson

On page 24 you offer an alternative compromise in which the Commission could choose to "share" the acquisition cost savings. You then state that you do not support that recommendation. Please explain in detail why you offered an alternative you do not support.

Response:

While I recommend pass-through of the full cost reduction in this case, there have been other cases in which regulators determined that the prevailing circumstances warranted the approval of cost reduction sharing between consumers and the company. If the Commission believes that under the circumstances here Algonquin/Liberty should be entitled to such sharing, this is one approach.

PSC-027

Regarding: Alternate Compromise
Witness: Wilson

According to your direct testimony, pages 25 and 26, the most recent Mountain Water case established an average long term debt cost of 8.39%. You state that at closing, Park Water indicated a long term debt cost of 6.039%. Please explain why you subtract these two numbers to arrive at your $373,300 adjustment.

Response:

The difference between these two percentages measures the reduction in debt cost.

PSC-028

Regarding: Alternate Compromise
Witness: Wilson

a. How do you propose Mountain Water account for your zero return on equity recommendation? Can you provide an example of the changes to the income sheet and balance statements Mountain Water would have to make?

b. How do you propose Mountain Water file tariffs and charge ratepayers' bills to account for you zero equity recommendation?

Response:

a. The company would simply record its actual revenues in computing income, just as it would with any allowed rate of return. No changes would have to be made, as this would occur on a going forward basis. There would be no balance sheet changes, although, going forward, retained earnings and income taxes would probably be less than with a positive equity return. Again, as explained above, it is expected that this zero return period would be limited in length,

b. The Company should be ordered to adjust its bills going forward from the date of the order in this docket (with detailed workpapers) to reflect a credit for the acquisition enabled cost reduction.

PSC-029

Regarding: Double Leverage
Witness: Wilson

a. Mountain Water's witness Thomas Bourassa gives his impression of double leverage on pages 8-10 of his direct testimony. Do you agree with that explanation? If not, please explain.

b. Has the Montana Public Service Commission ever applied double leverage? If so, please explain when and the circumstances surrounding the usage.

c. Have you calculated the WACC for either Mountain Water or Liberty? If so, which WACC did you use and why? Please provide supporting workpapers.

d. If you calculated the WACC for either company, what adjustment to Mountain Water's rate would be required?

Response:

a. No. I am not recommending a "double leverage" adjustment. I am simply recommending a bill credit to pass-through the acquisition enabled cost reduction.

b. Yes, see for example:

   624 P.2d 481 (1981)
   MOUNTAIN STATES TELEPHONE AND TELEGRAPH COMPANY, a Colorado Corporation, Plaintiff and Appellant,
   v.
   The DEPARTMENT OF PUBLIC SERVICE REGULATION, Montana Public Service Commission et al., Defendants and Respondents.
   No. 80-99.
   Supreme Court of Montana.
   Submitted January 12, 1981.
   Decided February 5, 1981.
   Rehearing Denied March 4, 1981.

PSC-029 continued

c. No. There is no need to calculate a new WACC. Nothing changes from the Commission Order in Mountain Water's last general rate case, except there is a bill credit to reflect acquisition enabled cost savings.

d. Not applicable. However, see response to PSC-028(b)

PSC-030

Regarding: ROEs, Debt, Rate Reductions
Witness: Wilson

a. Page 15, footnote 7 uses a ROE of 10% to calculate the pre-tax cost of capital allowance in rates approved by this Commission. Please explain why 10% was used rather than the final approved ROE of 9.8%.

b. Page 15, footnote 7 uses .4% for the tax rate. Please explain how the .4% was derived.

c. Please explain the acquisition premium and the amount of the premium referenced on lines 11-14 of page 17.

d. Please show mathematically how the 12.75% rate of return on rate base and the $3,282,055 rate reduction shown in the first paragraph of page 20 are derived, and provide any Excel spreadsheets used in those calculations.

e. Please quantify the "very substantial acquisition premium that APUC paid to Carlyle" referenced on page 21, line 13, and show all calculations as to how the acquisition adjustment was quantified.

