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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-01428A-09-0103
IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: W-01427A-09-0104
IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR AUTHORITY (1) TO ISSUE EVIDENCE OF INDEBTEDNESS IN AN AMOUNT NOT TO EXCEED $1,755,000 IN CONNECTION WITH (A) THE CONSTRUCTION OF TWO RECHARGE WELL INFRASTRUCTURE IMPROVEMENTS AND (2) TO ENCUMBER ITS REAL PROPERTY AND PLANT AS SECURITY FOR SUCH INDEBTEDNESS.	DOCKET NO. W-01427A-09-0116

Arizona Corporation Commission
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IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR AUTHORITY (1) TO ISSUE EVIDENCE OF INDEBTEDNESS IN AN AMOUNT NOT TO EXCEED $1,170,000 IN CONNECTION WITH (A) THE CONSTRUCTION OF ONE 200 KW ROOF MOUNTED SOLAR GENERATOR INFRASTRUCTURE IMPROVEMENTS AND (2) TO ENCUMBER ITS REAL PROPERTY AND PLANT AS SECURITY FOR SUCH INDEBTEDNESS.	DOCKET NO. W-01427A-09-0120 **NOTICE OF FILING WITNESS SUMMARIES**

Litchfield Park Service Company ("LPSCO" or "the Company") hereby submits this Notice of Filing in the above-referenced matter. Specifically filed herewith are the summaries of the pre-filed testimony of the following witnesses:

1. Gregory S. Sorensen;
2. Thomas J. Bourassa;
3. Brian McBride; and
4. Gerald Tremblay.

DATED this 4th day of January, 2010.

FENNEMORE CRAIG, P.C.

By ______________________
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ORIGINAL and nineteen (19) copies of the foregoing were filed this 4th day of January, 2010, with:

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Litchfield Park Service Company
Docket Nos. SW-01428A-09-0103, W-01427A-09-0104,
W-01427A-09-0116, and W-01427A-09-0120

<u>Greg Sorensen</u>
<u>Testimony Summary (Phase 1)</u>

Mr. Sorensen is employed by Liberty Water, formerly known as Algonquin Water Services, as Director of Operations for the Western Group. He oversees the operations and business management functions for Liberty Water's utility holdings in Arizona. Liberty Water manages and operates 17 utilities in Arizona, Texas, Missouri, and Illinois. Mr. Sorensen has the responsibility for the daily operations of all the Arizona utilities, for the financial operating results for each utility, for capital and operating cost budgeting, for regulatory compliance, planning and oversight as they relate to the operations under his responsibility.

Mr. Sorensen will testify regarding the Company's need for rate relief as well as the significant improvements made by the Company to its plant and facilities, including those related to arsenic treatment, odor control and system reliability and redundancy. He will also address some of the issues raised in the testimony of Staff and intervenors RUCO and the City of Litchfield Park ("City"). Specifically, among other things, Mr. Sorensen will testify that:

- LPSCO is in total compliance with ADEQ, Maricopa County, Department of Water Resources and the Commission.

- There is no excess capacity in the 4.1 MGD Palm Valley Water Reclamation Facility ("PVWRF"). LPSCO has simply spent less than $40,000 on high-level planning for future expansions because the plant is operating at or above 80 percent of capacity with existing customers. The Company would not have been prudent to ignore this and not begin the process of planning future expansions.

- Design and construction errors did not exist before LPSCO invested $7 million in plant improvements to control odors and enhance system reliability through redundancy.

- LPSCO has incurred costs due to an advancing contamination plume near its groundwater supplies. These costs are exactly as contemplated in Decision No. 69912 (September 27, 2007) and they should be approved for recovery in this rate case in order to ensure these actions continue to be taken to protect the long-term interests of the ratepayers.

- The Liberty Water/Algonquin shared services model enables LPSCO to deliver a high quality of service at reasonable rates. Many of the allocated costs at issue relate to access to capital markets and associated corporate governance, auditing, in addition to the typical "corporate" headquarters types of costs. However, wherever possible, costs are directly allocated to LPSCO and the other Liberty Water affiliates. The adjustments recommended by Staff and RUCO eliminate all (or most) of these costs, leaving LPSCO to operate effectively as a stand alone utility, with limited access to capital and the other resources that currently contribute to its high quality of service.

- "At risk" pay costs no more to the ratepayers and improves performance.

