

ORIGINAL



0000167550

RECEIVED
AZ CORP COMMISSION
DOCKET CONTROL

2016 JAN 6 PM 2 25

1 SHAPIRO LAW FIRM, P.C.
2 Jay L. Shapiro (No. 014650)
3 1819 E. Morten Avenue, Suite 280
4 Phoenix, Arizona 85020
5 Telephone (602) 559-9575
6 jay@shapslawaz.com

7 LIBERTY UTILITIES
8 Todd C. Wiley (No. 015358)
9 12725 W. Indian School Road, Suite D-101
10 Avondale, Arizona 85392
11 Telephone (623) 240-2087
12 Todd.Wiley@libertyutilities.com

13 Attorneys for Liberty Utilities (Black Mountain Sewer) Corp.

Arizona Corporation Commission

DOCKETED

JAN 06 2016

DOCKETED BY

BEFORE THE ARIZONA CORPORATION COMMISSION

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

DOCKET NO: SW-02361A-15-0206

16 IN THE MATTER OF THE APPLICATION
17 OF LIBERTY UTILITIES (BLACK
18 MOUNTAIN SEWER) CORP., AN
19 ARIZONA CORPORATION, FOR A
20 DETERMINATION OF THE FAIR VALUE
21 OF ITS UTILITY PLANTS AND
22 PROPERTY AND FOR INCREASES IN ITS
23 WASTEWATER RATES AND CHARGES
24 FOR UTILITY SERVICE BASED
25 THEREON.

DOCKET NO: SW-02361A-15-0207

**NOTICE OF FILING REBUTTAL
TESTIMONY**

21 Liberty Utilities (Black Mountain Sewer) Corp. hereby submits this Notice of
22 Filing Rebuttal Testimony in the above-referenced matter. Specifically filed herewith are
23 the following testimonies, along with supporting schedules and/or exhibits:

- 24 1. Rebuttal Testimony of Matthew Garlick;
- 25 2. Rebuttal Testimony of Greg Sorensen;
- 26

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

- 3. Rebuttal Testimony of William R. Killeen;
- 4. Rebuttal Testimony of Thomas J. Bourassa – Rate Base, Income Statement and Rate Design; and
- 5. Rebuttal Testimony of Thomas J. Bourassa – Cost of Capital.

RESPECTFULLY SUBMITTED this 6th day of January, 2016.

SHAPIRO LAW FIRM, P.C.

By: _____

Jay L. Shapiro
 1819 E. Morten Avenue, Suite 280
 Phoenix, AZ 85020
 602-559-9575
 jay@shapslawaz.com
 whitney@shapslawaz.com

and

LIBERTY UTILITIES

Todd C. Wiley
 Assistant General Counsel
 12725 W. Indian School Road, Suite D-101
 Avondale, AZ 85392
 623-240-2087
 Todd.Wiley@libertyutilities.com

Attorneys for Liberty Utilities
(Black Mountain Sewer) Corp.

**ORIGINAL and thirteen (13) copies
of the foregoing hand-delivered**
this 6th day of January, 2016, to:

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

1 **COPY of the foregoing hand-delivered**
this 6th day of January, 2016, to:

2
3 Sasha Paternoster, ALJ
4 Hearing Division
5 Arizona Corporation Commission
6 1200 W. Washington Street
7 Phoenix, AZ 85007

8 **COPY of the foregoing emailed**
9 this 6th day of January, 2016, to:

10 Robin Mitchell
11 Wes Van Cleve
12 Legal Division
13 Arizona Corporation Commission
14 1200 W. Washington Street
15 Phoenix, AZ 85007
16 rmittell@azcc.gov
17 wvancleve@azcc.gov

18 **COPY of the foregoing emailed & mailed**
19 this 6th day of January, 2016, to:

20 Daniel W. Pozefsky
21 Residential Utility Consumer Office
22 1110 W. Washington Street, Suite 220
23 Phoenix, AZ 85007
24 dpozefsky@azruco.gov

25 Michele L. Van Quathem
26 Fredric D. Bellamy
Ryley Carlock & Applewhite
One N. Central Avenue, Suite 1200
Phoenix, AZ 85004
mvq@rcalaw.com
fbellamy@rcalaw.com

Scott Wakefield
Ridenour Hienton, P.L.L.C.
7033 East Greenway Parkway, Suite 250
Scottsdale, AZ 85254
swakefield@rhlfirm.com

Michael W. Wright
Sherman & Howard, LLC
201 North Central Avenue, Suite 800
Phoenix, AZ 85004
mwright@shermanhoward.com

26

1 Gary S. Neiss
Town of Carefree
2 100 Easy Street
P.O. Box 740
3 Carefree, AZ 85377
gary@carefree.org
4

5 By: Whitney Birk
Whitney Birk
6 Assistant to Jay Shapiro
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

1 SHAPIRO LAW FIRM, P.C.
Jay L. Shapiro (No. 014650)
2 1819 E. Morten Avenue, Suite 280
Phoenix, Arizona 85020
3 Telephone (602) 559-9575
jay@shapslawaz.com

4 LIBERTY UTILITIES
5 Todd C. Wiley (No. 015358)
12725 W. Indian School Road, Suite D-101
6 Avondale, Arizona 85392
Todd.Wiley@libertyutilities.com

7 Attorneys for Liberty Utilities (Black Mountain Sewer) Corp.
8

9 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO: SW-02361A-15-0206

15
16 IN THE MATTER OF THE APPLICATION
OF LIBERTY UTILITIES (BLACK
MOUNTAIN SEWER) CORP., AN
17 ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE
18 OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN ITS
19 WASTEWATER RATES AND CHARGES
FOR UTILITY SERVICE BASED
20 THEREON.

DOCKET NO: SW-02361A-15-0207

21
22 **REBUTTAL TESTIMONY OF**

23 **MATTHEW GARLICK**

24
25 **January 6, 2016**
26

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

TABLE OF CONTENTS

I.	INTRODUCTION.....	1
II.	TOWN/RESORT/BHOA/LIBERTY SETTLEMENT AGREEMENT.....	2
	A. Summary of Settlement Agreement.....	2
	B. Staff and RUCO Would Unacceptably Modify the Settlement Agreement.....	9
	C. Practical Impacts of Staff's and RUCO's Recommendations.....	18
III.	REBUTTAL TO STAFF AND RUCO ON OTHER ISSUES.....	20
	A. Advances-In-Aid of Construction (AIAC) and Main Extensions.....	20
	B. Staff's Recommended Plant Inventory.....	21
	C. Labor Costs.....	22
	D. Adjuster Mechanisms.....	23
	E. Revised Hook-Up Fee Tariff.....	24
	F. Corporate Cost Allocations.....	26

1 **I. INTRODUCTION.**
2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**
3 A. My name is Matthew Garlick. My business address is 12725 W. Indian School
4 Road, Suite D-101, Avondale, Arizona 85392.
5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**
6 A. I am providing this testimony on behalf of applicant Liberty Utilities (Black
7 Mountain Sewer) Corp. (hereafter "Liberty Black Mountain" or "Company").
8 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**
9 A. I am employed by Liberty Utilities as President of AZ/TX.
10 **Q. DID YOU PREVIOUSLY PROVIDE TESTIMONY ON BEHALF OF**
11 **LIBERTY BLACK MOUNTAIN IN THIS CASE?**
12 A. Yes. My direct testimony was filed on June 22, 2015 with the Company's
13 application. At that time, I had just taken over as President in Arizona and Texas,
14 succeeding Greg Sorensen. Because Mr. Sorensen has a special familiarity with
15 the two primary matters that gave rise to this rate filing, and because he is also
16 President of Liberty Utilities Co., through which funding flows to Liberty Black
17 Mountain, Mr. Sorensen will continue to participate as a witness in this rate case.
18 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**
19 A. First, I will testify in support of the Proposed Settlement Agreement (the
20 "Settlement Agreement") reached between Liberty Black Mountain, the Town of
21 Carefree (the "Town"), CP Boulders, LLC dba Boulders Resort (the "Resort"),
22 Wind P1 Mortgage Borrower, L.L.C. ("Wind P1"),¹ and the Boulders Homeowners
23 Association (the "BHOA") (collectively, the "Signatories"), filed on November 16,

24 _____
25 ¹ Wind P1 Mortgage Borrower, L.L.C. was the prior owner of the Boulders Resort, and as
26 of April 28, 2015, assigned all of its interests in the matters addressed in the Settlement Agreement to the Resort except for its claims for attorney's fees in the appeal currently pending before the Arizona Court of Appeals as Case No. 1 CA-CV 14-0643.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

2015. The Town and the Resort are intervenors in this docket.

Second, I address the unreasonable and unrealistic recommendations by Staff and RUCO relating to returns on equity, recovery of closure costs, corporate cost allocations and other critical issues. When Liberty Black Mountain agreed to closure of the East Boulders Wastewater Treatment Plant (“Boulders WWTP” or the “Plant”) in Decision No. 71865, that agreement was premised on recovery of closure costs. It bears emphasis that the Commission authorized a 10.2 percent return on equity in Decision No. 71865, which Staff and RUCO have now proposed be significantly reduced in this rate case. Suffice it to say that the Company should not and will not close the Boulders WWTP with those kinds of minimal returns. Even if the Company was willing to close the Plant on those returns, the Company will not be able to get an additional \$3.8 million of capital from its parent for closure of the Plant on those terms. Put simply, the Company would never have agreed to close the Plant in 2010 had the Company known that Staff and RUCO would recommend an 8.60 percent and 8.95 percent ROE for such capital. Liberty Black Mountain has done everything the right way in this case relating to closure of a used and useful sewer plant in full compliance with all operational requirements. The Company did so to give customers what they want, and now Staff and RUCO are punishing the Company for serving its customers’ needs. As the old saying goes, no good deed goes unpunished.

II. TOWN/RESORT/BHOA/LIBERTY SETTLEMENT AGREEMENT.

A. Summary of Settlement Agreement.

Q. WHAT IS THE PURPOSE OF THE SETTLEMENT AGREEMENT?

A. The purpose is to settle and compromise (1) litigation arising out of the Commission’s Decision No. 73885 (May 8, 2013) (“Phase 2”); (2) potential claims relating to the Effluent Delivery Agreement between Liberty Black Mountain and

1 the Resort; and (3) relief sought by Liberty Black Mountain in this rate case related
2 to the closure of the Boulders WWTP, including recovery of closure costs.

3 **Q. WHAT ARE THE PRINCIPAL TERMS OF THE SETTLEMENT**
4 **AGREEMENT?**

5 A. The Signatories have agreed to (1) a Plant closure date of November 30, 2018;
6 (2) \$200,000 reduction in the total closure costs incurred to date and to be
7 recovered by the Company; (3) repayment of \$108,000 of the closure costs by the
8 Resort through the rate paid for effluent until the Plant is closed; and (4) an
9 updated surcharge mechanism to allow the Company full and prompt recovery of
10 the costs of meeting the Commission’s mandate that Liberty Black Mountain close
11 the Boulders WWTP.²

12 **Q. SO THE SIGNATORIES HAVE AGREED ON THE AMOUNT OF**
13 **ACTUAL CLOSURE COSTS INCURRED TO BE RECOVERED BY**
14 **LIBERTY BLACK MOUNTAIN?**

15 Yes. As of September 30, Liberty Black Mountain had incurred \$1,133,080.51 in
16 closure costs, and the Signatories agree that these are reasonable costs. However,
17 as part of the Settlement Agreement, the Company agreed not to seek recovery of
18 \$200,000 of those costs, and the Resort agreed to an effluent rate that will pay back
19 \$108,000 of the closure costs incurred.³ As a result, the Signatories agreed that the
20 remaining amount—\$825,080.51—represent necessary and reasonable costs
21 prudently incurred in order to comply with the mandate to close the Boulders
22 WWTP.

23 **Q. DOES THAT MEAN THE COMPANY NOW BELIEVES SOME OF THE**
24 **CLOSURE COSTS INCURRED TO DATE SHOULD NOT BE**

25 ² Settlement Agreement, ¶¶ 2.1.2, 2.1.3, 2.2.1.

26 ³ *Id.*

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

RECOVERED FROM CUSTOMERS?

A. Not at all. The Company believes that the entire amount of \$1,133,080.51 was reasonably incurred to meet the Commission mandate. Liberty Black Mountain agreed to reduce that amount by \$200,000 solely as part of the Settlement Agreement with the Town, BHOA and Resort. If the Settlement Agreement is not approved in full, the Company will seek recovery of the full amount of \$1,133,080.51 in closure costs.

Q. THANK YOU. PLEASE CONTINUE DISCUSSING THE SETTLEMENT AGREEMENT.

A. The Signatories further agree that the \$1.2 million Liberty Black Mountain must pay the City of Scottsdale (“Scottsdale”) for replacement capacity before January 1, 2018 is a known and measurable cost that the Company must reasonably incur in order to remove the Boulders WWTP from service.⁴ Finally, the Signatories have also agreed that the proposed improvements to reroute all flows to Scottsdale are the most reasonable and prudent alternative and that the estimated cost of \$2.6 million is sound. The Signatories acknowledge though that the latter amount is still an estimate.⁵

Q. DOES THE SETTLEMENT AGREEMENT ADDRESS HOW LIBERTY BLACK MOUNTAIN WILL RECOVER THESE PLANT CLOSURE COSTS, MR. GARLICK?

A. Yes. The Signatories have agreed to modify the closure cost surcharge mechanism approved by the Commission in the Decision No. 71865 (September 1, 2010).⁶ As set forth in the Settlement Agreement, cost recovery will occur in stages as follows:

⁴ Settlement Agreement, ¶ 2.1.5.
⁵ Settlement Agreement, ¶ 2.1.6.
⁶ Decision No. 71865 at 54 – 55 (surcharge mechanism originally approved).

