Montana Public Service Commission

Brad Johnson - Chairman
Travis Kavulla - Vice Chairman
Kirk Bushman - Commissioner
Roger Koopman - Commissioner
Bob Lake - Commissioner

April 20, 2016

Mike Green
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RE: PSC data requests in Docket D2016.2.15

Enclosed please find data requests of the Montana Public Service Commission to Mountain Water Company (numbered PSC-011 through PSC-021) 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) 444-6184.

Sincerely,

Dagan Lynch
Regulatory Division
Montana Public Service Commission

Enclosure

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Service Date: April 20, 2016

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

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 REQUESTS PSC-011 THROUGH PSC-021 OF THE MONTANA PUBLIC SERVICE COMMISSION TO MOUNTAIN WATER CO.

PSC-011

Regarding: Investment Valuation
Witness: Bourassa

On page 5 of your direct testimony you refer to employing a proxy group method for determining utility ROEs. Was any proxy group used to value the stock of Western Water Holdings? If so, please provide the proxy group. If not, please explain why.

PSC-012

Regarding: Investment Valuation
Witness: Bourassa

When will Mountain Water file a general rate case?

PSC-013

Regarding: Debt Interest Rate
Witness: Bourassa

On page 4 of your direct testimony you refer to the retirement of a term loan agreement on March 9, 2016. What was the interest rate on that term loan that Liberty retired on March 9, 2016?

PSC-014

Regarding: Investment Valuation
Witness: Bourassa

What information has Mountain Water Co. supplied to Liberty that may have helped Liberty calculate the firm’s purchased stock value?

PSC-015

Regarding: Investment Valuation
Witness: Bourassa

a. Was any financial metric used to value the stock of Mountain Water or Western Water Holdings?

b. If so, what metric was used? Please provide work papers documenting the metric.

c. If no metric was used, please explain why.

PSC-016

Regarding: Capital Access
Witness: Bourassa

Will Mountain Water Co. be required to sign any Inter Company Loan Agreements to have access to funds from Liberty?

PSC-017

Regarding: Equity, Debt
Witness: Bourassa

a. Regarding page 4, line 7 of your testimony, please explain from an accounting perspective how an "equity infusion" occurs.

b. On page 4, line 7, please identify the "parent."

c. Regarding page 4, line 7, did the $235 million in Liberty debt simply move from the books of Liberty to its parent as debt, or was the debt actually retired?

PSC-018

Regarding: Equity, Debt
Witness: Bourassa

a. Please see page 5, lines 12-18. You argue that determining the cost of equity must be consistent with the Hope and Bluefield cases, which make clear that the relevant considerations in determining the cost of capital for a company are the alternatives available to investor and the risks and return available to those alternatives. Please explain how Liberty/Park Water uses the criteria propounded in the Hope and Bluefield cases when it decides whether to invest in Mountain Water's equity.

b. Please see page 5, lines 20-23. Please explain how Liberty/Park Water analyzes the risks of Mountain Water as compared to other investments before investing in the equity of Mountain Water.

PSC-019

Regarding: Double Leverage, debt risk
Witness: Bourassa

a. Please provide additional information regarding footnotes 6, 7 & 8. The information contained in the cite is not adequate to reference the information.

b. The Montana Supreme Court (*Mountain States Tel. & Tel. Co. v. Dep't of Pub. Serv. Regulation*, 191 Mont. 331, 624 P.2d 481 (1981)) in 1981 affirmed a District Court decision that concurred with the use of the double leverage concept by the Commission. Please comment why the Commission should not rely on that decision in deciding whether to consider the use of double leverage in deciding the overall cost of capital for Mountain Water.

c. Regarding page 13, lines 1-6, please provide any cites to state commission or court cases supporting the statement that "[s]ome proponents of DL attempt to address this by assigning a different equity cost rate to retained earnings." In addition, please provide a numerical example of how this concept is applied.

d. On page 13, line 11, please numerically define "significant."

e. Please see page 14, lines 13-22. Please explain how the statement "the cost of debt and equity depend on the return investors expect to receive on investments of comparable risk" applies in a case where the subsidiary does not have publicly traded stock and the only investor is the parent company. That is, does the parent actually perform an analysis of investments with comparable risk? If so, please provide any such analysis.

PSC-020

Regarding: Hypothetical Capital Structure
Witness: Bourassa

a. Please see page 16, footnote 15. Please define "optimum." Is there a range of debt to equity ratios that is considered optimum, and if so what is that range?

b. Page 14, line 20. In a rate case, one method for grossing up for taxes the Commission determined 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 explain the use of a pre-tax equity return for the gross up for taxes versus the use of a gross up factor in the estimated required revenue reductions. Do the two methods

produce the same required revenue reduction? Please illustrate this by providing a numerical comparison.

PSC-021

Regarding: Cost of Capital, financial comparisons
Witness: Kappes

a. Page 3 of 6, line 23. Does Mountain Water issue common stock? If so, how many shares are outstanding and what is the price of each share? Are these shares publicly traded? If not, please explain the ownership of the shares and how the investment in those shares is financed.

b. Page 4, line 15. Please provide the most recent Park Water/Mountain Water capital structure.

c. Page 5, line 10. Please explain the statement that Mountain Water's current return on equity was calculated using a different equity percentage. Different from what?

d. Page 5, lines 18-26. When would the equity percentage of Park Water/Mountain Water's capital structure be expected to increase? Is this accomplished by an equity infusion from Park or Liberty or Algonquin?

e. Page 6, lines 5-8. Please explain the difference between Gross Revenues and net Revenues. Please provide a comparison between 2015 and 2011 of both gross and net revenues.