- LPSCO does not take guidance from the prior utility owners' schedule for bringing rates cases and will, like all Liberty Water utilities, seek rate relief on a regular cycle of roughly three years.

- The Company's rate design should be fair, should promote conservation without discouraging economic recovery, and most importantly, should ensure that LPSCO has an adequate opportunity to earn its authorized revenue requirement, including a fair and reasonable return on rate base.

- A substantial increase in the price paid by the City of Goodyear for bulk water for resale by the City to its customers will result in a loss of those revenues, a detriment to both the Company and then the ratepayers when another rate case is necessitated.

- An increase in the rate for effluent above the market based rates proposed by LPSCO will likely result in LPSCO being unable to see as much of its effluent revenue as it did during the test year, as well as increases in the costs of effluent disposal. This would also result in harm to the Company and ratepayers.

- LPSCO proposes a low income tariff modeled after a similar tariff recently approved by the Commission for Chaparral City Water Company.

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Litchfield Park Service Company
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WITNESS SUMMARY

Thomas J. Bourassa

Thomas J. Bourassa is a Certified Public Accountant who provides consulting services to public utilities. He has testified on numerous occasions before the Arizona Corporation Commission ("the Commission") on behalf of Arizona water and wastewater utilities. In this case he is testifying on behalf of Litchfield Park Service Company ("the Company") on the topics of the Company's rate base, its income statement (i.e., revenue and operating expenses), its required increase in revenue and its rate design and proposed rates and charges for service. Mr. Bourassa has testified on the cost of capital, including the cost of equity.

Overview of the Company's Requested Rate Relief

The Company is requesting a gross revenue increase of $6,812,522 for its water division, which is an increase of approximately 99 percent over test year (September 30, 2008) revenues, and an increase of $4,815,141 for its wastewater division, which is an increase of approximately 75.75 percent over test year (September 30, 2008) revenues. The following is a summary of the Company's water and wastewater division revenue requirement:

	Water	Wastewater
Fair Value Rate Base	$37,762,676	$28,222,289
Adjusted Operating Income	$ (25,294)	$ 150,724
Current Rate of Return	-0.07%	0.53%
Required Operating Income	$ 4,157,671	$ 3,107,274
Required Rate of Return	11.01%	11.01%
Operating Income Deficiency	$ 4,182,965	$ 2,956,550
Gross Revenue Conversion Factor	1.6286	1.6286
Increase in Gross Revenues	$ 6,812,522	$ 4,815,141

For the water division, the Company is proposing an inverted tier rate design to promote conservation and which recognizes a move towards rates which reflect each customer class paying its cost of service. The Company's proposed rate design balances the risk of not recovering its revenue requirement with risk of revenue loss from conservation (revenue stability). Under the Company's water division proposed rates a typical ¾ inch metered residential customer would experience an increase of $23.73 (about 127 percent), from $18.64 per month to $42.37 per month.

For the wastewater division, the Company is adopting the same rate design approved by the Commission in the Company's prior rate case. Under the Company's wastewater division proposed rates, a typical residential customer would experience an increase of $21.19 (about 78 percent), from $27.20 per month to $48.39 per month.

There are a number of issues in dispute in this case. The Company has accepted many of the adjustments proposed by Staff and RUCO in order to reduce disputes and simplify the rate case. The following is a brief summary of the major unresolved issues.

Rate Base Issues - Water

1. Deferred Income Taxes ("DIT"). The Company proposes a DIT liability of $188,053 for the water division and $140,544 for the wastewater division. The Company's DIT is based on the requirements of Statement of Financial Standards No. 109 – Accounting for Income Taxes ("FAS 109"). RUCO proposes a DIT liability of $446,530 for the water division and $333,803 for the wastewater division. Staff proposes a DIT liability of $448,160 for the water division and $335,020 for the wastewater division.

2. Capitalize Labor – RUCO recommends that over $511,000 of affiliate capitalized labor be removed from plant-in-service because the costs were not supported. The Company disagrees and believes the costs were adequately supported.

3. Deferred Regulatory Assets – The Company proposes to include costs incurred for protecting its water supplies and its potential to bring legal action against Crane. The Company believes this is exactly what was contemplated in the Commission's accounting order and recovery should begin in this case. RUCO recommends including these costs but reduces the amount by 1 year of amortization Staff recommends excluding these costs from rate base.