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

- A Stage 1 Surcharge, estimated to be \$6.31 per customer per month, will be implemented for recovery of the Company's \$825,080.51 of closure costs already incurred. Stage 1 will become effective with the new rates approved in this rate case.
- A Stage 2 Surcharge, estimated to be \$7.96 per customer per month, will be added to the Stage 1 Surcharge, bringing the total surcharge amount in Stage 2 to \$14.27 per customer per month. The Stage 2 Surcharge will become effective within 90 days of the Company's payment of the approximate \$1.2 million to Scottsdale for the replacement capacity.
- A Stage 3 Surcharge, estimated to be an additional \$16.70 per customer per month, will be added to the Stage 2 Surcharge, bringing the total surcharge amount in Stage 3 to \$30.97 per customer per month. The Stage 3 Surcharge is based on the addition of the estimated costs of closure of approximately \$2.6 million.⁷

Q. WHY DOES THE SURCHARGE APPROVED IN DECISION NO. 71865 NEED TO BE MODIFIED?

A. As Mr. Sorensen explained in his direct testimony in this case, the circumstances have changed substantially since the Plant closure surcharge was originally approved.⁸ First, the closure has already taken far longer than anticipated. As a result, over \$1 million of investment in the closure lies stranded. Absent a mechanism to start that recovery, Liberty Black Mountain will not receive the full and prompt cost recovery it was promised when it agreed not to object to the order to remove a used and useful, fully compliant asset from service. Moreover, because the Company still has to spend an estimated \$3.8 million to close the Boulders WWTP, that mechanism needs to provide for continued assurance of prompt and full recovery.

Second, the cost is considerably higher than estimated during the prior proceedings. At that time, only a preliminary assessment of the costs to close the

⁷ Settlement Agreement, ¶¶ 2.2.2.1 – 2.2.2.3.

⁸ Direct Testimony of Greg Sorensen (“Sorensen Dt.”) at 27:1-20.

1 Boulders WWTP could be conducted.⁹ Liberty Black Mountain has since
2 completed the detailed engineering analysis required for this project.
3 All Signatories agree that the proposed plan to close the Plant is reasonable,
4 including the estimated costs. Under these changed circumstances, we did not feel
5 it was still equitable to limit the Company to a one-stage surcharge of no more than
6 \$15 per customer per month that could not go into effect until the Plant closed.
7 Fortunately, the Town, the BHOA and the Resort agreed that it is necessary to
8 modify the relief granted several years ago based on different information and
9 circumstances than were before the Commission in 2010.

10 **Q. WILL THE SURCHARGES REMAIN IN EFFECT INDEFINITELY?**

11 A. No. The Signatories agree that Liberty Black Mountain should seek to roll all the
12 costs of closing the Plant into rate base in the first post-closure rate case.¹⁰ That
13 case will be filed as soon as possible after the Boulders WWTP is closed in
14 November 2018. In other words, the surcharge mechanism is a temporary
15 ratemaking tool to allow the Commission and customers to fulfill the promises
16 made to Liberty Black Mountain in exchange for Liberty Black Mountain being
17 required to invest capital taking used and useful assets out of service.
18 The surcharge mechanism incorporated into the Settlement Agreement uses the
19 same methodology used for the surcharge approved in Decision No. 71865.

20 **Q. WHY DOES THE SETTLEMENT POSTPONE THE CLOSURE OF THE**
21 **BOULDERS WWTP UNTIL NOVEMBER 2018?**

22 A. To allow the Resort time to upgrade its landscape irrigation system in a manner
23 that will allow the Resort to operate without the effluent produced at the Boulders
24 WWTP. The Resort has agreed to continue to take and pay for all the effluent

25 ⁹ Sorensen Dt. at 22:7-12.

26 ¹⁰ Settlement Agreement, ¶ 2.2.2.4.

1 produced at the plant while it remains open, including paying an effluent rate that
2 includes repayment of \$108,000 of closure costs by the Resort.¹¹ As noted above,
3 this allowed the Signatories to reduce the amount of Plant closure costs to be
4 recovered from the remainder of the Company's customers.

5 **Q. WHAT ABOUT THE COSTS TO REMOVE THE BOULDERS WWTP AND**
6 **REMEDiate THE SITE? HOW WILL THOSE COSTS BE**
7 **RECOVERED?**

8 A. The Signatories have agreed that Liberty Black Mountain will seek recovery of the
9 costs specifically associated with removal and remediation, which cannot begin
10 until after the Plant is closed and flows rerouted, in a subsequent rate case to be
11 filed as soon as possible after all of those costs have been incurred.¹² If we can
12 include those costs in the post-closure rate case to be filed after the proposed
13 November 30, 2018 closure date we will do so, allowing us to avoid the filing of
14 another rate case after removal is complete.

15 **Q. ARE THERE ANY OTHER PROVISIONS OF THE SETTLEMENT YOU**
16 **WISH TO DISCUSS?**

17 A. Yes. Pursuant to Section 2.5.2 of the Settlement Agreement, Liberty Black
18 Mountain, the Resort, Wind P1, and the BHOA requested and have been granted a
19 stay of the appeal currently before the Arizona Court of Appeals (Case No. 1 CA-
20 CV 14-0643) pending resolution of this rate case. The Commission is a party to
21 this appeal and joined in the stay request. If the Commission approves the
22 Settlement Agreement, the Resort and Wind P1 will file for dismissal of the appeal.
23 On the other hand, if the Commission does not approve the Settlement Agreement,
24 or if the Commission adopts the recommendations by Staff or RUCO, Liberty

25 ¹¹ Settlement Agreement, ¶ 2.5.1.

26 ¹² Settlement Agreement, ¶ 2.2.2.4.

1 Black Mountain will be forced to withdraw from the Settlement Agreement. That
2 will result in the appeal going forward, and it would be unclear whether the
3 Company can still support the Commission in its assertion that the order to close
4 the Plant was lawful. Liberty views prompt and full recovery of its costs, at a
5 reasonable rate of return, as a condition of the Commission's mandate that the
6 Company remove used and useful assets from service.

7 **Q. THANK YOU, MR. GARLICK. DO YOU BELIEVE THAT COMMISSION**
8 **APPROVAL OF THE TERMS OF THE SETTLEMENT IS IN THE PUBLIC**
9 **INTEREST?**

10 A. Yes. The Signatories have gone to great lengths to consider not only their own
11 positions, but those of the Town's citizens, the BHOA's membership, and the
12 entire Liberty Black Mountain customer base, including the Resort.
13 The Settlement Agreement truly represents a balance of benefits, as it (1) provides
14 a date certain for closure, which the community has long been wanting,
15 (2) addresses the Resort's continuing need for effluent, (3) eliminates time and
16 resources that would otherwise be necessary and puts to an end many years of
17 costly litigation, and (4) offers a reasonable resolution to recovery of the closure
18 costs.

19 **Q. WITH ALL OF THE BENEFITS DOES COME SACRIFICE, HOWEVER,**
20 **WOULD YOU AGREE?**

21 A. Yes, certainly I do. Liberty Black Mountain is not happy with having to forfeit
22 \$200,000 incurred in connection with litigation over a fully compliant, used and
23 useful plant. But the Company is delighted to be able to feel that it is helping its
24 customers, and for that reason has agreed to the terms. Unfortunately, Staff and
25 RUCO claim to support the Settlement Agreement but their recommendations alter
26 the settlement's terms and would deny the Company a fair return on investment as

1 well as the access to capital its needs to finish the Plant closure. The
2 recommendations of Staff and RUCO will leave the Company with no choice but
3 to continue operating the Boulders WWTP until it can no longer be used to treat
4 waste. Boiled down, Staff and RUCO can't materially change the terms for
5 closure, take away the Company's revenues and still expect it to close the plant.

6 **B. Staff and RUCO Would Unacceptably Modify the Settlement**
7 **Agreement.**

8 **Q. HAVE YOU REVIEWED THE DIRECT FILINGS BY THE OTHER**
9 **PARTIES ON THE SUBJECT OF THE PLANT CLOSURE AND/OR THE**
10 **SETTLEMENT AGREEMENT?**

11 A. Yes. Both the Town and the Resort filed testimony in support of the Settlement
12 Agreement and we have no issue with those filings. Staff claims it supports the
13 settlement, and RUCO asserts that it supports closure of the Boulders WWTP.
14 However, the Company will not accept the settlement under the recommendations
15 made by Staff in this rate case. Besides recommending returns on equity 220 and
16 185 basis points lower than the return used to estimate the surcharges in the
17 Settlement Agreement, Staff and RUCO basically reject the entire Plant closure
18 cost recovery plan set forth in that agreement and agreed to by the Company and its
19 customers, including the Town, the BHOA and the Resort.¹³ This is not really
20 support for the Settlement Agreement; it's support for Staff's and RUCO's own
21 positions.

22 A further concern is that both Staff and RUCO deny some 70 percent to
23 80 percent of the corporate costs incurred by Liberty Black Mountain to obtain
24 capital for financing of projects, including the Plant closure. I cannot stress enough

25 ¹³ Direct Testimony of James R. Armstrong ("Armstrong Dt.") at 5:8-11; Direct
26 Testimony of Timothy J. Coley ("Coley Dt.") at 5:6-14, 52 – 53.

1 that if the Commission will not allow recovery of those necessary corporate costs
2 to obtain capital from the Toronto Stock Exchange (“TSX”) by the Company’s
3 ultimate parent, then the Company can’t be expected to obtain capital for such
4 projects.

5 **Q. BUT, MR. GARLICK, THE COMMISSION IS NOT OBLIGATED TO**
6 **ACCEPT THE SETTLEMENT AGREEMENT AS IS, CORRECT?**

7 A. Correct, the Commission will have to decide in its own discretion what to do.
8 But the Settlement Agreement provides that any party may reject the settlement if
9 it disagrees with the Commission’s decision.¹⁴ As I discuss in Section II(C), if a
10 return on equity like that recommended by Staff or RUCO is approved by the
11 Commission, Liberty Black Mountain would have no choice but to exercise its
12 right to withdraw from the Settlement Agreement, and the Company then would
13 opt not to close the Plant, instead continuing to operate the Plant as is.

14 **Q. WHAT ARE STAFF’S SPECIFIC RECOMMENDATIONS WITH**
15 **RESPECT TO THE SETTLEMENT AGREEMENT AND PLANT**
16 **CLOSURE COSTS?**

17 A. Staff recognizes that the Settlement Agreement alters the Plant closure cost
18 recovery relative to the Company’s rate application.¹⁵ However, Staff does not
19 assert, like RUCO does, that the relief granted by the Commission in Decision No.
20 71865 is fixed and cannot be modified in any way. I will discuss RUCO’s position
21 later in this section of this testimony.

22 Staff recommends reducing the amount of the Company’s recoverable Plant
23 closure costs below the level of such costs agreed to in the Settlement Agreement,
24

25 ¹⁴ Settlement Agreement, ¶ 3.1.3.

26 ¹⁵ Armstrong Dt. at 3:1-10.

1 \$825,080.51. Mr. Bourassa addresses that adjustment in his rebuttal testimony.¹⁶
2 Staff also rejects the staged surcharges proposed for recovery of Plant closure costs
3 recovery outlined in the Settlement Agreement. Instead, Staff proposes first that
4 \$768,244 of closure costs be recovered over 4 years.¹⁷ While that might sound
5 better for Liberty Black Mountain, it isn't.

6 **Q. WHY NOT, MR. GARLICK?**

7 A. For one thing, Staff has reduced the amount of recoverable Plant closure costs by
8 nearly \$400,000. While Liberty Black Mountain has agreed to some reduction of
9 these costs, it was not so large as Staff recommends, nor did the Company agree in
10 a vacuum. The agreement to accept a lower amount of recoverable Plant closure
11 costs was one of many terms of the Settlement Agreement. Moreover, this is not
12 what we agreed to with our customers as represented by the Town, the BHOA and
13 the Resort. Staff wants the customers to pay more than we have agreed to in the
14 Settlement Agreement.

15 **Q. WHAT DOES STAFF RECOMMEND WITH RESPECT TO THE OTHER**
16 **STAGES OF THE SURCHARGE AND THE OTHER CLOSURE COSTS**
17 **SOON TO BE INCURRED?**

18 A. Nothing really. Staff says authorization in this rate case to recover a surcharge to
19 recover the \$1.2 million cost of replacement capacity "would be reasonable" but
20 only if the recovery started *after* the Boulders WWTP is closed.¹⁸ Again, this is
21 not what the Signatories agreed to in the Settlement Agreement. Nor is Liberty
22 Black Mountain willing to expend another \$1.2 million before January 1, 2018 and
23 then wait another 1-2 years or more to begin recovery.

24 ¹⁶ Rebuttal Testimony of Thomas J. Bourassa (Rate Base, Income Statement and Rate
25 Design) ("Bourassa Rb.") at 55:18 – 56:11.

26 ¹⁷ Armstrong Dt. at 7:21-8:6.

¹⁸ Armstrong Dt. at 9:18 – 10:2.

