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AZ CORP COMMISSION
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6 Attorneys for Liberty Utilities (Black Mountain Sewer) Corp.
7

ORIGINAL

8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

9
10 IN THE MATTER OF THE APPLICATION
11 OF LIBERTY UTILITIES (BLACK
12 MOUNTAIN SEWER) CORP., AN
13 ARIZONA CORPORATION, FOR
14 AUTHORITY TO ISSUE EVIDENCE OF
INDEBTEDNESS IN AN AMOUNT NOT TO
EXCEED \$3,400,000.

DOCKET NO: SW-02361A-15-0206

APPLICATION (FINANCING)

15 Pursuant to A.R.S. §§ 40-301 and 40-302, Liberty Utilities (Black Mountain
16 Sewer) Corp. ("Liberty Black Mountain") or the "Company", an Arizona public service
17 corporation, hereby applies for authority from the Arizona Corporation Commission
18 ("Commission") to issue evidence of indebtedness in a total amount not to exceed
19 \$3,400,000 on the terms and conditions set forth below. In support of this Application,
20 Liberty Black Mountain states as follows:

21 **A. General Background.**

22 1. Liberty Black Mountain is a public service corporation providing wastewater
23 service to approximately 2,214 customers in Maricopa County, Arizona.

24 2. Liberty Black Mountain's present rates and charges for utility service were
25 approved by the Commission in Decision No. 71865 (September 1, 2010) using a test year
26 ending June 30, 2008. Liberty Black Mountain is filing a rate case seeking new rates

1 simultaneous with this Application using a test year ending December 31, 2014.

2 3. Liberty Black Mountain's business office is located at 12725 W. Indian
3 School Road, Suite D-101, Avondale, Arizona 85392 and its telephone number is
4 (623) 935-9367. The Company's primary management contact is its President Matthew
5 Garlick.

6 4. Mr. Garlick is the person responsible for overseeing and directing the
7 conduct of this Application. His mailing address is 12725 W. Indian School Road,
8 Suite D-101, Avondale, Arizona 85392; his telephone number is (623) 298-3763; and his
9 email address is matthew.garlick@libertyutilities.com. **All discovery, data requests and
10 other requests for information concerning this Application should be directed to
11 Mr. Garlick, with a copy by e-mail to undersigned counsel at jay@shapslawaz.com
12 and whitney@shapslawaz.com, and to Liberty's Assistant General Counsel at
13 todd.wiley@libertyutilities.com.**

14 5. Financial statements for the twelve-month period ending December 31, 2014,
15 are attached as **Exhibit 1**.

16 6. Statements projecting Liberty Black Mountain's estimated financial
17 performance, for the next five years, are attached as **Exhibit 2**.

18 **B. Purposes of Financing.**

19 7. Liberty Black Mountain seeks Commission approval of long-term debt
20 financing contemplated herein for the purpose of rebalancing the Company's capital
21 structure from its present 100 percent equity structure to a capital structure of 70 percent
22 equity and 30 percent debt.

23 8. Liberty Black Mountain's capital structure is presently 100 percent equity.
24 If this application is approved, Liberty Black Mountain will borrow the amount necessary
25 to achieve a capital structure consisting of 70 percent equity and 30 percent debt.
26 This amount is currently estimated to be \$2.0 million. In addition, Liberty Black

1 Mountain will enter into additional loan agreements every six months as necessary to
2 maintain a capital structure consisting of 70 percent equity and 30 percent debt. However,
3 at no time will the total debt amount exceed \$3,400,000.

4 **C. Terms and Conditions of Financial Transactions.**

5 9. The lender will be Liberty Utilities Co. ("Liberty Utilities"). Liberty Utilities
6 is an affiliate of Liberty Black Mountain. The term sheet for the proposed debt financing
7 is attached hereto as **Exhibit 3**. Liberty Utilities will provide the subject financing at an
8 interest rate equal to the United States 10 Year Treasury bond rate plus 130 basis points.
9 The maturity date for the debt financing from Liberty Utilities shall be ten (10) years after
10 closing. Liberty Utilities will not earn a profit or return on loans made to Liberty Black
11 Mountain under the authority sought in this Application.

12 **D. Effects of Financial Transactions.**

13 10. Liberty Black Mountain's pro forma balance sheet for the period ending
14 December 31, 2014 is attached as **Exhibit 4**. The pro forma balance sheet reflects the
15 impact of the debt infusion that is the subject of this Application. As noted above, the
16 Company's pro forma capital structure will be 30 percent debt and 70 percent common
17 equity.

18 11. The Company will have a Debt Service Coverage Ratio (DSCR) of 8.11 and
19 a Times Interest Earned Ratio (TIER) of 6.59 if the maximum requested indebtedness
20 were incurred. The ratios will be higher as long as the amount of debt incurred remains
21 less than the maximum value requested. The DSCR and TIER calculations, as shown on
22 **Exhibit 5**, were calculated using the current US 10 Year Treasury bond rate of 2.23% plus
23 130 basis points.

24 12. The loan proceeds will be issued for lawful purposes, as discussed herein,
25 and the execution of loan agreements with Liberty Utilities and the undertaking of the
26 obligations set forth therein are within the Company's corporate powers. A Corporate

1 Resolution authorizing the contemplated transaction is attached as **Exhibit 6**.

2 13. Liberty Black Mountain will file true and correct copies of all debt
3 instruments issued with Docket Control within thirty (30) days from the date of issuance.