4. Capitalized Repairs – RUCO recommends excluding over $136,000 of capitalized repairs asserting these costs should have been expensed. The Company disagrees. The costs either extended the life of existing plant and/or costs have a benefit period of more than one year and are legitimately capitalized.

5. Unsupported plant – RUCO recommends excluding over $269,256 of plant costs asserting these costs were unsupported. The Company disagrees. The Company believes that the evidence (invoices, contracts, cancelled checks, and accounting records, etc.) supports the amounts RUCO seeks to remove.

6. Security Deposits – The Company proposes to exclude security deposits of $68,685 as security deposits are not a rate base component. RUCO also excludes security deposits from rate base. Staff includes security deposits of $68,685.

Rate Base Issues – Wastewater

1. Palm Valley Water Reclamation Facility ("PVWRF") - RUCO proposes to remove $3.5 million of costs related to the upgrades to the PVWRF based on alleged design errors. The Company disagrees there were design errors. The upgrades to the PVWRF were necessary to optimize plant operations and to provide reliability and redundancy in the system. In addition, the upgrades were necessary to address changed conditions surrounding the operation of the PVWRF.

2. Capitalize Labor – RUCO recommends that over $1.8 million of affiliate capitalized labor be removed from plant-in-service because the costs were not supported. The Company disagrees and believes the costs were adequately supported.

3. Capitalized Repairs – RUCO recommends excluding over $136,000 of capitalized repairs asserting these costs should have been expensed. The Company disagrees. The costs either extended the life of existing plant and/or costs have a benefit period of more than one year and are legitimately capitalized.

4. PACE Report – RUCO recommends excluding $36,500 of costs related to the permitting and design of the PVWRF. The Company disagrees there were design errors and that these costs were necessary and prudently incurred for the PVWRF upgrades.

5. Security Deposits – The Company proposes to exclude security deposits of $68,685 as security deposits are not a rate base component. RUCO also excludes security deposits from rate base. Staff includes security deposits of $153,483.

Revenue and Income Statement Issues – Water Division

1. Contractual Services – Central Office Cost Allocation. The Company includes $310,479 of allocated Central Office Costs. The Central Office costs are necessary and prudent costs for the operation of LPSCO. RUCO has rejected the Company proposed Central Office Cost Allocation. Staff reduces the Central Office Cost Allocation to $797.

2. Contractual Services - Bonuses. The Company includes employee payroll of at-risk incentive pay in operating expenses totaling $26,477. The Company believes these costs are part of market based compensation and are useful means of motivating employees to perform at their highest levels. Staff removes these costs. RUCO does not remove these costs.

3. Bad Debt Expense. The Company agrees with Staff to normalize bad debt expense using a three year average of bad debt expense. The normalized amount the Company and Staff propose is $8,548. RUCO proposes the test year level of bad debt expense of $3,264.

4. Unnecessary Expenses. RUCO proposes to exclude $5,260 of expenses related to dues and memberships, business publications, and travel. The Company disagrees and believes these are necessary costs that ultimately provide benefits to ratepayers.

5. Normalization of Fuel for Power Production Expense. The Company proposes to normalize fuel for power production expenses and reduces this expense by $20,309. Staff agrees with the Company's normalization adjustment. RUCO proposes to eliminate $56,381 of this expense because it asserts they are non-recurring. The Company believes the recommended amount of $37,839 is the best measure of the amount likely to be incurred on a going forward basis.

6. Rate Case Expense. All of the parties agree to rate case expense of $210,000. However, the Company proposes a 3 year amortization period, whereas Staff and RUCO propose a 5 year amortization period.

Revenue and Income Statement Issues – Wastewater Division

1. Contractual Services – Central Office Cost Allocation. The Company includes $343,688 of allocated Central Office Costs. The Central Office costs are necessary and prudent costs for the operation of LPSCO. RUCO has rejected the Company proposed Central Office Cost Allocation. Staff reduces the Central Office Cost Allocation to $797.

2. Contractual Services - Bonuses. The Company includes employee payroll of at-risk incentive pay in operating expenses totaling $26,477. The Company believes these costs are part of market based compensation and are a useful means of motivating employees to perform at their highest levels. Staff removes these costs. RUCO does not remove these costs.

3. Bad Debt Expense. The Company agrees with Staff to normalize bad debt expense using a three year average of bad debt expense. The normalized amount the Company and Staff propose is $22,098. RUCO proposes to reduce bad debt expense by over $40,000 to $3,041 based on its analysis of the water division's bad debt.