1 **Q. MR. GARLICK, IF I CAN INTERRUPT FOR A MINUTE. IS THERE A**
2 **NEW AGREEMENT WITH SCOTTSDALE THAT PROVIDES A NEW**
3 **DEADLINE FOR THE COMPANY TO PURCHASE THE REPLACEMENT**
4 **CAPACITY IT NEEDS TO CLOSE THE BOULDERS WWTP?**

5 A. Yes. The new capacity treatment agreement has been negotiated between the
6 Company and Scottsdale and is currently awaiting approval and execution.
7 As anticipated, Scottsdale has graciously agreed to allow the Company a one-time
8 purchase of an additional 120,000 gallons per day of treatment capacity at a cost of
9 \$10 per gallon for a total of \$1.2 million. The date I referenced above, January 1,
10 2018, is the new deadline by which we have to exercise this option, after which the
11 price will be market based.

12 **Q. DIDN'T THE COMPANY HAVE THE RIGHT TO PURCHASE CAPACITY**
13 **AT \$6 PER GALLON UNDER THE EXISTING AGREEMENT WITH**
14 **SCOTTSDALE?**

15 A. Yes, and Scottsdale informed us two years ago that this amount was below its cost
16 for the treatment capacity. With the prior agreement set to expire at the end of this
17 year, and with that agreement giving Scottsdale the right to terminate the treatment
18 agreement if the Boulders WWTP closes, we simply had no other option but to
19 agree to the \$10 per gallon cost. In exchange, we have a new 20-year agreement,
20 with provisions for renewal, and we have saved millions of dollars by acquiring the
21 replacement capacity at this cost. Market costs for capacity today are in the \$25-
22 \$30 per gallon range, at least.

23 **Q. WHY CAN'T THE COMPANY WAIT AND PAY SCOTTSDALE IN**
24 **NOVEMBER 2018 WHEN THE PLANT IS SUPPOSED TO CLOSE UNDER**
25 **THE SETTLEMENT AGREEMENT?**

26 A. Because Scottsdale wants this matter wrapped up as soon as possible. Scottsdale

1 has already agreed to make accommodations on the cost, and to push that deadline
2 out one year. They have been very generous and are not willing to make further
3 accommodations. We understand and appreciate their working with us on this
4 important matter. And this is why we need the second stage of the Plant closure
5 cost surcharge approved as set forth in the Settlement Agreement.

6 **Q. THANK YOU. WOULD YOU PLEASE CONTINUE WITH YOUR**
7 **DISCUSSION OF STAFF'S RESPONSE TO THE SETTLEMENT**
8 **AGREEMENT AND RECOVERY OF PLANT CLOSURE COSTS?**

9 A. Yes. I was addressing the fact that Staff believes the cost for replacement is
10 reasonable but wants to delay recovery by Liberty Black Mountain. Actually, Staff
11 largely postpones any discussion of the treatment of the second and third stages of
12 the surcharge until some other time. But I'm unsure what Staff is waiting for to
13 address these important issues in this rate case. Perhaps more importantly, the
14 Company is not willing to spend an additional \$1.2 million plus another
15 \$2.6 million in closure costs subject to some possible consideration in a future rate
16 case. These are closure costs relating to used and useful utility plant in service.
17 If Staff's intent is to force the Company to bear and suffer the financial
18 consequences of the customers' desires for closure of the Plant, then we strongly
19 object. That was never the "deal" when we agreed not to challenge whether the
20 Commission could take the extraordinary steps that have already been taken.
21 Besides, Liberty Black Mountain has done everything in its power to give the
22 customers what they want relating to closure of the Plant. The punitive conditions
23 recommended by Staff or RUCO are unjustified.

24 **Q. MR. GARLICK, HASN'T THE COMMISSION ALREADY ORDERED THE**
25 **COMPANY TO CLOSE THE PLANT? ARE YOU SAYING LIBERTY**
26 **MAY NOT COMPLY WITH THAT ORDER?**

1 A. The Commission did order closure of the Plant in Decision No. 71865. But the
2 premise of that decision, and the Company's agreement to closure, was that the
3 Company would recover all of its closure costs promptly and subject to a fair and
4 reasonable rate of return. Staff's and RUCO's recommendations have dramatically
5 changed the deal. The Company would never have agreed to close a used and
6 useful plant for a return of 8.6 percent or 8.95 percent, not to mention delayed and
7 uncertain risk of recovery of the closure costs, plus denial of necessary and
8 reasonable corporate costs and rate case expense. Put simply, Staff and RUCO
9 have dramatically changed the benefit of the bargain and the Company does not
10 believe it would still be obligated to close the Plant under these confiscatory
11 conditions.

12 I am not a lawyer, but that seems like common sense to me. The issue of
13 whether the Commission can order an unfunded mandate to remove compliant,
14 used and useful plant in service was not raised in the prior Commission closure
15 dockets because the Company agreed to closure of the Plant under the conditions I
16 have discussed. But now that Staff and RUCO have threatened to place this case
17 right back at square one, we may have a legal issue, which I will leave to counsel
18 to further argue as necessary.

19 **Q. IS LIBERTY BLACK MOUNTAIN PROVIDING ADDITIONAL DETAILS**
20 **REGARDING THE SURCHARGE CALCULATIONS IN THIS REBUTTAL**
21 **FILING?**

22 A. No. Staff had the Settlement Agreement and information on how all three
23 surcharges were determined. Staff also has testimony supporting the Settlement
24 Agreement from the Town and the Resort. There are no data requests pending
25 seeking additional information from the Company on the settlement terms either.
26 So, Staff may want more time to continue to propose alternatives to the Settlement

1 Agreement terms, but I do not know what they are waiting for from the Company.
2 And from what we have seen from Staff so far, I have no reason to be optimistic
3 that Staff's future recommendations will be reasonable or acceptable.

4 **Q. WHAT ABOUT RUCO? DOES IT SUPPORT THE SETTLEMENT**
5 **AGREEMENT?**

6 A. Apparently not. Like Staff, RUCO has recommended a very low return on equity,
7 which if adopted would preclude Liberty Black Mountain from being able to raise
8 the capital needed to close the Boulders WWTP, as well as denying reasonable and
9 necessary corporate costs and rate case expense, among other things. Beyond that,
10 RUCO refers only to an unsigned MOU memorializing the terms of the
11 Signatories' agreement, which agreement is set forth in the Settlement
12 Agreement.¹⁹ Additionally, Mr. Coley testifies that the settlement does not alter
13 RUCO's recommendations.²⁰

14 **Q. WHAT EXACTLY IS RUCO'S POSITION ON RECOVERY OF THE**
15 **COMPANY'S PLANT CLOSURE COSTS?**

16 A. I am not entirely sure. In a rambling and very confusing section of Mr. Coley's
17 testimony, he says that RUCO agrees that the Plant closure costs incurred to date
18 should be included in rate base, but then he says that RUCO did not rate base them
19 because of the Settlement Agreement.²¹ Obviously, that makes little sense. There
20 is also no specificity regarding treatment of the remaining closing costs to be
21 incurred for replacement capacity from Scottsdale and to reroute the flows away
22 from the Boulders WWTP.

23

24

¹⁹ Coley Dt. at 4:8-17.

25 ²⁰ Coley Dt. at 4:14-17.

26 ²¹ Coley Dt. at 6:4 – 7:2.

1 **Q. ISN'T MR. COLEY CORRECT THAT THE COMPANY'S RATE FILING**
2 **INDICATED THE CLOSURE COSTS INCURRED TO DATE COULD BE**
3 **INCLUDED IN RATE BASE?**

4 A. Yes, but this is not a complete picture of the circumstances.²² The Company did
5 express a willingness to consider an alternative rate base treatment for the closure
6 costs, but Mr. Coley has failed to show that such recovery would be the functional
7 equivalent of the Company's requested surcharge approach. Moreover, the
8 Company is now bound by the Settlement Agreement, which clearly favors the
9 surcharge approach.

10 **Q. BUT DOESN'T RUCO CLAIM TO SUPPORT ITS CONSTITUENTS IN**
11 **THEIR DESIRE TO CLOSE THE BOULDERS WWTP?**

12 A. Mr. Coley says in his direct testimony that RUCO supports the "overwhelming"
13 majority of customers that want the plant closed.²³ But in the very next Q&A,
14 Mr. Coley testifies that RUCO does not support the plant closure cost recovery
15 recommended by Liberty Black Mountain, the Town, the BHOA and the
16 customers.²⁴ Make no mistake about it—the recommendations of RUCO on equity
17 return, corporate costs and recovery of closure costs will prevent closure of the
18 Plant. RUCO cannot have it both ways. RUCO is not going to get the Company to
19 fund the plant closure to the tune of nearly \$4 million more investment and then go
20 and ask for recovery and see what happens. Nor can RUCO legitimately claim to
21 support its constituents' desire that the Plant close by recommending an 8.95
22 percent return on equity. If granted, RUCO's recommendations will ensure that the
23 customers' desire for Plant closure is delayed until the Plant simply cannot be

24 ²² Coley Dt. at 53:4-9.

25 ²³ Coley Dt. at 52:3-7.

26 ²⁴ Coley Dt. at 52:9 – 53:2.

1 operated another day.

2 Again, to be clear, I believe there will be no capital for investment in the
3 plant closure or anything else that is not urgently necessary if RUCO or Staff
4 successfully (1) denies and delays the Company's recovery of and on plant closure
5 costs, (2) deprives Liberty Black Mountain of adequate operating expenses,
6 including the corporate costs of obtaining capital, and/or (3) robs the Company of a
7 fair and adequate return on capital the Commission mandated the Company invest
8 at a time it was authorized a 10.2 percent return on equity. There is no other way
9 to put it, but that these recommendations will put a stop to closure of the Boulders
10 WWTP.

11 **Q. DO YOU FIND IT CURIOUS THAT RUCO'S RECOMMENDATIONS**
12 **UNDERMINE A BARGAIN ENTERED INTO BY REPRESENTATIVES OF**
13 **RESIDENTIAL CUSTOMERS?**

14 A. Yes. But RUCO opposed the relief needed to close the Boulders WWTP in the last
15 rate case too when it argued that approval of a surcharge mechanism would be the
16 end of regulation in Arizona.²⁵ I guess RUCO believes it knows better than our
17 customers as to what is in their best interests, and that nothing can be sacrificed in
18 RUCO's pursuit of the lowest possible rate. That's RUCO's choice, but there are
19 consequences of such choices as the Company's witnesses discuss in this filing.

20 **Q. DOES STAFF OR RUCO INCLUDE THE AMOUNT TO BE REPAID BY**
21 **THE RESORT THROUGH THE EFFLUENT RATE UNDER THE**
22 **SETTLEMENT AGREEMENT IN THEIR RECOMMENDED EFFLUENT**
23 **RATES?**

24 A. No. Both Staff and RUCO ignore this provision of the settlement entirely.²⁶ As a

25 ²⁵ See Decision No. 71865 at 47:9-15.

26 ²⁶ See Direct Testimony of Timothy Coley (Rate Design) at 3:9-12; Direct Testimony of

1 result, both seek to deprive the Company of recovery of \$108,000 of closure costs
2 that the Resort has already agreed to repay to the Company. Leaving the Company
3 short of recovery is not the recommendations of parties that truly support the
4 Settlement Agreement as they claim.

5 **C. Practical Impacts of Staff's and RUCO's Recommendations.**

6 **Q. I WOULD LIKE TO RETURN TO YOUR TESTIMONY ABOUT DIRE**
7 **CONSEQUENCES WERE THE COMMISSION TO ADOPT THE**
8 **RECOMMENDATIONS OF STAFF OR RUCO IN THIS RATE CASE.**
9 **ARE YOU CONCERNED THAT THIS DISCUSSION SOUNDS**
10 **SOMEWHAT LIKE A THREAT, MR. GARLICK?**

11 **A.** It certainly is not meant to be a threat. It is meant as a statement of fact. We have
12 to fight for every dollar we get for investment in Arizona. For example, the
13 Company's sister-utility Liberty Utilities (Litchfield Park Water & Sewer) Corp.
14 ("Liberty Litchfield Park") needs to expand its wastewater treatment facility, but
15 the shareholder would rather invest in just about any other investment under the
16 APUC umbrella. My assistant general counsel and I have spent a great deal of time
17 trying to convince the shareholder to put more than \$20 million into a state with
18 very low returns, substantial regulatory lag, and almost no mechanisms to help the
19 utility recover its authorized revenues. This isn't surprising given how low the
20 returns are in this state compared to the other jurisdictions in which Liberty's
21 utilities operate. Not only do those jurisdictions authorize higher returns, it is also
22 more likely that those utilities will actually earn their authorized revenues.

23 I can't stress enough that Liberty Black Mountain will not be able to obtain
24 another \$3.8 million for capital to close the plant at returns of 8.6 percent or 8.95
25

26

Crystal S. Brown (Rate Design) ("Brown RD Dt."), Schedule CSB-1.

1 percent, along with the other cuts recommended to expenses and rate base. Our
2 Arizona utilities compete for capital against other Liberty utilities in other states.
3 There is no doubt that Arizona has the lowest returns among those states even
4 before the absurdly low recommendations by Staff and RUCO in this case.