4 14. The approvals sought herein are compatible with the public interest and with
5 the proper performance of Liberty Black Mountain's duties as a public service
6 corporation.

7 15. The financing contemplated herein will not impair Liberty Black Mountain's
8 ability to perform its duties as a public service corporation providing wastewater utility
9 service.

10 16. Liberty Black Mountain intends to consolidate this financing application with
11 the Company's rate application filed on the same date. As such, Liberty Black Mountain
12 will seek permission to notify its customers of both applications at the same time if
13 consolidation is granted. Proof of publication and a true copy of the notice will be filed
14 with the Commission as necessary.

15 Based on the foregoing, Liberty Black Mountain respectfully requests the
16 following:

17 A. That the Commission consider this application at the same time and in the
18 same proceedings as the Company's concurrently filed rate application; and

19 B. That the Commission enter an order approving this Application and
20 authorizing Liberty Black Mountain to incur indebtedness in an amount not to exceed
21 \$3,400,000 for the purposes described above; and

22 C. That the Commission authorize Liberty Black Mountain to take such other
23 and further action as may be necessary to effectuate the purposes of this Application, as
24 may be appropriate under the circumstances herein.

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RESPECTFULLY SUBMITTED this 22nd day of June, 2015.

SHAPIRO LAW FIRM, P.C.

By: _____
Jay L. Shapiro
1819 E. Morten Avenue, Suite 280
Phoenix, AZ 85020

and

LIBERTY UTILITIES

Todd C. Wiley
Assistant General Counsel
12725 W. Indian School Road, Suite D-101
Avondale, AZ 85392

Attorneys for Liberty Utilities
(Black Mountain Sewer) Corp.

ORIGINAL and fifteen (15) copies
of the foregoing were delivered
this 22nd day of June, 2015, to:

Docket Control
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

By: Whitney Burk

**LIBERTY UTILITIES
(BLACK MOUNTAIN SEWER) CORP.**

EXHIBIT 1

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Comparative Balance Sheets

Exhibit
Schedule E-1
Page 1
Witness: Bourassa

Line No.		Test Year Ended <u>12/31/2014</u>	Year Ended <u>12/31/2013</u>	Year Ended <u>12/31/2012</u>
1	<u>ASSETS</u>			
2	Plant In Service	\$ 16,165,880	\$ 16,051,706	\$ 15,737,360
3	Non-Utility Plant	-	-	-
4	Construction Work in Progress	1,483,674	940,405	401,441
5	Property Held for Future Use	-	-	-
6	Less: Accumulated Depreciation	<u>(8,073,682)</u>	<u>(7,886,164)</u>	<u>(7,444,634)</u>
7	Net Plant	<u>\$ 9,575,872</u>	<u>\$ 9,105,946</u>	<u>\$ 8,694,167</u>
8				
9	CURRENT ASSETS			
10	Cash and Equivalents	\$ (130,301)	\$ (24,074)	\$ (6,602)
11	Restricted Cash	-	-	-
12	Accounts Receivable, Net	43,669	52,928	54,810
13	Inter-Company Receivable	-	-	-
14	Notes Receivable	-	-	-
15	Materials and Supplies	-	-	-
16	Prepayments	9,493	9,493	7,917
17	Other Current Assets	-	-	-
18	Total Current Assets	<u>\$ (77,138)</u>	<u>\$ 38,347</u>	<u>\$ 56,126</u>
19				
20	OTHER ASSETS			
21	Deferred Finance Costs	\$ -	\$ -	\$ -
22	Other Deferred Debits	-	-	-
23	Other Non-Current Assets	-	-	-
24	Deferred Debits	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
25				
26	TOTAL ASSETS	<u>\$ 9,498,734</u>	<u>\$ 9,144,294</u>	<u>\$ 8,750,293</u>
27				
28				
29	<u>LIABILITIES AND STOCKHOLDER EQUITY</u>			
30				
31	Stockholder's Equity	<u>\$ 6,276,158</u>	<u>\$ 5,493,008</u>	<u>\$ 4,955,087</u>
32				
33	Long-Term Debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
34				
35	CURRENT LIABILITIES			
36	Accounts Payable	\$ -	\$ -	\$ 1,152,437
37	Current Portion of Long-Term Debt	-	-	-
38	Payables to Associated Companies	385,190	816,701	-
39	Security Deposits	-	-	-
40	Customer Meter Deposits, Current	8,570	-	-
41	Current Portion of AIAC	-	-	-
42	Accrued Taxes	-	-	15,387
43	Accrued Interest	-	-	-
44	Other Current Liabilities	391,018	469,848	395,833
45	Total Current Liabilities	<u>\$ 784,778</u>	<u>\$ 1,286,549</u>	<u>\$ 1,563,657</u>
46	DEFERRED CREDITS			
47	Customer Meter Deposits, less current	\$ -	\$ -	\$ -
48	Advances in Aid of Construction	1,891,086	2,211,453	2,208,139
49	Accumulated Deferred Investment Tax Credits	-	-	-
50	Accumulated Deferred Income Taxes	-	-	-
51	Contributions In Aid of Construction	5,461,736	5,258,149	5,239,075
52	Accumulated Amortization	(5,073,246)	(5,070,648)	(5,070,456)
53	Other Deferred Credits	158,222	(34,217)	(145,209)
54	Total Deferred Credits	<u>\$ 2,437,798</u>	<u>\$ 2,364,738</u>	<u>\$ 2,231,548</u>
55				
56	Total Liabilities & Common Equity	<u>\$ 9,498,734</u>	<u>\$ 9,144,294</u>	<u>\$ 8,750,293</u>