Response:

a. That was an approximation. The precise calculation would be:
Pre-tax cost of capital allowance = ROE/1-tax rate = 9.8/(1-0.393875) = 16.17%.

b. It was an approximation. The precise derivation is (1 - .0675) x .35 + .0675 = .393875

c. Carlyle paid about $100 million for Park Water in 2011. In September of 2014 APUC announced that it was paying $327 million to acquire Park with $259 million of net plant, property, equipment and regulatory assets.

d. 12.75% = [(.5612 x 9.8%)/(1-.393875)] + 3.68%

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$3,282,055 = (.1275 - .0368) x $36,185,831

e. See response to part (c) above.

PSC-031

Regarding: Equity, Debt
Witness: Wilson

a. In MCC-001 the Mountain Water stated that "[t]he acquisition was financed with proceeds from a term credit facility issued on January 4, 2016 for $235 million and cash on hand at Liberty of $15 million. Page 20, lines14-16 of your testimony state that "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…" Did APUC incur $160 million or $235 million in debt for the acquisition?

b. Please explain and provide all calculations of all numbers utilized in footnote 13 including any Excel spreadsheets.

c. In reference to page 24, line 5, please explain the logic the Commission should use to choose to "share" some of the acquisition cost savings between ratepayers and Liberty/Algonquin.

d. For each number used in the Prior Rate Case calculation on page 24 and the Reflect Buyout Financing calculation on page 25, please provide the source for each number (including the .60613 shown on line 15), and for all numbers that are calculations provide the calculations and any associated Excel spreadsheet.

Response:

a. See response to PSC-023(a) above.

b. Footnote 13 states: "[$160 million x 9.8%/(1 - .393875) -4.13%] x .3181 = $6.127 million." $160 million is the amount of 4.13% debt; 9.8% is the allowed ROE and .393875 is the combined federal/state income tax rate (see response to PSC-030 above).

c. See response to PSC-026 above. Rationales that have been used in past cases include findings that the applicant has been an outstanding corporate citizen whose acquisition achieved substantial public benefits and cost reductions that

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could not have been achieved otherwise. Dr. Wilson has not concluded that this rationale applies here.

d. .5612 is the prior rate case equity ratio.
9.8 is the prior rate case ROE allowance.
.60613 is 1 minus the combined income tax rate.
.4388 is the prior rate case debt ratio.
8.39 is the prior rate case debt cost.
4.13 is the cost of acquisition capital.

PSC-032

Regarding: Cost of Debt
Witness: Wilson

a. The previously approved cost of debt for Mountain Water was 8.39%. If the assumption would be there is no change in the 9.8% approved cost of equity but, instead, the cost of debt is imputed to be 4.13%, what would be the resulting revenue requirement reduction? Please provide the same calculation using the 6.039 cost of debt referenced on page 25.

b. Page 17, lines 12-18. In a rate case, one method for grossing up for taxes the Commission determined required increase or decrease in Net Operating Income (NOI) to the actual required increase or decrease in revenues is through the use of a Gross Up Factor/Revenue Multiplier/Tax Factor (all of these have the same meaning in the context of this question.) The required change in NOI is then multiplied by the gross up factor. For example, if it is found that an increase in NOI of $10,000 is required to earn the overall allowed rate of return, this would be multiplied by the gross up factor, say 1.64, which would then yield a required increase in revenues of $16,400. Please comment on Dr. Wilson's use of a pre-tax equity return, rather than a gross up factor, to include the required tax gross up in his estimated required revenue reductions.

Response:

a. That result would make no sense. The 4.13% cost is the cost of capital used to purchase Carlyle's equity. It has nothing at all to do with the 8.39% debt or with the 6.039% debt. Moreover, this is not a rate case and I am not recommending a change in the approved cost of equity. I am simply stating that as a direct consequence of the acquisition the cost of $160 million of Carlyle's equity financing has been reduced from 9.8% to 4.13%. Consequently, I am recommending that this acquisition-enabled cost reduction be passed through to ratepayers as an acquisition cost reduction credit.

b. The procedures are mathematically the same. I have, in fact, used the gross up factor suggested in this question. 1/(1-.393875) = 1.65.