5 A couple of examples illustrate this point. Our Georgia utility, Liberty
6 Utilities (Peach State Natural Gas) Corp., has authorized ROEs of 10.7 percent and
7 10.5 percent for different regulatory mechanisms. Liberty Utilities (Midstates
8 Natural Gas) Corp., our gas utility in Missouri, has an authorized ROE of
9 10.00 percent. Liberty Utilities (CalPeco Electric) LLC, our electric utility in
10 California, has an authorized ROE of 9.88 percent. Liberty Utilities (Midstates
11 Natural Gas) Corp., our gas utility in Illinois, has an authorized ROE of
12 9.76 percent. Liberty Utilities (Granite State Electric) Corp., our electric utility in
13 New Hampshire, has an authorized ROE of 9.55 percent. Liberty Utilities (New
14 England Natural Gas Company) Corp., our gas utility in Massachusetts, has an
15 authorized ROE of 9.5 percent. Even Liberty Utilities (Pine Bluff Water) Corp.
16 has an authorized ROE of 9.3 percent. These numbers are self-explanatory. At
17 8.6 percent or 8.95 percent, neither Staff, RUCO, nor the Commission should
18 expect Liberty Black Mountain to get an additional \$3.8 million for the removal
19 closure of a fully compliant, used and useful wastewater treatment plant.

20 Given Staff's and RUCO's unreasonable and punitive treatment of Liberty
21 Black Mountain in this rate case, I expect that the consequences will expand to
22 other Arizona utilities. We expected and hoped that Staff and RUCO would
23 recognize the unique circumstances underlying this case and support the Settlement
24 Agreement. Unfortunately, we will have no choice but to take different approaches
25 to rate cases for our other Arizona utilities if the approach advocated by Staff and
26 RUCO were to receive the Commission's blessing.

1 **Q. MR. GARLICK, WHAT DO YOU MEAN?**

2 A. In this case, Staff and RUCO are responsible for turning the ratemaking process
3 into a battle where the goal appears to be the lowest rate possible. This sort of
4 narrow focused regulation has consequences in terms of future cooperation
5 between utilities and regulators, the availability of capital to utilities in Arizona,
6 and the way future rate cases will be filed and pursued.

7 **III. REBUTTAL TO STAFF AND RUCO ON OTHER ISSUES.**

8 A. **Advances-In-Aid of Construction (AIAC) and Main Extensions.**

9 **Q. MR. COLEY TESTIFIES THAT LIBERTY BLACK MOUNTAIN**
10 **ENTERED INTO EXTENSION AGREEMENTS FOR A 10-YEAR PERIOD**
11 **IN VIOLATION OF THE CODE.**

12 A. Mr. Coley is wrong. Despite spending several pages arguing the law governing
13 main extension agreements,²⁷ Mr. Coley's attempt to portray the Company as
14 doing something wrong fails. Nowhere in Mr. Coley's diatribe (covering one sixth
15 of his direct testimony) does he mention the fact that the Company had a
16 Commission approved tariff authorizing 10-year refunds under main extension
17 agreements. Mr. Coley knew or should have known of this fact as the Company
18 provided him the tariff.²⁸ Had Mr. Coley not ignored this information, and not
19 conducted his analysis in this case under the false impression we were trying to
20 gouge our customers,²⁹ perhaps Mr. Bourassa would not have to spend several
21 pages of testimony explaining why Mr. Coley's testimony and recommendations
22 on the AIAC and CIAC issues are severely flawed.³⁰

23 _____
24 ²⁷ See Coley Dt. at 33 – 42.

25 ²⁸ Company Response to RUCO Data Request 11.02.

26 ²⁹ See Coley Dt. at 7:23 – 8:3.

³⁰ Bourassa Rb. at 21 – 23.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

B. Staff's Recommended Plant Inventory.

Q. DO YOU AGREE WITH STAFF'S RECOMMENDATION THAT LIBERTY BLACK MOUNTAIN CONDUCT A PLANT INVENTORY?

A. No. Candidly, I do not understand what Ms. Brown is talking about. We can identify where every item of plant in the Company is located.³¹ Ms. Hains came out and did an inspection. We were able to show Ms. Hains everything she asked to see during her on-site, physical inspection, including the physical location of plant items. In contrast, Ms. Brown did not conduct an on-site inspection in this case and appears to be basing her entire recommendation on a response to a data request.³² In other words, Ms. Brown has created an operations issue that Staff's engineer did not.

Q. DOES THE COMPANY'S RESPONSE TO DATA REQUEST 6.20 (b) DEMONSTRATE THE NEED FOR A PLANT INVENTORY?

A. No, a plant inventory would be yet another Staff imposed cost that is unnecessary. In Data Request 6.20(b), Ms. Brown asked the Company to "please provide [1] a list that identifies the cost of each structure and improvement included in the total and [2] the physical location of the assets." The Company noted in its response that it does not record the physical location of assets on its books. That doesn't mean that the Company doesn't know where the assets are located. The Company knows where all of its assets are located, as well as the function and use of all such assets. Again, Ms. Brown did nothing more than review a paper data request response and create an issue out of thin air. She did not conduct a plant inspection or discuss with Company personnel the issue of the physical location of assets. A full plant inventory would be expensive and costly and of little benefit for the

³¹ Brown Dt. at 36:13 – 37:20.

³² Brown Dt. at 36:22-24.

1 Company or its customers.

2 **C. Labor Costs.**

3 **Q. DID THE COMPANY PROPOSE A PRO FORMA ADJUSTMENT TO**
4 **ACCOUNT FOR POST-TEST YEAR INCREASES IN LABOR COSTS?**

5 A. Yes, as explained in Mr. Bourassa's direct testimony.³³ Mr. Bourassa addresses the
6 accounting and ratemaking aspects of this issue in his rebuttal testimony.³⁴
7 The point of my rebuttal testimony on this issue is simpler.

8 **Q. OKAY, WHAT IS THE POINT OF YOUR REBUTTAL?**

9 A. Whether we call this expense Contact Services, Salaries or Wages, or my
10 preference – Labor, the fact is that this expense goes up every year. All we are
11 asking for is that this ever-increasing expense be addressed in the ratemaking
12 process.

13 **Q. IS IT REASONABLE FOR LABOR COSTS TO INCREASE EVERY**
14 **YEAR?**

15 A. It is if we want to attract and keep qualified people with the expertise and
16 motivation to provide safe and reliable water and wastewater utility services.
17 I would note that Staff is not complaining that our labor expense is unreasonably
18 high. Its opposition is more ratemaking related, which Mr. Bourassa's addresses in
19 his rebuttal as I mentioned above.

20 **Q. DOES RUCO ACCEPT LIBERTY BLACK MOUNTAIN'S PRO FORMA**
21 **ADJUSTMENT TO COVER INCREASED LABOR EXPENSE?**

22 A. It appears that RUCO agrees with the Company's level of expense because RUCO
23 neither adjusted that number nor addressed the issue in its written testimony.³⁵

24 ³³ Direct Testimony of Thomas J. Bourassa (Rate Base, Income Statement and Rate
25 Design) at 18:12-14.

26 ³⁴ Bourassa Rb. at 43.

³⁵ See RUCO Direct Schedule TJC-11.

1 **D. Adjuster Mechanisms.**

2 **Q. WHAT IS RUCO'S RECOMMENDATION REGARDING THE**
3 **REQUESTED PURCHASED POWER ADJUSTMENT MECHANISM**
4 **(PPAM) AND PROPERTY TAX ADJUSTMENT MECHANISM (PTAM)?**

5 A. RUCO recommends denial of the PPAM and PTAM because these expenses are
6 not volatile or large enough for an adjuster.³⁶ RUCO also claims the PTAM is
7 single-issue ratemaking, but that's a legal issue I will leave for the lawyers.

8 **Q. HOW DO YOU RESPOND TO THIS TESTIMONY?**

9 A. Liberty Black Mountain has no control over the expenses that are the subject of the
10 two adjusters, and Liberty Black Mountain, like all Arizona utilities regulated by
11 the Commission, struggles to earn its authorized revenues. Therefore, adjusters
12 like this are needed to protect the utility's financial health and its opportunity to
13 earn its authorized revenues. Mr. Coley's suggestion that adjusters are improper
14 because power costs and property taxes are not volatile enough makes little sense.
15 Whether or not the costs amount to a large sum of money doesn't change the fact
16 that these costs increase and the Company doesn't have any control over those cost
17 increases. Mr. Coley's notion that the Company should bear the costs of such non-
18 volatile increases in operating expenses defies any business sense given that well-
19 established, bi-lateral mechanisms exist to prevent this sort of earnings erosion
20 between rate cases.

21 **Q. WHAT ABOUT MR. COLEY'S CLAIM THAT THE COMMISSION IS**
22 **MOVING AWAY FROM THESE TYPES OF ADJUSTERS?**

23 A. This testimony is a bit misleading. Mr. Coley claims that a 2004 decision for
24 Arizona Water Company eliminated these types of adjusters.³⁷ But RUCO knows

25 ³⁶ Coley Dt. at 55:14-22, 56:14 – 57:11.

26 ³⁷ Coley Dt. at 55:9-12.

1 that the Commission approved a PPAM for Liberty Litchfield Park in that affiliated
2 utility's last rate case decided in 2014, without opposition from RUCO, ten years
3 after Mr. Coley claims the use of PPAMs were eliminated.³⁸ I do not know why
4 RUCO is being inconsistent on this issue from case-to-case, but the PPAM and
5 PTAM sought in this case are modeled after the PPAMs recently approved by the
6 Commission. So Mr. Coley either knew or should have known that he was not
7 telling the Commission the whole story.

8 **Q. WHAT IS STAFF'S RECOMMENDATION REGARDING THE**
9 **REQUESTED PPAM AND PTAM?**

10 A. Staff supports approval of the PPAM.³⁹ Staff does not support the PTAM as
11 requested.⁴⁰ Mr. Bourassa addresses Ms. Brown's confusing alternative
12 recommendation on the PTAM better than I can.⁴¹

13 **E. Revised Hook-Up Fee Tariff.**

14 **Q. THE COMPANY PROPOSED A REVISED HOOK-UP FEE (HUF) TARIFF**
15 **IN ITS DIRECT FILING?**

16 A. Yes. The primary purpose of the proposed changes is to standardize all of the
17 Liberty tariffs in Arizona.⁴² We explained this several times to Ms. Hains, which
18 makes Staff's opposition disappointing.⁴³

19 **Q. WHAT WAS STAFF'S POSITION?**

20 A. Staff opposes the \$1800 per Equivalent Residential Unit ("ERU") the Company
21

22 ³⁸ *Liberty Litchfield Park*, Decision No. 74437 (April 18, 2014) at 10:14-15.

23 ³⁹ Brown Dt. RD at 8:23-26.

24 ⁴⁰ Brown Dt. RD at 10:20-24.

25 ⁴¹ Bourassa Rb. at 52.

26 ⁴² Direct Testimony of Matthew Garlick at 6:3-12.

⁴³ *See, e.g.*, Company Response to Staff Data Requests DH 2.1, DH 3.37, DH 5.2.

1 proposed and recommends a cost of \$1700 per ERU.⁴⁴

2 **Q. DOES LIBERTY BLACK MOUNTAIN AGREE WITH STAFF'S**
3 **RECOMMENDATION?**

4 A. No. Here, Liberty Black Mountain proposes a wastewater HUF of \$1,800 per ERU
5 for the reasons set forth in Docket Nos. 09-0116 and 09-0120 (consolidated)
6 approving the HUF for Liberty Litchfield Park. In that rate case, the Commission
7 approved the HUF for Liberty Litchfield Park in order to “equitably apportion the
8 costs of constructing additional off-site facilities necessary to provide wastewater
9 treatment and disposal facilities among all new service laterals.”⁴⁵ The proposed
10 HUF here is designed to assist Liberty Black Mountain in equitably apportioning
11 the cost of constructing additional off-site wastewater transmission, delivery and
12 disposal facilities among new service connections. The proposed HUF provides
13 partial funding of the costs for off-site facilities for new service connections.
14 The proposed HUF is \$1,800 per ERU. The Company’s proposed HUF is not
15 based on a per unit cost analysis and Staff’s attempt to apply a unit cost figure to an
16 estimated gpd/ERU is not proper in this case.

17 Liberty Black Mountain also proposes a HUF of \$1,800 in order to
18 standardize the HUF tariff amount for all of the Arizona utilities owned and
19 operated by Liberty Utilities. The Company believes that standardizing the HUF
20 tariffs will reduce administrative and processing costs. Once again, however, Staff
21 thinks it knows better how to run utilities. Under the Company’s existing HUF
22 tariff, the fee for a 4” meter is \$1,734. The Company maintains that the proposed
23 \$1,800 HUF is consistent with that prior approved HUF, especially when
24

25 ⁴⁴ Direct Testimony of Dorothy Hains, Engineering Report at 8 – 9.

26 ⁴⁵ *Liberty Litchfield Park (formerly Litchfield Park Service Company)*, Decision No. 72682 (November 17, 2011) at 9:10-11.

1 considering increased costs and inflation since the Commission approved the
2 existing HUF for Liberty Black Mountain in 2010. Given that differential, it
3 makes much more sense to have a standard HUF amount for all of the Liberty
4 Utilities sewer companies in Arizona.