60 **SUPPORTING SCHEDULES:**

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Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Comparative Income Statements

Exhibit
 Schedule E-2
 Page 1
 Witness: Bourassa

Line No.		Test Year Ended <u>12/31/2014</u>	Prior Year Ended <u>12/31/2013</u>	Prior Year Ended <u>12/31/2012</u>
1	Revenues			
2	Flat Rate Revehvue	\$ 2,202,898	\$ 2,217,617	\$ 2,180,095
3	Reclaimed Water Revenues	16,067	-	-
4	Other Water Revenues	11,098	9,126	12,115
5	Total Revenues	<u>\$ 2,230,062</u>	<u>\$ 2,226,742</u>	<u>\$ 2,192,209</u>
6	Operating Expenses			
7	Salaries and Wages	\$ 228,309	\$ -	\$ -
8	Purchased Water	5,647	5,684	5,779
9	Sludge Removal	-	-	-
10	Purchased Power	65,112	62,914	64,718
11	Fuel for Power Production	-	-	-
12	Chemicals	19,215	17,410	36,248
13	Materials and Supplies	23,875	35,361	35,722
14	Contractual Services - Professional	316,663	11,964	17,956
15	Contractual Services - Testing	8,117	16,833	9,514
16	Contractual Services - Other	361,855	874,476	931,746
17	Rents	23,807	35,596	34,603
18	Transportation	15,371	13,415	20,959
19	Insurance	11,720	16,755	13,794
20	Regulatory Commission Expense	-	62,249	56,059
21	Miscellaneous	58,742	36,897	99,989
22	Depreciation and Amortization	229,669	448,450	353,152
23	Taxes Other Than Income	-	-	-
24	Property Taxes	47,904	43,908	35,509
25	Income Taxes	-	-	-
26				
27	Total Operating Expenses	<u>\$ 1,416,004</u>	<u>\$ 1,681,910</u>	<u>\$ 1,715,748</u>
28	Operating Income	<u>\$ 814,058</u>	<u>\$ 544,832</u>	<u>\$ 476,461</u>
29	Other Income (Expense)			
30	Interest and Dividend Income	-	-	-
31	AFUDC Income	8,893	43,944	-
32	Miscellaneous Non-Utility Expenses	-	64	-
33	Interest Expense	(39,801)	(50,921)	(130,463)
34				
35	Total Other Income (Expense)	<u>\$ (30,908)</u>	<u>\$ (6,913)</u>	<u>\$ (130,463)</u>
36	Net Profit (Loss)	<u>\$ 783,150</u>	<u>\$ 537,919</u>	<u>\$ 345,999</u>

40 SUPPORTING SCHEDULES:

RECAP SCHEDULES:
 A-2

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Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Comparative Statements of Cash Flows

Exhibit
 Schedule E-3
 Page 1
 Witness: Bourassa

Line No.	Test Year Ended <u>12/31/2014</u>	Prior Year Ended <u>12/31/2013</u>	Prior Year Ended <u>12/31/2012</u>
3	Cash Flows from Operating Activities		
4	\$ 783,150	\$ 537,919	\$ 345,999
5	Adjustments to reconcile net income to net cash		
6	provided by operating activities:		
7	229,669	448,450	353,152
8	(44,749)	(7,112)	(39,088)
9	Changes in Certain Assets and Liabilities:		
10	9,259	1,882	(11,457)
11	Accounts Receivable		
12	Restricted Cash		
13	Materials and Supplies Inventory		
14		(1,576)	488
15	(431,511)	816,701	(1,480,433)
16		(1,152,437)	1,152,437
17	Prepaid Expenses		
18	8,570		
19		15,387	
20	113,609	154,233	21,614
21	(1)	3	(1)
22	<u>\$ 667,996</u>	<u>\$ 813,451</u>	<u>\$ 342,711</u>
23	Cash Flow From Investing Activities:		
24	(657,443)	(853,310)	(350,952)
25	-	-	-
26	-	-	-
27	<u>\$ (657,443)</u>	<u>\$ (853,310)</u>	<u>\$ (350,952)</u>
28	Cash Flow From Financing Activities		
29	Change in Restricted Cash		
30	Proceeds from Long-Term Debt		
31	203,587	19,074	
32	(320,367)	3,314	970
33	Repayments of Long-Term Debt		
34	Distributions		
35	Deferred Financing Costs		
36	Paid in Capital		
37	<u>\$ (116,780)</u>	<u>\$ 22,388</u>	<u>\$ 970</u>
38	(106,227)	(17,471)	(7,271)
39	(24,074)	(6,602)	669
40	<u>\$ (130,301)</u>	<u>\$ (24,074)</u>	<u>\$ (6,602)</u>

41
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 43 SUPPORTING SCHEDULES:
 44 Workpapers
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RECAP SCHEDULES:
 A-5

