Montana Public Service Commission

April 20, 2016

Mr. Robert Nelson
Montana Consumer Counsel
111 N. Last Chance Gulch
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Helena, MT 59601

RE: PSC data requests in Docket D2016.2.15

Enclosed please find data requests of the Montana Public Service Commission to the Montana Consumer Counsel (numbered PSC-022 through PSC-032) 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-022 THROUGH PSC-032 OF THE MONTANA PUBLIC SERVICE COMMISSION TO THE MONTANA CONSUMER COUNSEL

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?

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?

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.

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?

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.

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.

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?

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?

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.

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.

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.