5 **F. Corporate Cost Allocations.**

6 **Q. FINALLY, LET'S TALK ABOUT CORPORATE COST ALLOCATIONS.**
7 **IN THEIR REBUTTAL TESTIMONIES, BOTH STAFF AND RUCO**
8 **RECOMMEND DENYING OVER 70 PERCENT OF THE CORPORATE**
9 **COST ALLOCATIONS INCURRED BY LIBERTY BLACK MOUNTAIN.**
10 **IS THAT REASONABLE AND WHAT IMPACT WILL THAT HAVE ON**
11 **LIBERTY BLACK MOUNTAIN?**

12 A. Staff and RUCO have reversed the clock back several years, ignoring that the
13 Commission has continued to revisit our cost allocation subsequent to Decision No.
14 71865. As a result, Staff and RUCO recommend elimination of costs that are
15 critical to Liberty Black Mountain's efficient operations, including access to
16 capital. Those costs relate primarily to required and mandatory costs incurred by
17 APUC as a result of being listed on the TSX. If Staff and RUCO continue to
18 recommend denial of those costs, then neither Staff nor RUCO should expect
19 APUC or Liberty Utilities to provide equity funding to Liberty Black Mountain.
20 I just hope the Commission fully understands what Staff and RUCO are
21 recommending here.

22 **Q. PLEASE EXPLAIN.**

23 A. In total, Liberty Black seeks only \$37,844.84 in corporate cost allocations, which
24 costs ensure continued access to capital. I find it unbelievable that Staff and
25 RUCO recommend denial of over 70 percent of those costs given that the
26 Company will need to fund an additional \$3.8 million in closure costs if the Plant is

1 ultimately closed. Think of it this way—if a business were to undertake a loan for
2 \$3.8 million to fund a business project, it is beyond dispute that such business
3 would incur more than \$37,844.84 in loan costs, escrow fees and other closing
4 costs relating to such loan. Here, Liberty Black Mountain is seeking recovery of
5 corporate costs incurred by APUC in order to continue providing Liberty Black
6 Mountain with access to capital. Those costs are required in order to maintain
7 listing on the TSX.

8 **Q, WHAT ABOUT STAFF'S AND RUCO'S ASSERTIONS THAT THOSE**
9 **COSTS ONLY BENEFIT THE SHAREHOLDERS?**

10 A. Staff's and RUCO's suggestion that those costs only benefit investors or
11 shareholders is just plain wrong. Those costs do not benefit shareholders or
12 investors because those costs are a necessary and legally required cost of being
13 listed on the TSX. Liberty Black Mountain and its customers are the prime
14 beneficiaries of those costs because capital would not be available from APUC or
15 Liberty Utilities unless those costs were incurred. If the Commission wants
16 Liberty Black Mountain to continue having steady access to capital funding from
17 the TSX, then Liberty Black Mountain must pay its fair share of those costs.
18 Ms. Brown's and Mr. Coley's recommendations on these issues ignore the facts
19 that those costs are legally required for APUC to be listed on the TSX and to obtain
20 capital for investment in Liberty Black Mountain and other Arizona utilities.
21 Ms. Brown and Mr. Coley simply do not correctly understand how the utility
22 business works on these issues and, in fact, neither Ms. Brown nor Mr. Coley even
23 address the APUC Cost Allocation Manual provided with the Company's
24 application in this docket. Mr. Killeen and Mr. Sorensen provide additional
25 rebuttal on the corporate cost allocation in their testimonies.⁴⁶

26 ⁴⁶ Rebuttal Testimony of William R. Killeen; Rebuttal Testimony of Greg Sorensen at 8 –

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

10.

1 SHAPIRO LAW FIRM, P.C.
Jay L. Shapiro (No. 014650)
2 1819 E. Morten Avenue, Suite 280
Phoenix, Arizona 85020
3 Telephone (602) 559-9575
jay@shaplaw.com

4 LIBERTY UTILITIES
5 Todd C. Wiley (No. 015358)
12725 W. Indian School Road, Suite D-101
6 Avondale, Arizona 85392
Todd.Wiley@libertyutilities.com

7 Attorneys for Liberty Utilities (Black Mountain Sewer) Corp.
8

9 **BEFORE THE ARIZONA CORPORATION COMMISSION**

10

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

DOCKET NO: SW-02361A-15-0206

15

16 IN THE MATTER OF THE APPLICATION
OF LIBERTY UTILITIES (BLACK
MOUNTAIN SEWER) CORP., AN
17 ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE
18 OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN ITS
19 WASTEWATER RATES AND CHARGES
FOR UTILITY SERVICE BASED
20 THEREON.

DOCKET NO: SW-02361A-15-0207

21

22

REBUTTAL TESTIMONY OF

23

GREG SORENSEN

24

25

January 6, 2016

26

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

TABLE OF CONTENTS

I.	INTRODUCTION.....	1
II.	STAFF AND RUCO HAVE MISSED THE POINT OF THIS RATE CASE.....	2

1 **I. INTRODUCTION.**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Greg Sorensen. My business address is 701 National Avenue, Tahoe
4 Vista, California 96148.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. I am providing this testimony on behalf of the applicant Liberty Utilities (Black
7 Mountain Sewer) Corp. (hereafter "Liberty Black Mountain" or the "Company").

8 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

9 A. I am employed by Liberty Utilities Service Corp, a wholly owned subsidiary of
10 Liberty Utilities Co., as President – California. I am also President of Liberty
11 Utilities Co., which is the corporate entity through which funding passes from the
12 ultimate parent, APUC, to the operating utility subsidiaries, like Liberty Black
13 Mountain. I also am a member of the Liberty Utilities Capital Review Committee
14 (CRC), which is an administrative body having oversight and authority over all
15 capital expenditure projects where Liberty Utilities Co. funding is being used.

16 **Q. DID YOU PREVIOUSLY PROVIDE TESTIMONY ON BEHALF OF
17 LIBERTY BLACK MOUNTAIN IN THIS CASE?**

18 A. Yes. My direct testimony was filed on June 22, 2015 with the Company's
19 application.

20 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

21 A. The primary purpose of my rebuttal testimony is to explain why Staff and RUCO
22 seem to have missed the point of this rate filing all together. I will also address the
23 likely detrimental impacts that would follow from adoption of either Staff's or
24 RUCO's recommendations in this rate case. Put another way, I will address the
25 consequences of the Commission adopting either Staff's or RUCO's
26 recommendations in this case relating to recovery of plant closure costs, returns on

1 equity, surcharges and corporate costs.

2 **II. STAFF AND RUCO HAVE MISSED THE POINT OF THIS RATE CASE.**

3 **Q. WHY WAS THIS RATE CASE FILED WHEN IT WAS FILED,**
4 **MR. SORENSEN?**

5 A. I think the reason was stated very clearly in this Q&A from my direct testimony.

6 **Q. SO EXACTLY WHY IS LIBERTY BLACK MOUNTAIN**
7 **FILING FOR NEW RATES AT THIS TIME?**

8 A. There are several factors significantly contributing to the need for
9 this rate case. The urgency to make this rate filing arises from
10 customer frustration with the rate design for commercial customers.
11 As the Commission heard in the recently concluded *Venues Café*
12 proceeding, some commercial customers and Carefree believe use of
13 ADEQ Engineering Bulletin No. 12 by Liberty Black Mountain is
14 outdated, at best (footnote omitted). Carefree has already drafted a
15 resolution urging the Company to file a rate case to address that rate
16 design issue, and in the *Venues Café* proceeding, the Commission
17 also appeared ready to move on from the use of that engineering
18 bulletin as a proxy for wastewater flows. Since that Open Meeting
19 on April 14, 2015, when Liberty Black Mountain's lawyer told the
20 Commission that the Company would get this rate case filed as soon
21 as possible, the Company and the Commission have been deluged
22 with complaints and demands from restaurants and landlords in
23 Carefree about the current sewer rates for commercial customers.
24 The Company is filing this rate case, in part, to address the
25 commercial rate design issues as soon as possible.¹

18 **Q. AND IT IS YOUR TESTIMONY THAT STAFF AND RUCO SEEM TO**
19 **HAVE MISSED THE POINT OF THIS RATE CASE?**

20 A. Yes, they either missed the point, or their witnesses are seeking to portray
21 something different for their own reasons. As we explained to representatives from
22 Staff and RUCO, before and after this rate case was filed, Liberty Black Mountain
23 was pressured into filing by the Town, some of Liberty Black Mountain's
24 commercial customers, and the Commission, in order to address Engineering
25

26 ¹ Direct Testimony of Greg Sorensen ("Sorensen Dt.") at 10:15 – 11:8.

1 Bulletin No. 12 and its use in the commercial rate design. Since we had to file this
2 rate case, or ignore our customers and the Commission, we also thought that it
3 would be a good time and place to address issues that had arisen with respect to the
4 Company's efforts to comply with the Commission's order to close the East
5 Boulders Wastewater Treatment Plant ("Boulders WWTP" or "Plant"). Reading
6 the Staff and RUCO testimony, however, one could be led to the conclusion that
7 this rate case was filed to recover a small rate increase and a large amount of rate
8 case expense. Nothing could be further from the truth.

9 **Q. CAN YOU POINT TO ANY SPECIFIC TESTIMONY FROM STAFF AND**
10 **RUCO TO ILLUSTRATE YOUR POINT, MR. SORENSEN?**

11 A. Yes. Staff's testimony that the "primary reasons" for this rate case are "to recover
12 operating expenses and earn [the] authorized rate of return."² Every rate case seeks
13 rates that recover operating expenses and a fair return. But clearly the primary
14 reasons for this rate case are the commercial rate design and plant closure.

15 Mr. Coley's testimony is even worse. It seems to us that Mr. Coley is
16 actually accusing Liberty of doing something to disadvantage the customers when
17 he testified that

18 This begs the question "why did the Company file this rate
19 case to begin with." From what RUCO can tell the Company
20 had to *scratch and claw* to get its revenue requirement to
reflect a positive increase.³

21 Obviously Mr. Coley has ignored pages of my direct testimony answering his own
22 question, "why this rate case was filed."⁴ In light of the real reasons that we
23 brought this rate case—to address the customers' desire to have the Plant closed

24 ² Direct Testimony of Crystal S. Brown ("Brown Dt.") at 3:1-4.

25 ³ Direct Testimony of Timothy J. Coley ("Coley Dt.") at 7:20 – 8:3.

26 ⁴ See Sorensen Dt. at 22 – 32.

1 and the customers' desire for a new rate design—Mr. Coley's allegation that we
2 "scratched and clawed" to come up with a rate increase so we could file this case is
3 offensive. All of which begs the question, who does RUCO represent? The
4 Company's residential customers support the closure of the Boulders WWTP, and
5 their elected representatives have entered into a settlement concerning the critical
6 Plant closure issues in this rate case.⁵ And not one customer, residential or
7 otherwise, has objected to the new commercial rate design. So, it sort of appears as
8 if RUCO has its own agenda here.

9 **Q. BUT MR. SORENSEN, DON'T BOTH PARTIES EXPRESS SUPPORT FOR**
10 **THE PLANT CLOSURE AND SETTLEMENT AGREEMENT?**

11 A. Mr. Armstrong claims that Staff supports the Settlement Agreement.⁶ Mr. Coley
12 claims that RUCO supports the customers' desire to see the Plant closed but
13 doesn't mention the Settlement Agreement.⁷ These claims of support are illusory.
14 The recommendations by Staff and RUCO relating to very low returns on equity,
15 delayed recovery of closure costs, denial of corporate costs, and reductions in rate
16 case expense illustrate that Staff's and RUCO's primary goal is to keep rates low at
17 any cost, including preventing Liberty Black Mountain from closing the Plant as
18 the Town, the BHOA, and customers have requested.

19 This is the Liberty perspective. Liberty Black Mountain has already spent
20 over \$1.1 million (excluding rate case expenses) and is ready to spend millions
21 more to meet a Commission mandate compelled by customers. Along the way,
22 Liberty Black Mountain has worked cooperatively and collaboratively with
23

24 ⁵ Notice of Filing Proposed Settlement Agreement (filed November 16, 2015), Exhibit A;
Rebuttal Testimony of Matthew Garlick ("Garlick Rb.") at 2 – 9.

25 ⁶ Direct Testimony of James R. Armstrong at 2:6-8.

26 ⁷ See Coley Dt. at 52 – 53.

1 stakeholders, reaching agreement after agreement to resolve obstacles to complete
2 an extraordinary mandate to close a used and useful wastewater treatment plant.
3 I am not aware of any other case where the Commission has compelled a utility to
4 close a used and useful plant. Then, while all that is going on, the Commission and
5 customers also wanted us to get rid of the current commercial rate design, a rate
6 design based on an approach that Staff recommended and the Commission adopted
7 decades ago. So we filed a rate case to address these matters, and not only do Staff
8 and RUCO not support the relief the Company needs to finish the Plant closure,
9 their recommendations will leave the Company financially strapped and unable to
10 attract capital, including capital needed to close the Boulders WWTP.

11 **Q. BUT MR. SORENSEN, ISN'T LIBERTY BLACK MOUNTAIN UNDER**
12 **COMMISSION ORDER TO CLOSE THE PLANT?**

13 A. Yes, an order premised on prompt recovery of the costs of closure, issued in a rate
14 case docket where Liberty Black Mountain received a 10.2 percent return on
15 equity. This is what makes Staff's and RUCO's bait and switch on the equity
16 return so potentially harmful. The shareholder is already weary of further
17 investment in Arizona. It simply isn't going to happen if the Company is losing
18 money and unable to earn a reasonable rate of return, which is what will happen if
19 the Commission adopts Staff's and RUCO's recommendations in this rate case.