4. Unnecessary Expenses. RUCO proposes to exclude $5,122 of expenses related to dues and memberships, business publications, and travel. The Company disagrees and believes these are necessary costs that ultimately provide benefits to ratepayers.

5. Non-recurring Expenses. RUCO proposes to exclude $36,212 of expenses related to effluent disposal site maintenance, grounds maintenance and sewer line clean-up. The Company disagrees and believes these costs are necessary and reflect the nature and level of expense the Company expects to incur on a going forward basis.

6. Rate Case Expense. All of the parties agree to rate case expense of $210,000. However, the Company proposes a 3 year amortization period, whereas Staff and RUCO propose a 5 year amortization period.

Rate Design and Proposed Rates – Water Division

The Company proposes an inverted tier rate design which consists of a three tier design for smaller metered residential customers and a two tier design for smaller metered commercial and irrigation customers as well as larger metered customers (all classes). The break-over points are similar among the customer classes and increase with the meter size. Staff and RUCO propose similar designs. The City Litchfield Park ("City") also proposes an inverted tier design which includes different break-over points and commodity rates for the customer classes.

The Company has used its cost of service study to help design rates which are more reflective of the cost of service. One area of disagreement is that Staff and RUCO provide a low monthly minimum and first tier commodity rate for the smaller residential customers. This rate design shifts revenue recovery away from the smaller residential customers to the larger metered customers. Further, their designs shift revenue recovery away from the monthly minimums to the commodity rates. Under Staff and RUCO rate designs, the ¾ inch metered residential class pays well below its cost of service. The Company believes that the Staff and RUCO rate designs are much less reflective of the cost of service and will result in revenue instability, particularly if conservation occurs.

Another area of disagreement is that the Company proposes a bulk water rate for water purchased for resale such as water sold to the City of Goodyear through the Company's 8 inch meter(s). None of the other parties propose a bulk water rate for bulk water purchased for resale. The Company believes that the City of Goodyear will be more likely to leave the system causing a shortfall in revenues of over $450,000 which will ultimately have to be made up by the remaining customers.

Another area of disagreement is between the cost of service study prepared by the Company and the cost of service study prepared by Litchfield Park primarily relating to the allocation factors for rate base. While the City asserts that its rates are designed to recover the cost of service from each class (meter size only) of customer, the Company has shown that this is not the case. Further, the City's rates do not produce the City's intended revenue requirement.

At the Company's proposed revenue level, rates for average ¾ residential customers will increase by approximately $23.73 (from $18.64 to $42.37) or approximately 127 percent.

Rate Design and Proposed Rates – Wastewater Division

The Company's rate design is the same basis rate design currently in effect which primarily reflects a flat rate design for residential and commercial customers. The rate design does contain some charge per rated gallon per day features. Both Staff and RUCO propose rate designs similar to the Company.

The only area of disagreement on the rate design concerns the effluent rate. Staff and the Company propose to continue to set the effluent rate at market rates, whereas RUCO proposes an effluent rate of $1.50 per thousand gallons (or approximately $489 per acre foot). The Company believes it will not be able to sell effluent at this rate and will need to seek other more costly alternative of disposal.

At the Company's proposed revenue level, rates will increase by approximately 77.9 percent for residential and commercial customers.

Cost of Equity and WACC

Mr. Bourassa performed estimates of the cost of equity using the Commission's preferred models, the Discounted Cash Flow ("DCF") model and the Capital Asset Pricing Model ("CAPM"). Mr. Bourassa's updated estimate of the cost of equity is 12.0 percent and a cost of debt of 6.39 percent. The Company proposes a 17.74 percent debt and 82.26 percent equity capital structure. Accordingly, weighted cost of capital ("WACC") is 11.01 percent.

Staff recommends a 9.2 percent cost of equity and a 6.4% cost of debt. Staff recommends a WACC of 8.7 percent is based on a 17.2 percent debt and 82.8 percent equity capital structure. Staff's unadjusted cost of equity is 10.0 percent and cost of debt is 6.4 percent. Staff proposes an 80 basis point reduction to the cost of equity for financial risk. The Company's primary areas of disagreement with Staff concern its growth estimates for the DCF model and its financial risk adjustment. Staff erroneously uses book values in it Hamada method financial risk adjustment computation. The Company believes Staff's financial risk adjustment is over stated by at least 40 basis points. Further, Staff does not consider the higher business and operational risks associated with smaller firms compared to the larger publicly traded firms which would more than offset any financial risk adjustment.