**LIBERTY UTILITIES
(BLACK MOUNTAIN SEWER) CORP.**

EXHIBIT 2

Balance Sheet	2015	2016	2017	2018	2019	2020
Cash	(\$198,855)	(\$198,855)	(\$198,855)	(\$198,855)	(\$198,855)	(\$198,855)
Short Term Investments	\$0	\$0	\$0	\$0	\$0	\$0
Accounts Receivables	\$45,066	\$45,066	\$45,066	\$45,066	\$45,066	\$45,066
Prepaid Expenses	\$9,140	\$9,140	\$9,140	\$9,140	\$9,140	\$9,140
Supplies and Consumables Inventory	\$0	\$0	\$0	\$0	\$0	\$0
Current Portion of Notes Receivables	\$0	\$0	\$0	\$0	\$0	\$0
Income Tax Receivable	\$0	\$0	\$0	\$0	\$0	\$0
Current Portion of Regulatory Assets	\$0	\$0	\$0	\$0	\$0	\$0
Current Portion of Derivative Assets	\$0	\$0	\$0	\$0	\$0	\$0
Current Assets	(\$144,649)	(\$144,649)	(\$144,649)	(\$144,649)	(\$144,649)	(\$144,649)
Utility Plant	\$12,631,654	\$13,806,304	\$15,495,954	\$17,618,554	\$17,769,704	\$17,833,354
Accumulated Depreciation	(\$3,427,697)	(\$3,851,264)	(\$4,330,605)	(\$4,891,598)	(\$5,480,880)	(\$6,074,002)
Construction Work In Progress	\$0	\$0	\$0	\$0	\$0	\$0
Cost of Removal	\$0	\$0	\$0	\$0	\$0	\$0
Net Plant	\$9,203,957	\$9,955,040	\$11,165,349	\$12,726,956	\$12,288,824	\$11,759,352
Intangible Assets Cost	\$0	\$0	\$0	\$0	\$0	\$0
Accumulated Depreciation-Intangible	\$0	\$0	\$0	\$0	\$0	\$0
Other Intangibles	\$0	\$0	\$0	\$0	\$0	\$0
Net Intangible Assets	\$0	\$0	\$0	\$0	\$0	\$0
Restricted Cash	\$0	\$0	\$0	\$0	\$0	\$0
Intercompany Accounts	(\$75,644)	(\$75,644)	(\$75,644)	(\$75,644)	(\$75,644)	(\$75,644)
Long Term Assets	\$0	\$0	\$0	\$0	\$0	\$0
Goodwill	\$0	\$0	\$0	\$0	\$0	\$0
Future non-current income tax asset	\$0	\$0	\$0	\$0	\$0	\$0
Deferred Financing Costs	\$0	\$0	\$0	\$0	\$0	\$0
Regulatory Assets	(\$97,466)	(\$97,466)	(\$97,466)	(\$97,466)	(\$97,466)	(\$97,466)
Derivative Assets	\$0	\$0	\$0	\$0	\$0	\$0
Other Assets	\$0	\$0	\$0	\$0	\$0	\$0
Other Non Current Assets	(\$173,110)	(\$173,110)	(\$173,110)	(\$173,110)	(\$173,110)	(\$173,110)
Assets	\$8,886,197	\$9,637,280	\$10,847,589	\$12,409,196	\$11,971,064	\$11,441,592
Accounts Payable	\$16,459	\$16,459	\$16,459	\$16,459	\$16,459	\$16,459
Accrued Liabilities	\$380,361	\$380,361	\$380,361	\$380,361	\$380,361	\$380,361
Distributions Payable	\$0	\$0	\$0	\$0	\$0	\$0
Dividends Payable	\$0	\$0	\$0	\$0	\$0	\$0
Current portion of long term debt	\$0	\$0	\$0	\$0	\$0	\$0
Current Portion of Derivative Liabilities	\$0	\$0	\$0	\$0	\$0	\$0
Current Portion of Other Long-term Liabilities	\$0	\$0	\$0	\$0	\$0	\$0
Deferred Revenue	\$0	\$0	\$0	\$0	\$0	\$0
Current Portion of AIAC	\$307,000	\$307,000	\$307,000	\$307,000	\$307,000	\$307,000
Current Portion Preferred Series C	\$0	\$0	\$0	\$0	\$0	\$0
Current Liabilities	\$703,821	\$703,821	\$703,821	\$703,821	\$703,821	\$703,821
Long Term Liabilities	\$0	\$893,464	\$1,082,949	\$1,752,423	\$426,639	\$0
Convertible Debentures	\$0	\$0	\$0	\$0	\$0	\$0
Other Long Term Liabilities	\$0	\$0	\$0	\$0	\$0	\$0
Advances in Aid of Construction	\$1,550,506	\$1,550,506	\$1,550,506	\$1,550,506	\$1,550,506	\$1,550,506
Long Term Meter Deposits	\$51,281	\$51,281	\$51,281	\$51,281	\$51,281	\$51,281
Pension Obligation	\$0	\$0	\$0	\$0	\$0	\$0
Contingent Consideration	\$0	\$0	\$0	\$0	\$0	\$0
Regulatory Liabilities	\$0	\$0	\$0	\$0	\$0	\$0
Future non-current income tax liability	\$0	\$0	\$0	\$0	\$0	\$0
Derivative Liabilities	\$0	\$0	\$0	\$0	\$0	\$0
Deferred Credits	\$171,666	\$171,666	\$171,666	\$171,666	\$171,666	\$171,666
Preferred Series C	\$0	\$0	\$0	\$0	\$0	\$0
Non Current Liabilities	\$1,773,454	\$2,666,918	\$2,856,403	\$3,525,877	\$2,200,092	\$1,773,454
Liabilities	\$2,477,275	\$3,370,739	\$3,560,224	\$4,229,698	\$2,903,913	\$2,477,275
Contributed Capital	\$0	\$0	\$0	\$0	\$0	\$0
Common Shares	\$2,955,687	\$2,955,687	\$2,955,687	\$2,955,687	\$2,955,687	\$2,955,687
Partnership Contributions	\$0	\$0	\$0	\$0	\$0	\$0
Partnership Equity	\$0	\$0	\$0	\$0	\$0	\$0
Trust Units	\$0	\$0	\$0	\$0	\$0	\$0
Retained Earnings	\$3,082,148	\$3,703,228	\$4,724,052	\$5,616,184	\$6,503,837	\$7,861,178
Partnership Distributions	\$0	\$0	\$0	\$0	\$0	\$0
Offering Costs	\$0	\$0	\$0	\$0	\$0	\$0
Cash Distributions	(\$246,511)	(\$1,009,972)	(\$1,009,972)	(\$1,009,972)	(\$1,009,972)	(\$2,470,147)
Dividends Paid	\$617,599	\$617,599	\$617,599	\$617,599	\$617,599	\$617,599
Other Comprehensive Income	\$0	\$0	\$0	\$0	\$0	\$0
Shareholders Equity	\$6,408,923	\$6,266,542	\$7,287,366	\$8,179,498	\$9,067,151	\$8,964,317
Non Controlling interest	\$0	\$0	\$0	\$0	\$0	\$0
Total Equity	\$6,408,923	\$6,266,542	\$7,287,366	\$8,179,498	\$9,067,151	\$8,964,317
Total Liabilities and Equity	\$8,886,197	\$9,637,280	\$10,847,590	\$12,409,196	\$11,971,064	\$11,441,592