20 It is critical to note that the premise of the Commission's closure decision,
21 and the Company's agreement to closure, was that the Company would recover all
22 of its closure costs promptly and subject to a fair and reasonable rate of return of
23 10.2 percent. There is no other way to put it but to state that Staff and RUCO's
24 recommendations here would materially change the deal. The Company would
25 never have agreed to close a used and useful plant for a return of 8.6 percent or
26 8.95 percent now being recommended, not to mention delaying recovery of those

1 costs until some future rate case, and not recovering the costs of obtaining capital
2 in the first place because Staff and RUCO recommend denying those costs as well.
3 I was President of Arizona in 2010 and I can, without hesitation, tell the
4 Commission that Liberty Black Mountain never would have agreed to close the
5 Boulders WWTP under those conditions.

6 In fact, I would also state that were the Commission to adopt the
7 recommendations of Staff or RUCO in this rate case, I can fully support a decision
8 not to close the Plant under these conditions. If that happens, Staff and RUCO can
9 explain to the Town, the BHOA and the rest of Liberty Black Mountain's
10 customers why the plant will continue to operate and closure does not occur.

11 **Q. CAN YOU ELABORATE ON YOUR TESTIMONY THAT THE**
12 **SHAREHOLDER HAS GROWN WEARY OF INVESTMENT IN**
13 **ARIZONA?**

14 **A.** Yes. Arizona offers lower authorized returns than almost any other state in which
15 Liberty Utilities operates. Additionally, rates are artificially lowered by
16 disallowance of reasonably incurred, prudent costs that will continue to be
17 incurred, including corporate costs and at-risk compensation as examples in this
18 case. This makes the Commission approved ROE "unachievable." Imagine this
19 from the perspective of the shareholder. We are trying to take steps to address the
20 concerns of our customers and regulators, and Staff and RUCO are using it as an
21 opportunity to get the lowest possible rates. Again, I can only hope the
22 Commission doesn't agree with those tactics.

23 **Q. OKAY, BUT COULDN'T THE COMPANY BE ACCUSED OF "BAIT AND**
24 **SWITCH" TACTICS TOO SINCE ITS ASKED FOR A 10.8 PERCENT**
25 **RETURN IN THIS CASE, HIGHER THAN THE 10.2 PERCENT**
26 **AUTHORIZED IN THE LAST CASE?**

1 A. I have no doubt Staff and RUCO believe the requested 10.8 percent is inflated.
2 But taking a simple, common sense approach, the last case was decided in 2010.
3 The economy was worse, Liberty Black Mountain had less debt than it will now,
4 and Liberty Black Mountain is under order to close a used and useful, fully
5 compliant plant. If that doesn't increase risk, I have no idea what does.
6 Furthermore, we have been told to change our rate design, and to not use the model
7 that the Commission has used for the entire time Liberty and Algonquin have
8 operated in Arizona. This creates additional risk going forward. And all of those
9 factors are occurring at the same time for Liberty Black Mountain. Yet Staff and
10 RUCO now recommend the lowest ROEs we have seen suggested this decade.

11 If 10.2 percent was fair in 2010, I do not see how 10.8 percent is not fair
12 now. Staff should have come in at least at 10.2 percent, consistent with the last
13 case and its position elsewhere that it is perfectly reasonable to give a public
14 service corporation the same ROE it got last time.⁸ Recommended returns on
15 equity under 9 percent are simply ridiculous. The average authorized returns for
16 the sample companies are 9.58 percent, and again, common sense indicates that an
17 investment in Liberty Black Mountain is more risky than an investment in a large
18 publicly traded utility.⁹ This is particularly true since the recent appellate court
19 decision issued recognizing the unique risk Arizona public service corporations
20 face due to constitutional constraints on ratemaking by the Commission.¹⁰ If the
21 goal is to chase investment out of Arizona, then Staff and RUCO have provided
22 recommendations that will achieve the goal. Likewise, if the goal of Staff and

23 ⁸ Direct Testimony of Elijah Abinah (filed November 6, 2015 in Docket No. E-04204A-
24 15-0142) at 2 – 3.

25 ⁹ Direct Testimony of Thomas J. Bourassa (Cost of Capital) at 16 – 22.

26 ¹⁰ *RUCO v. Arizona Corporation Commission*, issued by the Arizona Court of Appeals
(Division One) on August 18, 2015.

1 RUCO is to prevent closure of the Boulders WWTP, then Staff and RUCO have
2 provided recommendations that will achieve that goal as well.

3 **Q. ARE YOU SAYING THAT CC&N HOLDERS WON'T INVEST AS**
4 **NEEDED TO PROVIDE SAFE AND RELIABLE UTILITY SERVICE IN**
5 **ARIZONA?**

6 A. I can't speak for others, but Mr. Garlick will have to fight for every dollar he needs
7 to invest in infrastructure in Arizona. Liberty Utilities has over 67,594 customers
8 in Arizona, and given the ever-decreasing returns and difficulty earning even those
9 low returns, the investor is going to do the rational thing for an investor to do—
10 place capital in utilities in other states with lower risk and higher returns.¹¹ Again,
11 nearly every investment in the APUC portfolio of utility investments is a better
12 investment than Arizona. As a result, while APUC will provide every penny that
13 Liberty Arizona operations require to maintain safe, adequate, and reliable service,
14 it is absolutely impossible for me to imagine APUC providing one penny more
15 than that bare minimum.

16 **Q. THANK YOU. YOU TESTIFIED THAT STAFF'S AND RUCO'S OTHER**
17 **RECOMMENDATIONS WOULD DETRIMENTALLY IMPACT THE**
18 **COMPANY'S FINANCIAL HEALTH. CAN YOU ADDRESS SPECIFIC**
19 **EXAMPLES?**

20 A. Yes, I will address two of them – the corporate cost allocation recommendations
21 and the rate case expense recommendations. Starting with the issues surrounding
22 allocated costs, I want to provide additional support for Mr. Killeen's testimony
23 that Staff and RUCO have “turned back the clock” with respect to this issue.¹²

24 _____
25 ¹¹ Garlick Rb. at 18 – 19.

26 ¹² Rebuttal Testimony of William R. Killeen (“Killeen Rb.”) at 2:3-13, 12:8-14, 17:21 – 18:3.

1 Mr. Killeen has provided rebuttal to Staff and RUCO addressing the types of costs
2 included in the APUC allocation, and why these costs are reasonable and necessary
3 costs of service.¹³ He has also addressed the history of this issue before the
4 Commission in Liberty rate cases as well as the evidence submitted in this case.¹⁴
5 I will not repeat that testimony, my focus is limited to the efforts that Liberty took
6 after the earlier round of rate cases to better develop the Commission's
7 understanding of the APUC cost allocation.

8 **Q. WHAT EFFORTS ARE YOU REFERRING TO, MR. SORENSEN?**

9 A. I was responsible for some of Liberty's earlier rate cases, like the last Liberty
10 Black Mountain case and Decision No. 72059 (January 6, 2011) for Liberty
11 Utilities (Rio Rico Water & Sewer) Corp. ("Liberty Rio Rico"). After the
12 Commission rejected recovery of most of the corporate cost allocation from the
13 parent in Canada, I knew Liberty had to do something different. When I took over
14 as President, this remained one of my priorities. So, first we looked at what other
15 utilities were doing in and out of Arizona. We looked at Cost Allocation Manuals
16 (CAMs) and developed one for Liberty Utilities. We met with Staff and RUCO
17 multiple times, going over the issues surrounding the recovery of the APUC cost
18 allocation, modifying what we were doing based on input from those other parties,
19 and believed we had moved well past this being an issue in every Liberty rate case.
20 When we received Commission approval supported by Staff and RUCO to recover
21 most of the APUC allocation in our most recent rate cases before this one, Decision
22 No. 73996 (July 30, 2013) for Liberty Rio Rico and Decision No. 74437 (April 18,
23 2014) for Liberty Utilities (Litchfield Park Water & Sewer) Corp., I thought we
24 had finally succeeded in showing that these were reasonable and necessary costs

25 ¹³ Killeen Rb. at 2 – 12.

26 ¹⁴ Killeen Rb. at 12 – 17.

1 and eliminating this as an issue in Liberty rate cases in Arizona.¹⁵

2 **Q. SO WHAT HAPPENED IN THIS RATE CASE?**

3 A. I am not entirely sure. Sadly, as with much of what we have seen from Staff and
4 RUCO in this case, their recommendations to eliminate nearly all recovery of the
5 APUC allocation is consistent with a lowest rates at all cost mentality. How else
6 can we explain Staff and RUCO both relying primarily on the last Liberty Black
7 Mountain rate case, ignoring the CAM, ignoring all of the evidence presented in
8 this rate case and the most recent Liberty rate cases, and ignoring the Commission
9 decisions finding those costs to be necessary and reasonable. It is hard not to
10 conclude that Staff and RUCO's witnesses intended to present the Commission
11 with an unduly narrow view of this issue in an effort to deny recovery.

12 Again, this is very disappointing. Not only are Staff and RUCO
13 recommending denial of costs that are necessary and required to raise capital,
14 thereby forcing the shareholder to further subsidize the customers, they are sending
15 the message that working cooperatively with Staff and RUCO to resolve
16 contentious issues doesn't matter.

17 **Q. OKAY, THANK YOU MR. SORENSEN. YOU ALSO MENTIONED RATE**
18 **CASE EXPENSE AS AN ISSUE SUPPORTING YOUR REBUTTAL**
19 **TESTIMONY THAT STAFF AND RUCO'S RECOMMENDATIONS ARE**
20 **DETRIMENTAL TO THE COMPANY'S FINANCIAL HEALTH. PLEASE**
21 **DISCUSS.**

22 A. Both parties' recommendations on rate case expense, if adopted, would leave
23 Liberty Black Mountain further subsidizing its customers' desire for fundamental
24 changes without opportunity for recovery. These recommendations also further
25

26 ¹⁵ Killeen Rb. at 13:30 – 16:19.

1 illustrate my point that Staff and RUCO have missed or ignored the point of this
2 rate filing.

3 **Q. WHAT DID THE COMPANY REQUEST AS FAR AS RATE CASE**
4 **EXPENSE?**

5 A. Liberty Black Mountain requested that it be authorized \$450,000 of rate case
6 expense to be recovered through a rate case expense surcharge over three years.¹⁶
7 This request recognized the unique, unprecedented, and complicated nature of the
8 issues in this case. The Company was required to develop an entirely new rate
9 design for this case. This required a cost of service study and substantial efforts to
10 obtain, evaluate and integrate water use data from the Town of Carefree for that
11 new commercial rate design. That's not a simple feat; it's not as if Carefree and
12 Liberty and every private utility and municipal service provider use the same
13 accounting programs, tools, and data sets. And it must be remembered, too, that
14 the Company's development of this new rate design was at the behest of the
15 Commission, the Town, and our customers.

16 In addition, this case involved complex issues surrounding the Plant closure.
17 Now, the Company worked out a settlement with the Town, the BHOA, and the
18 Boulders Resort, which should have dramatically reduced the contested issues in
19 this case.¹⁷ Had Staff and RUCO signed off on that settlement, the Company's rate
20 case expense could have been substantially reduced. Ironically, and unfortunately,
21 any chance to save and reduce rate case expense due to the Settlement Agreement
22 and lack of dispute by the customers over the new rate design has been lost due to
23 Staff's and RUCO's myopic attempt to use this case to lower Liberty Black
24

25 ¹⁶ Direct Testimony of Thomas J. Bourassa (Rate Base, Income Statement and Rate
Design) at 14:5-7.

26 ¹⁷ Garlick Rb. at 2 – 9.

1 Mountain's rates for service.

2 **Q. WHAT EXACTLY DOES STAFF RECOMMEND AND WHAT REASONS**
3 **DOES MS. BROWN OFFER IN SUPPORT OF HER POSITION?**

4 A. Staff recommends \$250,000 of rate case expense normalized at \$50,000 per year
5 for five years.¹⁸ Ms. Brown testifies that she looked at other cases for Liberty
6 Black Mountain, and the average interval between rate cases. Again, she either
7 missed or ignored the point of this rate case.¹⁹ Let's start with the amortization
8 period. Staff knows full well Liberty Black Mountain has to come in for another
9 rate case in roughly three years *because of the Plant closure ordered by the*
10 *Commission itself*. Again, this was the basis for seeking to recover rate case
11 expense through a three-year surcharge. In this light, Staff's 5-year amortization
12 appears intended to exact a forfeiture on the Company of 40 percent of
13 Ms. Brown's already unreasonable rate case expense level.

14 **Q. HOW DO YOU RESPOND TO STAFF'S REASONS FOR REJECTING**
15 **THE RATE CASE EXPENSE SURCHARGE?**

16 A. Ms. Brown argues first that rates should not guarantee recovery.²⁰ But rates should
17 not work to ensure forfeiture either, which is what Ms. Brown is trying to do here.
18 Again, Ms. Brown knows that the Company has to come in roughly two years
19 before her recommended 5-year amortization period ends, ensuring that the
20 Company under recovers the cost of bringing a rate case, at the Commission's
21 urging and primarily for reasons that benefit the customers.

22 Second, Ms. Brown claims surcharges encourage companies to overspend.
23 This is nonsense. For one thing, as Mr. Garlick testified, utilities do not try to

24 ¹⁸ Brown Dt. at 34:1-13.

25 ¹⁹ *See id.*

26 ²⁰ Direct Testimony of Crystal S. Brown (Rate Design) ("Brown RD Dt.") at 9:5-19.