RUCO, in contrast, proposes a WACC of 8.54 percent using a capital structure consisting of 17.83 percent debt and 81.17 percent equity. RUCO recommends a cost of debt of 6.39 percent and a cost of equity of only 9.00 percent. RUCO used much different inputs to estimate the cost of equity than Staff and the Company. RUCO used different sample water utilities eliminating Connecticut Water Service, Middlesex Water Company and SJW Corporation which are used by both Staff and the Company. RUCO also uses Southwest Water which is not comparable to the Company because less than 50 percent of its revenues are derived from regulated activities.

RUCO also used a group of publicly traded gas utilities, which depressed the cost of equity. RUCO's gas utility sample has an average beta of 0.67, while RUCO's water utility sample has an average beta of 0.83. Consequently, the gas utilities have substantially less risk and are not directly comparable to the water utilities. To make the gas utilities comparable, an upward risk adjustment of 140 basis points would need to be added to the gas utilities' cost of equity.

RUCO also uses inputs to its CAPM which depress its indicated cost of equity. RUCO's DCF results average 9.72 percent. However, the average of RUCO's CAPM results is approximately equal to the cost of debt at 6.3 percent. The current cost of Baa investment grade bonds is 6.3 percent. Further, RUCO's recommended cost of debt for LPSCO is 6.39 percent.

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Brian McBride Testimony Summary

Brian McBride is the co-owner and principal engineer for McBride Engineering Services ("MES"). He is a registered Civil Engineer in the state of Arizona, with over 13 years of experience specializing in wastewater and water engineering projects.

Mr. McBride will testify in response to claims by RUCO relating to alleged design errors at the Palm Valley Water Reclamation Facility ("PVWRF"). Mr. Rowell will testify that there were no design errors in the plant as originally constructed in 2002-2003. In his professional opinion as a civil engineer, Mr. McBride will say that PVWRF met applicable engineering standards and regulations as originally constructed. He will also say that the original plant engineering and construction were reviewed, analyzed and approved by Maricopa County and ADEQ.

Mr. McBride will testify that Liberty Water/LPSCO retained MES to evaluate operational challenges at the PVWRF that had occurred after commissioning in 2003. Specifically, LPSCO retained MES to engineer certain upgrades and improvements to the plant in order to optimize operations and wastewater service to customers. Mr. McBride will testify that MES conducted a study and recommended strategic options for optimizing treatment, operations, reliability and redundancy capabilities for the plant. MES then provided the LPSCO Water Reclamation Facilities Strategic Planning Evaluation Report. Mr. McBride will testify that the Evaluation Report did not establish any design errors at PVWRF. Rather, the Report focuses on operational challenges with the plant and necessary upgrades to the plant to optimize plant operations, treatment, reliability and service. Further, Mr. McBride will say that in 2007 and 2008, LPSCO made various improvements to the PVWRF, including converting an existing aerobic digestion tank to a third SBR tank, converting the anoxic tanks to an equalization basin, improving influent screening, adding a surge tank return line, installing improved UV disinfection equipment, adding a dewatering centrifuge, and adding a new odor control system to the plant. Mr. McBride will state that the 2007/2008 upgrades increased the plant's reliability and redundancy capabilities in order to optimize plant operations and service. In response to arguments asserted by RUCO, Mr. McBride also will testify that the operational challenges presented at PVWRF were not the result of design errors or construction errors at the plant as originally constructed. Rather, Mr. McBride will say that those 2007/2008 upgrades increased the plant's reliability and redundancy capabilities in order to optimize plant operations and service. Specifically, those 2007/2008 upgrades resolved various operational challenges with the plant that had arisen since commissioning in 2002-2003, which is a regular occurrence in the industry.

Finally, again in response to arguments alleged by RUCO, Mr. McBride will testify that the 2007/2008 upgrades did not increase the capacity of the PVWRF. Instead, Mr. McBride will say that LPSCO added a third SBR reactor, which increased the plant's redundant SBR tank capacity for use during peak flows and maintenance of the two main SBR reactors; and, that adding that tank capacity was necessary to increase operational reliability and redundancies, not to increase the overall treatment capacity of the PVWRF.