Income Statement	2015	2016	2017	2018	2019	2020
Energy/Steam Sales	\$0	\$0	\$0	\$0	\$0	\$0
Waste Disposal Fees	\$0	\$0	\$0	\$0	\$0	\$0
Utility Sales and Distribution - Water and Wastewater	\$2,264,877	\$2,414,367	\$2,910,482	\$2,910,482	\$2,910,482	\$3,340,058
Utility Sales and Distribution - Energy	\$0	\$0	\$0	\$0	\$0	\$0
Utility Sales and Distribution - Gas	\$0	\$0	\$0	\$0	\$0	\$0
Other Revenue	\$52	\$0	\$0	\$0	\$0	\$0
Revenue - Gross	<u>\$2,264,929</u>	<u>\$2,414,367</u>	<u>\$2,910,482</u>	<u>\$2,910,482</u>	<u>\$2,910,482</u>	<u>\$3,340,058</u>
Regulated Electricity Purchased	\$0	\$0	\$0	\$0	\$0	\$0
Regulated Gas Purchased	\$0	\$0	\$0	\$0	\$0	\$0
Non Regulated Fuel for Generation	\$0	\$0	\$0	\$0	\$0	\$0
Energy Cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Revenue - Net	<u>\$2,264,929</u>	<u>\$2,414,367</u>	<u>\$2,910,482</u>	<u>\$2,910,482</u>	<u>\$2,910,482</u>	<u>\$3,340,058</u>
Liberty - Operations - Non Labour	\$701,977	\$695,614	\$695,614	\$695,614	\$695,614	\$695,614
Operating Costs	\$574,638	\$559,614	\$559,614	\$559,614	\$559,614	\$559,614
Repair and Maintenance	\$47,454	\$50,400	\$50,400	\$50,400	\$50,400	\$50,400
Utility/Consumable Costs	\$13,137	\$15,892	\$15,892	\$15,892	\$15,892	\$15,892
Administration-Site	\$66,749	\$69,709	\$69,709	\$69,709	\$69,709	\$69,709
Administration-Corporate (Includes Test Year Inflation)	\$0	\$0	\$0	\$0	\$0	\$0
Liberty - Operations - Labour	\$350,068	\$373,700	\$384,911	\$396,459	\$408,352	\$420,603
Liberty - Customer Care - Non Labour	\$9,695	\$14,284	\$14,284	\$14,284	\$14,284	\$14,284
Liberty - Customer Care - Labour	\$55,962	\$58,636	\$60,395	\$62,207	\$64,073	\$65,995
Liberty - Admin - Non Labour	\$41,529	\$42,519	\$42,519	\$42,519	\$42,519	\$42,519
Liberty - Admin - Labour	\$74,029	\$81,026	\$83,457	\$85,961	\$88,540	\$91,196
Expenses (Excluding Admin)	<u>\$1,233,260</u>	<u>\$1,265,779</u>	<u>\$1,281,180</u>	<u>\$1,297,043</u>	<u>\$1,313,382</u>	<u>\$1,330,211</u>
Other Income Before EBITDA	<u>\$10,710</u>	<u>\$14,280</u>	<u>\$14,280</u>	<u>\$14,280</u>	<u>\$14,280</u>	<u>\$14,280</u>
Operating Profit	<u>\$1,042,379</u>	<u>\$1,162,867</u>	<u>\$1,643,582</u>	<u>\$1,627,719</u>	<u>\$1,611,380</u>	<u>\$2,024,127</u>
Business Group Admin	\$31,546	\$28,703	\$28,783	\$29,359	\$29,946	\$30,695
Business Services Admin	\$36,525	\$35,242	\$39,372	\$40,450	\$41,569	\$42,731
Business Group Profit	<u>\$974,308</u>	<u>\$1,098,923</u>	<u>\$1,575,427</u>	<u>\$1,557,910</u>	<u>\$1,539,865</u>	<u>\$1,950,701</u>
Executive Admin	\$20,798	\$25,830	\$26,864	\$28,001	\$29,228	\$30,613
Corporate Services Admin	\$12,645	\$16,727	\$17,205	\$17,786	\$18,393	\$19,040
Other Admin	<u>\$33,443</u>	<u>\$42,556</u>	<u>\$44,070</u>	<u>\$45,786</u>	<u>\$47,621</u>	<u>\$49,652</u>
Expenses (Including Admin)	<u>\$1,334,774</u>	<u>\$1,372,280</u>	<u>\$1,393,405</u>	<u>\$1,412,639</u>	<u>\$1,432,518</u>	<u>\$1,453,289</u>
EBITDA	<u>\$940,865</u>	<u>\$1,056,367</u>	<u>\$1,531,357</u>	<u>\$1,512,123</u>	<u>\$1,492,244</u>	<u>\$1,901,049</u>
Depreciation	\$427,261	\$423,567	\$479,341	\$560,993	\$589,282	\$593,122
Amortization	<u>\$106,227</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Depreciation & Amortization	<u>\$533,488</u>	<u>\$423,567</u>	<u>\$479,341</u>	<u>\$560,993</u>	<u>\$589,282</u>	<u>\$593,122</u>
EBIT	<u>\$407,377</u>	<u>\$632,800</u>	<u>\$1,052,017</u>	<u>\$951,130</u>	<u>\$902,962</u>	<u>\$1,307,926</u>
Interest Expense	\$30,621	\$30,032	\$64,906	\$108,573	\$81,224	\$33,329
AFUDC - Debt (Gain) / Loss	-\$2,520	-\$3,360	-\$3,360	-\$3,360	-\$3,360	-\$3,360
Acquisition Costs	\$0	\$0	\$0	\$0	\$0	\$0
(Gain) / Loss on Foreign Exchange	\$0	\$0	\$0	\$0	\$0	\$0
(Gain) / Loss on Derivative Financial Instrument	\$0	\$0	\$0	\$0	\$0	\$0
(Gain) / Loss on Fixed Asset Disposal	\$0	\$0	\$0	\$0	\$0	\$0
Other (Income) and Expenses	<u>\$28,101</u>	<u>\$26,672</u>	<u>\$61,546</u>	<u>\$105,213</u>	<u>\$77,864</u>	<u>\$29,969</u>
Earnings Before Tax	<u>\$379,276</u>	<u>\$606,127</u>	<u>\$990,471</u>	<u>\$845,917</u>	<u>\$825,098</u>	<u>\$1,277,957</u>
Current Income Taxes	\$0	\$0	\$0	\$0	\$0	\$0
Future Income Taxes	\$0	\$0	\$0	\$0	\$0	\$0
Income Taxes	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Net Income	<u>\$379,276</u>	<u>\$606,127</u>	<u>\$990,471</u>	<u>\$845,917</u>	<u>\$825,098</u>	<u>\$1,277,957</u>