1 spend more money than is needed.²¹ It's simple financial sense. More importantly,
2 we are talking about rate case expense. Whether the Company recovers the amount
3 the Commission authorizes through a surcharge or not, the amount being incurred
4 does not change. This is just a red herring.

5 Third, Ms. Brown claims normalization is just the way things are done.²²
6 But rate case expense is a different animal than other operating expenses and
7 Staff's normalization argument is simply a way for Staff to further ensure that
8 utilities do not recover their costs.²³ The Commission should end Staff's deceptive
9 use of normalization to deny utilities recovery of the high cost of setting rates.
10 As can be seen in this case, the amount of rate case expense is driven by the facts
11 of that case, and this is not a "normal" rate case.

12 **Q. WHY IS STAFF'S RECOMMENDED RATE CASE EXPENSE**
13 **UNREASONABLE?**

14 A. Because the amount will not come close to covering the actual cost of this
15 complicated and now hotly contested rate case. Because Ms. Brown has made no
16 effort to look at the specific circumstances of this rate case, including not pointing
17 to anything the Company might have done or not done to unreasonably increase the
18 cost of prosecuting this case.²⁴ Given that, and that this case was for all practical
19 purposes forced by the Commission and the customers, the actual expense in this
20 case is the best evidence of the amount that should be recovered.

21
22
23 ²¹ See Direct Testimony of Matthew Garlick at 4:18-22.

24 ²² Brown RD Dt. at 9:16-19.

25 ²³ Rebuttal Testimony of Thomas J. Bourassa (Rate Base, Income Statement and Rate
Design) ("Bourassa Rb.") at 40.

26 ²⁴ See Brown Dt. at 33:14 – 34:13.

1 **Q. DIDN'T LIBERTY BLACK MOUNTAIN'S DELAY IN RESPONDING TO**
2 **SOME DATA REQUESTS DELAY THE PROCEDURAL SCHEDULE?**

3 A. Yes, which illustrates the large number of complex data requests Liberty Black
4 Mountain received from Staff and RUCO, and the Company's desire to provide as
5 complete a supporting record as possible. This included numerous efforts by
6 Mr. Bourassa to work informally with Staff to answer their questions about the cost
7 of service study and several other aspects of the filing. But the delay did not have
8 an adverse impact on the amount of rate case expense requested. Not like the
9 breadth of discovery conducted by Staff and RUCO and their recommendations,
10 which recommendations are now giving rise to every contested issue in this case.

11 **Q. EXCUSE ME, MR. SORENSEN. YOU'RE NOT SUGGESTING THAT**
12 **STAFF AND RUCO BE DENIED THE CHANCE TO EXPRESS THEIR**
13 **VIEWS, EVEN IF THOSE VIEWS DIFFER FROM THE POSITIONS OF**
14 **THE CUSTOMERS THE COMPANY ACTUALLY SERVES, ARE YOU?**

15 A. No, not at all. I am suggesting that when Staff and RUCO choose to attack the
16 utility, deprive it of fair rates, and ignore the wishes of the customers, there should
17 be consequences. One such consequence is higher rate case expense, which makes
18 Staff's and RUCO's positions hypocritical as well as unreasonable. I will leave it
19 to RUCO to explain to its constituency why RUCO is contradicting its wishes, and
20 making this case more expensive than it otherwise could have been.

21 **Q. WHAT DOES RUCO SPECIFICALLY RECOMMEND IN THIS RATE**
22 **CASE FOR A RATE CASE EXPENSE SURCHARGE?**

23 A. RUCO recommends rate case expense of \$100,000 amortized over three years.²⁵
24 RUCO rejects the use of a surcharge to recover this cost.²⁶

25 ²⁵ Coley Dt. at 49:9-12.

26 ²⁶ Coley Dt. at 54:1-12.

1 **Q. IS RUCO'S RECOMMENDED LEVEL OF RATE CASE EXPENSE**
2 **REASONABLE?**

3 A. No, it's utterly absurd. This is a Class C utility that was a Class B utility until a
4 year ago, and this is a complex rate case involving multiple parties, the
5 development of an entirely new rate design, and significant issues related to the
6 closure of the Boulders WWTP. Mr. Bourassa points to much smaller utilities that
7 have been awarded as much or more rate case expense. There is simply no rational
8 basis for Mr. Coley's recommendation. But then, Mr. Coley admitted to not
9 knowing why we filed this rate case and accused us of working diligently to come
10 up with a revenue increase. Since he admits that his absurdly low recommended
11 rate case expense is based primarily on his "review of the Company's financials as
12 filed,"²⁷ it remains clear that Mr. Coley simply doesn't get it. As a result,
13 Mr. Coley's recommendation is clearly not rational in the first place.

14 **Q. WHAT ABOUT RUCO'S OPPOSITION TO THE PROPOSED RATE CASE**
15 **EXPENSE SURCHARGE?**

16 A. Mr. Coley's testimony has a footnote that says the rate case expense is an
17 estimate.²⁸ Of course it is. The case is ongoing and not complete. All we can do is
18 estimate rate case expense at the time a rate case is filed, more than a year before it
19 is complete and before most of the work is done. Besides, the fact that rate case
20 expense has to be estimated is irrelevant to whether we use a surcharge.
21 Obviously, the surcharge would only allow the Company to recover the amount
22 authorized by the Commission for rate case expense. Therefore, the amount to be
23 recovered won't be an estimate. It is just another flawed aspect of Mr. Coley's
24 recommendations.

25 ²⁷ Coley Dt. at 49:12-14.

26 ²⁸ Coley Dt. at 5, n.1.

1 **Q. ANYTHING ELSE, MR. SORESENSEN?**

2 A. Just to reiterate Liberty's profound disappointment with Staff and RUCO.
3 We have worked for the past decade to foster a cooperative working relationship
4 with both parties. Yet, here we are, again, in with a rate case we were forced to
5 file, and both parties try a no holds barred approach to lower Liberty Black
6 Mountain's rates. But their recommended revenue decreases, which are based on
7 returns on equity under 9 percent and denial of the costs of attracting capital and
8 necessary rate case expense, among other things, will leave the Company unable to
9 attract capital. So the Commission should ignore Staff and RUCO, adopt the
10 Settlement Agreement along with Liberty Black Mountain's proposed rates, and
11 help the Company to finish the closure of the Boulders WWTP. After years of
12 effort by numerous stakeholders, the pathway to closure is finally in front of the
13 Commission. The Commission should approve this pathway to closure,
14 notwithstanding Staff and RUCO opposition.

15 **Q. BUT WHAT ABOUT MR. COLEY'S TESTIMONY (AT 7:4-18) THAT THE**
16 **RELIEF LIBERTY NOW SEEKS DOES NOT COMPLY WITH DECISION**
17 **NO. 71865?**

18 A. Mr. Coley is not a lawyer, and perhaps he should not try to tackle legal issues as he
19 is attempting to do here.²⁹ I am not a lawyer either, but it seems pretty obvious to
20 me that if the Commission wishes to alter the relief previously granted, it is free to
21 do so in this case. Again, Mr. Coley does not seem to understand the point of this
22 rate case so he is not able to see the changed circumstances upon which we have
23 asked the Commission to modify the prior relief. Nor does his attempted legal
24 argument justify his leaving all recovery of closing costs, incurred or to be
25 incurred, out of the ratemaking equation.

26 ²⁹ Coley Dt. at 4:8-18.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

1 SHAPIRO LAW FIRM, P.C.
Jay L. Shapiro (No. 014650)
2 1819 E. Morten Avenue, Suite 280
Phoenix, Arizona 85020
3 Telephone (602) 559-9575
jay@shapslawaz.com
4

LIBERTY UTILITIES
5 Todd C. Wiley (No. 015358)
12725 W. Indian School Road, Suite D-101
6 Avondale, Arizona 85392
Todd.Wiley@libertyutilities.com
7

8 Attorneys for Liberty Utilities (Black Mountain Sewer) Corp.

9 **BEFORE THE ARIZONA CORPORATION COMMISSION**

10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

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

DOCKET NO: SW-02361A-15-0206

IN THE MATTER OF THE APPLICATION
OF LIBERTY UTILITIES (BLACK
MOUNTAIN SEWER) CORP., 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-02361A-15-0207

**REBUTTAL TESTIMONY OF
WILLIAM R. KILLEEN**

January 6, 2016

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

TABLE OF CONTENTS

I. INTRODUCTION..... 1

II. THE APUC COST ALLOCATION..... 2

 A. The APUC Cost Allocation is a Necessary and Reasonable Cost of Service 2

 B. The Story of the APUC Cost Allocation Since Decision No. 71865..... 12

III. REBUTTAL TO STAFF AND RUCO ON APUC COST ALLOCATION 17

1 **I. INTRODUCTION.**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is William R. Killeen. My business address is 345 Davis Road, Oakville,
4 Ontario, Canada, L6J ZX1.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. I am providing this testimony on behalf of the applicant Liberty Utilities (Black
7 Mountain Sewer) Corp. (hereafter "Liberty Black Mountain" or the "Company").

8 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

9 A. I am the Director of Regulatory Operations for Liberty Utilities (Canada) Corp.
10 ("Liberty Utilities Canada"). Liberty Utilities Canada is the parent company of
11 Liberty Utilities Co. ("Liberty Utilities").

12 **Q. DID YOU PREVIOUSLY PROVIDE TESTIMONY ON BEHALF OF
13 LIBERTY BLACK MOUNTAIN IN THIS CASE?**

14 A. Yes. My direct testimony was filed on June 22, 2015 with the Company's
15 application. My testimony explained the APUC and Liberty Utilities' corporate
16 Cost Allocation Manual ("CAM") and the benefits of our shared service model to
17 Liberty Black Mountain and the other regulated utilities operated by Liberty
18 Utilities, including the various Arizona water and wastewater utilities.
19 My testimony supported the request to include \$37,815 of corporate cost
20 allocations in the Company's operating expenses, which amount represents the
21 Company's proportionate share of the total costs incurred by APUC for the benefit
22 of its subsidiaries. This amount is in addition to the allocation from Liberty
23 Utilities in the amount of \$84,858.65

24 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

25 A. To respond to the recommendations by Staff and RUCO to disallow most of the
26 APUC cost allocation to Liberty Black Mountain. There does not appear to be any

1 dispute over the costs allocated to the Company by Liberty Utilities in this case;
2 the dispute appears limited to the APUC costs.

3 **Q. SO THE COMPANY DISAGREES WITH STAFF'S AND RUCO'S**
4 **RECOMMENDED ADJUSTMENTS TO THE CORPORATE COST**
5 **ALLOCATION FROM APUC TO LIBERTY BLACK MOUNTAIN?**

6 A. Yes, strongly. Staff and RUCO have reversed the clock back several years,
7 ignoring that the Commission has continued to revisit our cost allocation
8 subsequent to Decision No. 71865. As a result, Staff and RUCO recommend the
9 elimination of costs that are critical to Liberty Black Mountain's efficient
10 operations, including access to capital. Incredibly, Staff and RUCO have gone so
11 far as to recommend denial of costs relating to legal requirements for APUC to be
12 listed on the Toronto Stock Exchange ("TSX"), which is where capital for
13 improvements is raised.

14 **II. THE APUC COST ALLOCATION.**

15 A. The APUC Cost Allocation is a Necessary and Reasonable Cost of
16 Service.

17 **Q. WHAT EXACTLY DO THE COSTS STAFF AND RUCO ELIMINATED**
18 **PAY FOR, MR. KILLEEN?**

19 A. The specific amounts allocated to Liberty Black Mountain during the test year are
20 illustrated in the Table below, which Table was included in the Company's
21 response to Staff Data Request CSB 6.1:

22
23
24
25
26

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

Description of APUC Expense	Total APUC Expense	Allocation Percent	APUC Amount Allocated to Affiliate	Allocation Percent	APUC Amount Allocated to Black Mountain	NARUC Account Number
Legal Costs	\$389,618.02	16.17%	\$63,001.23	3.86%	\$2,431.85	734
Tax Services	\$637,075.68	16.17%	\$103,015.14	3.86%	\$3,976.38	734
Audit	\$687,211.34	16.17%	\$111,122.07	3.86%	\$4,289.31	734
Investor Relations	\$87,327.97	16.17%	\$14,120.93	3.86%	\$545.07	734
Director Fees and Insurance	\$728,234.51	16.17%	\$117,755.52	3.86%	\$4,545.36	734
Licenses, Fees and Permits	\$211,229.89	16.17%	\$34,155.87	3.86%	\$1,318.42	734
Escrow and Transfer Agent Fees	\$55,605.20	16.17%	\$8,991.36	3.86%	\$347.07	734
Other Professional Services	\$443,302.95	16.17%	\$71,682.09	3.86%	\$2,766.93	734
Office Administration	\$2,823,698.31	16.17%	\$456,592.02	3.86%	\$17,624.45	734
Total	\$6,063,303.87		\$980,436.23		\$37,844.84	

Q. WHY ARE THESE COSTS REASONABLE AND NECESSARY FOR LIBERTY BLACK MOUNTAIN TO PROVIDE WASTEWATER UTILITY SERVICE TO ITS CUSTOMERS?