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W-01427A-09-0116, and W-01427A-09-0120

Gerald Tremblay Testimony Summary

Gerald Tremblay is the Director of Finance for Liberty Water. In rejoinder, Mr. Tremblay provides a detailed explanation of Liberty Water's affiliate cost allocation methodology for allocation of affiliate costs to the regulated utility affiliates of Liberty Water Company, Inc. ("LWC") including LPSCO. Mr. Tremblay also responds to the surrebuttal testimonies of Jeff Michlik (Staff) and Matt Rowell (RUCO).

THE APIF GOOD CORPORATE GOVERNANCE PACKAGE

To start, Mr. Tremblay will testify regarding the corporate structure of LPSCO, and the package of utility services and benefits that such structure provides to LPSCO. He will testify that LPSCO is a wholly-owned subsidiary of Liberty Water Company, Inc. ("LWC"), which is owned by Algonquin Power Income Fund ("APIF"). APIF owns a widely diversified portfolio of 46 electric facilities and 17 water distribution and wastewater treatment facilities in Canada and the United States. Mr. Tremblay explains the package of beneficial services provided to LPSCO by APIF as publicly traded on the Toronto Stock Exchange, which allows LPSCO to provide high quality utility service at the lowest possible cost. Mr. Tremblay will testify that APIF's structure as a publicly traded income fund provides substantial benefits to LPSCO through access to capital markets, strategic management, professional administrative staff, strong corporate governance and financial controls. Utility ownership modeled on strong and sound corporate governance is exactly the type of model that the Commission should encourage.

ALLOCATION OF DIRECT AFFILIATE COSTS

LPSCO is operated by Algonquin Water Services, which operates under the name Liberty Water. Liberty Water provides all of the day-to-day operations personnel for LPSCO. All operations and engineering labor is directly charged by Liberty Water to LPSCO. Liberty Water charges those labor rates ***at cost***, which is the dollar hourly rate per employee, grossed up by 35% for burdens such as payroll taxes, health benefits, retirement plans, and other insurance provided to employees. Engineering technical labor, which is mostly capitalized, is charged on the same basis, plus an allocation of 10% for Liberty Water's corporate overheads such as rent, materials/supplies, etc.

Other necessary services provided by Liberty Water include labor for health and safety, accounting, billing and customer service, human resources, and corporate finance. These costs are allocated based on the relative customer counts of all of the Regulated Utilities. Overhead costs, like rent, insurance, administration costs, depreciation of office furniture and computers, also cannot be directly attributed to specific utilities. These costs are allocated to LPSCO and its affiliates by use of a "four factor" methodology that considers relative size through four weighted factors – total plant, total customers, expenses and labor. All costs charged by Liberty Water and allocated to LPSCO are based on actual costs, either directly charged or through the allocations described above.

In his testimony, Mr. Tremblay establishes that customers of Liberty Water receive significant benefits from this cost allocation model, including lower costs for services that are essential and necessary to the provision of high quality water and wastewater utility service. The benefits of this type of shared service model include savings on labor costs by resource sharing. Essentially, this allocation methodology allows costs to be allocated based on the relative burdens and costs incurred by individual utilities. Further, because it's scalable, the shared services model allows for increased growth with less than proportional cost increases, meaning the Regulated Utilities can grow without incurring a proportionate or prohibitive increase in the cost of service.

ALLOCATION OF CENTRAL OFFICE COSTS FROM APT— THE COSTS OF STRONG CORPORATE GOVERNANCE

In his testimony, Mr. Tremblay also addresses the primary cost allocation dispute between LPSCO and Staff/RUCO—the allocation of Central Office Costs incurred by APT. APT is the affiliate that provides financial, strategic management, compliance, administrative and support services to the Regulated Utilities operated by Liberty Water. These costs are a reflection of APIF's structure and benefits from being a publicly traded Income Fund. Mr. Tremblay will testify that these costs include professional services like third-party legal services, accounting services, tax planning and filings, management and trustee fees, and required auditing that are done for the benefit of all of the Liberty Water Regulated Utilities, including LPSCO. Other corporate administrative costs include costs for licenses, fees and permits, information technology/systems, payroll, and HRIS maintenance contracts, as well as the rent and depreciation of office furniture and equipment and computers in the central office in Oakville, Ontario.