Cash Flow	2015	2016	2017	2018	2019	2020
Net Income	\$379,276	\$606,127	\$990,471	\$845,917	\$825,098	\$1,277,957
Depreciation	\$427,261	\$423,567	\$479,341	\$560,993	\$589,282	\$593,122
Amortization	\$106,227	\$0	\$0	\$0	\$0	\$0
Pension	\$0	\$0	\$0	\$0	\$0	\$0
Deferred Taxes	\$0	\$0	\$0	\$0	\$0	\$0
Increase / (Decrease) in Current Liabilities	\$5,803	\$0	\$0	\$0	\$0	\$0
(Increase) / Decrease in Current Assets	-\$1,043	\$0	\$0	\$0	\$0	\$0
Cash From Operating Activities	\$917,523	\$1,029,694	\$1,469,812	\$1,406,910	\$1,414,380	\$1,871,079
Increase / (Decrease) in Line of Credit		\$893,464	\$189,485	\$669,474	-\$1,325,785	-\$426,639
Increase / (Decrease) in 3rd Party Debt		\$0	\$0	\$0	\$0	\$0
Increase / (Decrease) in InterCo Debt		\$0	\$0	\$0	\$0	\$0
Cash Distributions		-\$763,461	\$0	\$0	\$0	-\$1,460,175
Dividends		\$0	\$0	\$0	\$0	\$0
Contributions		\$0	\$0	\$0	\$0	\$0
(Decrease) / Increase in Other Long Term Liabilities		\$0	\$0	\$0	\$0	\$0
Environmental Remediation		\$0	\$0	\$0	\$0	\$0
Cash From Financing Activities		\$130,003	\$189,485	\$669,474	-\$1,325,785	-\$1,886,813
CapEx		-\$1,174,650	-\$1,689,650	-\$2,122,600	-\$151,150	-\$63,650
(Increase) / Decrease in Other Long Term Assets		\$0	\$0	\$0	\$0	\$0
Acquisitions						
Other						
Other						
Other						
Cash From Investing Activities		-\$1,174,650	-\$1,689,650	-\$2,122,600	-\$151,150	-\$63,650
Cash Flow		-\$14,952	-\$30,353	-\$46,216	-\$62,555	-\$79,384

**LIBERTY UTILITIES
(BLACK MOUNTAIN SEWER) CORP.**

EXHIBIT 3

Liberty Utilities Co. to Liberty Utilities (Black Mountain Sewer) Corp. Term Sheet

Lender	Liberty Utilities Co.
Borrower	Liberty (Black Mountain Sewer) Corp.
Guarantor(s)	None
Type of Credit	Term Loan
Purpose	Any lawful purpose including, without limitation, achieving and maintaining a capital structure with a preferred blend of debt and equity.
Loan Amount	Maximum of US\$3.4 million
Maturity Date	Ten Years after Closing Date
Collateral	None
Interest Rate	Ten Year US Treasury plus 130 basis points. The rate shall be determined using the Treasury rate applicable 15 business days before the closing date.
Repayment Terms	Interest payments shall be made monthly. <i>[Given interest rates current at the time of application, the payment would be approximately \$9500.]</i> The principal balance shall be due and payable on or before the maturity date.
Prepayment	Ten Year US Treasury plus 50 basis points make whole on early repayment. Lender acknowledges, and the parties hereto agree, that the loan holder has the right to maintain its investment in the loan free from repayment by Lender and that the provision for payment of a make-whole amount by Lender in the event that the loan is redeemed is intended to provide compensation for the deprivation of such right under such circumstances. “Make-whole amount” means, with respect to the loan, an amount equal to the excess, if any, of the discounted value of the remaining scheduled payments with respect to the called principal of such loan over the amount of such called principal, provided that the make-whole amount may in no event be less than zero.
Indicative Covenants	Borrower shall maintain a debt to capital ratio of no more than 65%.
Other Covenants	Standard and customary for transactions of this nature.
Expenses	Borrower and Lender to incur their own reasonable out-of-pocket costs and expenses incurred in connection with initiating and administering the loan, including, but not limited to, closing, legal, and administrative costs.

**LIBERTY UTILITIES
(BLACK MOUNTAIN SEWER) CORP.**

EXHIBIT 4

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Comparative Balance Sheets

Exhibit
 Schedule E-1
 Page 1
 Witness: Bourassa

Line No.		<i>Pro Forma</i>		
		Test Year Ended 12/31/2014	Year Ended 12/31/2013	Year Ended 12/31/2012
1	ASSETS			
2	Plant In Service	\$ 16,165,880	\$ 16,051,706	\$ 15,737,360
3	Non-Utility Plant	-	-	-
4	Construction Work in Progress	1,483,674	940,405	401,441
5	Property Held for Future Use	-	-	-
6	Less: Accumulated Depreciation	<u>(8,073,682)</u>	<u>(7,886,164)</u>	<u>(7,444,634)</u>
7	Net Plant	<u>\$ 9,575,872</u>	<u>\$ 9,105,946</u>	<u>\$ 8,694,167</u>
8				
9	CURRENT ASSETS			
10	Cash and Equivalents	\$ (130,301)	\$ (24,074)	\$ (6,602)
11	Restricted Cash	-	-	-
12	Accounts Receivable, Net	43,669	52,928	54,810
13	Inter-Company Receivable	-	-	-
14	Notes Receivable	-	-	-
15	Materials and Supplies	-	-	-
16	Prepayments	9,493	9,493	7,917
17	Other Current Assets	-	-	-
18	Total Current Assets	<u>\$ (77,138)</u>	<u>\$ 38,347</u>	<u>\$ 56,126</u>
19				
20	OTHER ASSETS			
21	Deferred Finance Costs	\$ -	\$ -	\$ -
22	Other Deferred Debits	-	-	-
23	Other Non-Current Assets	-	-	-
24	Deferred Debits	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
25				
26	TOTAL ASSETS	<u>\$ 9,498,734</u>	<u>\$ 9,144,294</u>	<u>\$ 8,750,293</u>
27				
28				
29	LIABILITIES AND STOCKHOLDER EQUITY			
30				
31	Stockholder's Equity	<u>\$ 4,393,310</u>	<u>\$ 5,493,008</u>	<u>\$ 4,955,087</u>
32				
33	Long-Term Debt	<u>\$ 1,882,847</u>	<u>\$ -</u>	<u>\$ -</u>
34				
35	CURRENT LIABILITIES			
36	Accounts Payable	\$ -	\$ -	\$ 1,152,437
37	Current Portion of Long-Term Debt	-	-	-
38	Payables to Associated Companies	385,190	816,701	-
39	Security Deposits	-	-	-
40	Customer Meter Deposits, Current	8,570	-	-
41	Current Portion of AIAC	-	-	-
42	Accrued Taxes	-	-	15,387
43	Accrued Interest	-	-	-
44	Other Current Liabilities	391,018	469,848	395,833
45	Total Current Liabilities	<u>\$ 784,778</u>	<u>\$ 1,286,549</u>	<u>\$ 1,563,657</u>
46	DEFERRED CREDITS			
47	Customer Meter Deposits, less current	\$ -	\$ -	\$ -
48	Advances in Aid of Construction	1,891,086	2,211,453	2,208,139
49	Accumulated Deferred Investment Tax Credits	-	-	-
50	Accumulated Deferred Income Taxes	-	-	-
51	Contributions In Aid of Construction	5,461,736	5,258,149	5,239,075
52	Accumulated Amortization	(5,073,246)	(5,070,648)	(5,070,456)
53	Other Deferred Credits	158,222	(34,217)	(145,209)
54	Total Deferred Credits	<u>\$ 2,437,798</u>	<u>\$ 2,364,738</u>	<u>\$ 2,231,548</u>
55				
56	Total Liabilities & Common Equity	<u>\$ 9,498,734</u>	<u>\$ 9,144,294</u>	<u>\$ 8,750,293</u>