Generally, the services provided by and costs incurred by APT fall into four general categories: (1) Strategic Management, which includes management fees, general legal services and other professional services; (2) Capital Access, which includes licenses/fees/permits, unit holder communications and escrow fees; (3) Financial Controls, which include audit services, tax services and trustee fees; and (4) Administrative/Overhead Costs, which include rent, depreciation and office costs as I testified above.

These indirect administration Central Office Costs are allocated to LPSCO in two phases. The first phase involves allocating these costs to each of the facilities, both regulated and unregulated, owned by APIF. That initial allocation is made based on relative size. Specifically, APIF owns and operates 63 total entities, 17 of which are the

Regulated Utilities operated by Liberty Water. In turn, 17 of 63 is 26.98%, which means 26.98% of the total Central Office Costs are allocated to the 17 Regulated Utilities operated by Liberty Water. The second phase is that Liberty Water allocates the Central Office Costs between LPSCO and the 16 other Regulated Utilities based on customer counts. LPSCO's total of 33,105 customers is nearly half of Liberty Water's 17 Regulated Utilities' total of 68,783 water and wastewater customers, which means LPSCO is allocated 48.13% (33,105/68,783) of the Central Office Cost pool.

THE SUBSTANTIAL BENEFITS PROVIDED TO LPSCO FROM THE CENTRAL OFFICE COST ALLOCATIONS

In his testimony, Mr. Tremblay responds to claims by Staff and RUCO that the services provided by APT do not benefit LPSCO or its customers. Mr. Tremblay will testify that the services provided by APT are necessary to allow LPSCO to have access to capital markets for capital projects and operations. Absent consistent access to capital, LPSCO would not be able to provide a high level of service at the lowest cost. LPSCO also receives benefits by having strategic direction, corporate governance and financial controls at the Income Fund level. All of these costs ensure that the Income Fund has a long term strategic direction and remains healthy. This benefits LPSCO's long term health for a fraction of the price. Put simply, LPSCO is part of a structure and model that includes a publicly traded entity at the top. Mr. Tremblay will testify that this model provides high quality utility service at a low price. Good business requires good governance, financial planning, strategic management, audits, tax services etc.

Ultimately, Mr. Tremblay will testify that most of these costs are associated with good corporate governance. To start, APT incurs fees to ensure that APIF can participate in the Toronto Stock Exchange. These licensing and permit fees are required in order to sell units on the Toronto Stock Exchange. The benefit of these costs is undisputed--the ratepayers and Regulated Utilities have access to capital only so long as APIF is able to access capital markets. These license fees allow APIF to sell units on the Toronto Stock Exchange and, in turn, provide funding for utility operations. These license fees incurred by APT are critical to ensure continuing access to capital. Financial control costs incurred by APT are another integrated piece of corporate governance. The capital and funds obtained from the sale of units in the Income Fund are used by the Regulated Utilities for capital investments. That capital is made available by APT to the Regulated Utilities, including LPSCO. Any company that wishes to raise capital at a decent rate must prove proper corporate governance. The less governance, the higher the risk and the cost of capital. Most of these indirect corporate costs in APT relate to proper corporate governance and thus ensuring long term access to the capital markets. Absent the services provided by APT, the Regulated Utilities would be forced to operate as stand-alone utilities with higher costs and operating expenses, not to mention much greater risk. The notion that the costs incurred by APT do not benefit LPSCO and its ratepayers is undercut by the very high level of service LPSCO is providing to customers in this system.

Finally, Mr. Tremblay will testify regarding the potential consequences of rejecting APIF's shared services model. Both Staff and RUCO recommend rejecting over 90% of the Central Office Costs incurred by APT. In no uncertain terms, Staff's and RUCO's treatment of APT's affiliate costs is a rejection of one pillar of the APIF/APT/Liberty Water shared services model. If Liberty Water's shared services model is not viewed as reasonable because of its costs, then Liberty Water will have to seriously consider operating differently. APIF and APT will be reluctant to subsidize 90 percent of an over $1 million allocation pool to the seven Arizona utilities. Such decision may leave APIF with no other choice, but to operate the Arizona utilities, including LPSCO, as stand-alone utilities. Mr. Tremblay will testify that rejecting a shared services model that is designed to deliver high quality utility service at the lowest possible price does not make economic or policy sense, given numerous failed utility operations in Arizona and the current state of the economy. Further, such decision may also have the result of lowering service quality to customers.

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