60 SUPPORTING SCHEDULES:
 61
 62
 63
 64

**LIBERTY UTILITIES
(BLACK MOUNTAIN SEWER) CORP.**

EXHIBIT 5

Liberty Utilities (Black Mountain Sewer) Corp. Pro Forma Ratios

Debt Service Coverage Ratio		Pro Forma 2014
Annual Net Income		\$783,150
Interest Expense		-\$39,801
Depreciation and Amortization		\$229,669
Net Operating Income		\$973,018
<i>Estimated Monthly Interest Payment</i>		<i>\$10,000</i>
<i>Estimated Annual Interest Payments</i>		<i>\$120,000</i>
Total Debt Service		\$120,000
Debt Service Coverage Ratio		8.11

Times Interest Earned Ratio		Pro Forma 2014
Annual Net Income		\$783,150
Interest Expense		-\$39,801
Taxes		\$47,904
Earnings Before Interest and Taxes		\$791,253
<i>Estimated Monthly Interest Payment</i>		<i>\$10,000</i>
<i>Estimated Annual Interest Payments</i>		<i>\$120,000</i>
Total Interest Expense		\$120,000
Times Interest Earned Ratio		6.59

**LIBERTY UTILITIES
(BLACK MOUNTAIN SEWER) CORP.**

EXHIBIT 6

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

**STATEMENT OF UNANIMOUS WRITTEN CONSENT TO ACTION TAKEN IN LIEU
OF A SPECIAL MEETING OF THE BOARD OF DIRECTORS**

June 2, 2015

In lieu of a special meeting of the Board of Directors of Liberty Utilities (Black Mountain Sewer) Corp., an Arizona corporation (the "Corporation"), the undersigned, being all of the duly elected directors of the Corporation (the "Board"), acting in accordance with the authority contained in Arizona Revised Statutes §10-821, hereby adopt the following resolutions as actions of the Board, with the same force and effect as if such resolutions had been duly adopted at a meeting of the Board.

DEBT FINANCING

RESOLVED THAT the Corporation is authorized to apply to the Arizona Corporation Commission seeking approval of the debt financing contemplated in the Corporation's Financing Application ("Application") to be filed with the Arizona Corporation Commission, in an amount necessary to rebalance and maintain the Corporation's capital structure at 30 percent debt to 70 percent equity;

RESOLVED THAT the Corporation may obtain debt financing from Liberty Utilities Co. in an amount not to exceed \$3,400,000, at an interest rate equal to the ten year United States Treasury bond rate plus an appropriate credit spread (at the time of this resolution, the estimated interest rate is approximately 2.05% and the estimated credit spread is approximately 130 basis points);

RESOLVED THAT the maturity date for the debt financing from Liberty Utilities Co. shall be ten (10) years after closing date;

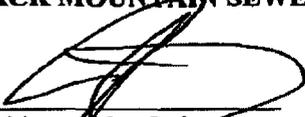
RESOLVED THAT that Liberty Utilities Co. will not earn a profit or return on such debt financing to the Corporation as sought in the Financing Application;

RESOLVED THAT the Corporation is authorized to execute, prepare and submit all proper filings and disclosures, and seek and obtain any and all necessary approvals in connection with the processing of the Financing Application; and

FURTHER RESOLVED THAT any two officers of the Corporation be, and each of them hereby is, authorized to sign such documents on behalf of the Corporation and to otherwise carry out the purposes and intent of the foregoing resolutions.

IN WITNESS WHEREOF, the undersigned, being all of the Directors of the Corporation, have executed this Statement of Unanimous Written Consent as of the date first written above.

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

By: 
Name: Jan Robertson
Title: Director

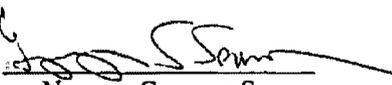
By: _____
Name: Gregory Sorensen
Title: Director

By: _____
Name: Richard Leehr
Title: Director

IN WITNESS WHEREOF, the undersigned, being all of the Directors of the Corporation, have executed this Statement of Unanimous Written Consent as of the date first written above.

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

By: _____
Name: Ian Robertson
Title: Director

By:  _____
Name: Gregory Sorensen
Title: Director

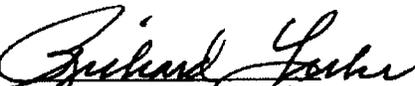
By: _____
Name: Richard Leehr
Title: Director

IN WITNESS WHEREOF, the undersigned, being all of the Directors of the Corporation, have executed this Statement of Unanimous Written Consent as of the date first written above.

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

By: _____
Name: Ian Robertson
Title: Director

By: _____
Name: Gregory Sorensen
Title: Director

By: 
Name: Richard Leehr
Title: Director