A. There are a number of reasons. First and foremost, many of the costs at issue are legal requirements of the TSX. These costs are the same types of costs that entities traded on the New York Stock Exchange (NYSE) are required to incur. They are a necessary and unavoidable part of a publicly traded entity's cost of doing business. APUC's presence on the TSX is the means by which Liberty Utilities obtains capital for investment from APUC, and I do not think anyone disputes that APUC's access to capital is a benefit to Liberty and its customers in Arizona.¹ If we need

¹ E.g., *Liberty Utilities (Rio Rico Water & Sewer) Corp. (formerly Rio Rico Utilities, Inc.)*, Decision No. 72059, at 21:19-21; *Liberty Utilities (Bella Vista Water) Corp. (formerly Bella Vista Water Co, Inc.)*, Decision No. 72251(April 7, 2011) at 27:20-25; see also

1 access to capital and this is how we do it, then the associated costs should be
2 included if we show they are required, which we have done in this case.

3 **Q. OKAY, LET'S DISCUSS "THESE COSTS" IN MORE DETAIL. WHAT**
4 **ARE INVESTOR RELATIONS EXPENSES?**

5 A. Investor relations costs are incurred to comply with filing and regulatory
6 requirements of the TSX and to meet the expectations of unitholders.² These costs
7 include items such as news releases and investor conference calls. In the absence
8 of unitholder communication costs, investors would not invest in APUC and, in
9 turn, APUC would not have capital to invest in its subsidiaries. Without such
10 communications services, the subsidiaries would not have a readily available
11 source of capital funding. That includes Liberty Black Mountain.

12 Even more compelling is that investor communications expenses are an
13 important aspect of APUC being publicly traded, and are therefore critical to
14 services provided by Liberty Black Mountain. APUC, a publicly traded entity,
15 must issue certain communications subject to the TSX's rules and regulations.
16 Examples include Section 714 of the TSX Company Manual stating that "TSX may
17 delist the securities of a listed issuer that has failed to comply with TSX's Timely
18 Disclosure policy..."³ Additionally, Section 406 of the TSX Company Manual in
19 part states "Companies whose securities are listed on the [TSX] are legally
20 obligated to comply with the provisions on timely disclosure..."⁴ Finally, the
21 Canadian National Policy 51-201 Disclosure Standards states in Section 4.5 that
22 "Companies who do not comply with an exchange's requirements could find
23

24 pages 14 – 16, *infra*.

25 ² APUC investors hold units and not shares.

26 ³ **Exhibit WRK-RB1** (excerpt from Company response to Staff Data Request CSB 6.1).

⁴ **Exhibit WRK-RB2** (excerpt from Company response to Staff Data Request CSB 6.1).

1 themselves subject to an administrative proceeding before a provincial securities
2 regulator.”⁵ These requirements are no different than publicly traded companies on
3 the NYSE whose Listed Company Manual, Section 202.05 states “A listed
4 company is expected to release quickly to the public any news or information
5 which might reasonably be expected to materially affect the market for its
6 securities. This is one of the most important and fundamental purposes of the
7 listing agreement that the public company enters into with the [TSX].”⁶

8 Boiled down, these investor relations expenses are necessary for APUC to
9 raise capital and provide capital to its regulated utility subsidiaries. As a publicly
10 traded entity, APUC risks being delisted if it does not comply, and if delisted
11 APUC could not provide capital to Liberty Utilities for Liberty Black Mountain.
12 This is likely why the Commission has approved these costs for recovery in recent
13 rate cases for affiliated entities, as I discuss further below in this testimony.

14 **Q. DO LIBERTY BLACK MOUNTAIN AND ITS CUSTOMERS BENEFIT**
15 **FROM THESE COSTS?**

16 A. Of course. Liberty Black Mountain is seeking recovery of corporate costs incurred
17 by APUC and Liberty Utilities in order for them to continue providing Liberty
18 Black Mountain with access to capital. Those costs are required in order to
19 maintain listing on the TSX. Those costs do not solely benefit unitholders or
20 investors; they are necessary and legally required costs of being listed on the TSX.
21 Liberty Black Mountain and its customers are the prime beneficiaries of those costs
22 because capital would not be available from APUC or Liberty Utilities unless those
23 costs were incurred. If the Commission wants Liberty Black Mountain to continue
24 having steady and guaranteed access to capital funding from the TSX, then Liberty

25 ⁵ **Exhibit WRK-RB3** (excerpt from Company response to Staff Data Request CSB 6.1).

26 ⁶ **Exhibit WRK-RB4** (excerpt from Company response to Staff Data Request CSB 6.1).

1 Black Mountain must pay its fair share of those costs.

2 Any reasonable investor certainly would expect a subsidiary receiving
3 capital from the TSX to pay its fair share of the costs required to obtain that capital
4 in the first place. Unfortunately, it is clear that neither Ms. Brown nor Mr. Coley
5 has any real understanding of the legal requirements of the TSX or investor
6 expectations on these corporate cost issues despite the information they were given
7 in the discovery phase of this case.

8 **Q. IF LIBERTY BLACK MOUNTAIN WAS A STAND-ALONE, PUBLICLY**
9 **TRADED COMPANY, WOULD IT INCUR INVESTOR**
10 **COMMUNICATIONS EXPENSES?**

11 A. Yes, if it was a publicly traded entity listed on a stock exchange and that was where
12 it raised its capital. The rules apply to all entities on the exchanges, not just to
13 APUC.

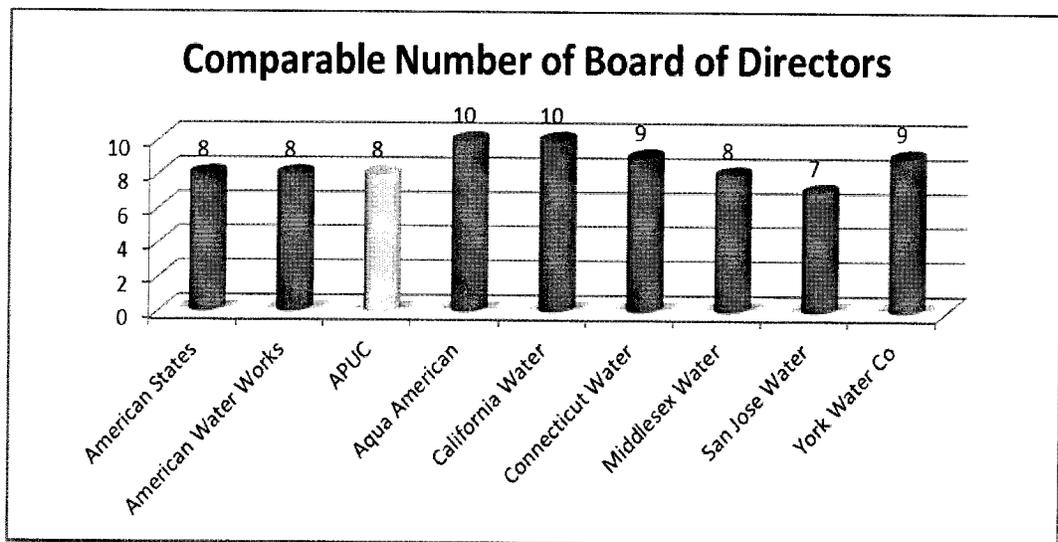
14 **Q. OKAY. WHAT ARE DIRECTOR FEES AND INSURANCE?**

15 A. Trustee/Director fees are also known as Board of Directors Fees. These fees are
16 fees provided to the APUC's Board of Directors in return for providing services to
17 the entity in the form of things like strategic oversight, corporate governance and
18 budget reviews, among other duties. All publicly traded companies on the TSX or
19 NYSE are required to have a Board of Directors. APUC's Board of Directors has
20 eight members.

21 Trustee Fees, also known as Board of Directors Fees, are an important
22 aspect of being publicly traded. APUC incurred this expense out of compliance
23 with law and to adhere to sound corporate governance practices. The TSX's Guide
24 to Listing states that "Management, including board of directors, should have
25 adequate experience and technical expertise relevant to the company's business and
26 industry as well as adequate public company experience. Companies are required

1 to have at least two independent directors.”⁷ The NYSE has a similar requirement
2 in Section 303A.01 “Listed companies must have a majority of independent
3 directors. . . . Effective boards of directors exercise independent judgment in
4 carrying out their responsibilities. Requiring a majority of independent directors
5 will increase the quality of board oversight and lessen the possibility of damaging
6 conflicts of interest.”⁸

7 Additionally, as shown in the graph below, APUC’s Board of Directors is
8 smaller than or similar in size to comparable boards of directors (taken from a
9 sample cost of capital proxy group).



20 Put simply, Board of Director fees are an accepted and necessary cost of operations
21 for publicly traded companies, including APUC and its subsidiaries.

22 In conjunction with having a Board of Directors, APUC also has Directors’
23 Insurance. Similar to attracting talented employees, attracting a talented Board of
24 Directors is important to a publicly traded company. Insurance covering the Board

25 ⁷ Exhibit WRK-RB5 (excerpt from Company response to Staff Data Request 6.1).

26 ⁸ Exhibit WRK-RB6 (excerpt from Company response to Staff Data Request 6.1).

1 of Directors is critical, and other publicly traded utilities have similar insurance.
2 Liberty Black Mountain provided Staff with examples of other utilities incurring
3 similar insurance costs in a data request response.⁹ As discussed further below, it
4 is my understanding that the Commission has approved these costs for recovery in
5 recent rate cases for affiliated entities.

6 **Q. WHY IS IT REASONABLE TO ALLOW LIBERTY BLACK MOUNTAIN**
7 **TO RECOVER AN ALLOCATED SHARE OF DIRECTOR FEES AND**
8 **INSURANCE?**

9 A. As I just explained, maintaining a board of directors by APUC, especially an
10 independent board not otherwise employed by the entity, is a requirement of the
11 TSX and NYSE. "Requiring a majority of independent directors will increase the
12 quality of board oversight and lessen the possibility of damaging conflicts of
13 interest."¹⁰ What's more, Liberty Black Mountain and its customers clearly benefit
14 from services provided by APUC's Board of Directors, including corporate
15 oversight, financial controls and other beneficial services. Again, the simple fact is
16 that Liberty Black Mountain would not have access to capital from APUC unless
17 APUC incurred these Board of Directors fees and insurance. These fees and costs
18 are necessary for APUC to be able to provide the benefit of access to capital.
19 Without these costs, APUC cannot operate as a publicly traded entity on the TSX.
20 These are similar costs authorized for other publicly traded utilities providing
21 service in Arizona.

22 **Q. DO OTHER PUBLICLY TRADED COMPANIES COMPENSATE THEIR**
23 **BOARD OF DIRECTORS?**

24 A. Yes. This compensation is no different than compensating employees; entities

25 ⁹ See Company response to Staff Data Request CSB 6.1(e) and attached documents.

26 ¹⁰ Exhibit WRK-RB6.

1 need to compensate members of the board to attract qualified individuals to the
2 position.

3 **Q. NEXT, WHAT ARE ESCROW AND TRANSFER AGENT FEES?**

4 A. Escrow and Transfer Agent fees are expenses incurred in connection with tracking
5 all of APUC'S unitholders. This is another legal requirement of the TSX and
6 NYSE. In connection with payment of dividends to unitholders, APUC incurs
7 escrow fees. Escrow fees are incurred to ensure continued access to capital, and
8 continuing and ongoing investments by unitholders. Without such escrow fees,
9 APUC's subsidiaries would not have a readily available source of capital funding.
10 TSX Policy 3-1, Section 7, requires that APUC maintain a transfer agent.
11 In particular, Section 7.1 provides that "[e]ach Issuer must maintain a record of its
12 current registered unitholders, a record of each allotment or issuance and a record
13 of each transfer in the registered ownership of its securities."¹¹ Additionally,
14 Section 7.2 requires that "[w]hile its securities are listed on the [TSX], an Issuer
15 must appoint and maintain a transfer agent and registrar..."¹² Not maintaining an
16 Escrow Agent would risk putting Liberty Black Mountain's parent company in
17 violation of TSX rules, and, in turn, if APUC did not have access to the capital
18 markets, then neither would Liberty Black Mountain, depriving Liberty Black
19 Mountain's customers of this important benefit. Finally, this requirement appears
20 materially identical to the NYSE's requirements in Section 6 of the Listed
21 Company Manual: "[t]he company must also maintain registrar facilities for all
22 stock of the company listed on the [NYSE]."¹³ As with the insurance costs I
23 discussed earlier, it is my understanding that the Commission has approved these

24
25 ¹¹ **Exhibit WRK-RB7** (excerpt from Company response to Staff Data Request CSB 6.1).

26 ¹² *Id.*

¹³ **Exhibit WRK-RB8** (excerpt from Company response to Staff Data Request CSB 6.1).

1 costs for recovery in recent rate cases for affiliated entities in the rate cases I
2 discuss in further detail below in this testimony.

3 **Q. WHY ARE ESCROW AND TRANSFER AGENT FEES REASONABLE TO**
4 **RECOVER IN RATES?**

5 A. Again, this is a requirement of being a publicly traded entity on the TSX, and
6 therefore necessary for APUC to have access to capital, and these costs would be
7 incurred if Liberty Black Mountain were a stand-alone entity on a stock exchange.
8 Liberty Black Mountain would not have access to capital from APUC unless
9 APUC incurred those costs as required by the TSX.

10 **Q. WHAT ABOUT PROFESSIONAL SERVICES FEES, MR. KILLEEN?**

11 A. Professional Services including strategic plan reviews, capital market advisory
12 services, ERP System maintenance, benefits consulting, and other similar
13 professional services. Unlike the costs I have already discussed, these costs do not
14 arise directly from legal requirements of the TSX. Nevertheless, these are
15 important functions of our operations and, by providing these services at the parent
16 level, the subsidiaries are able to benefit from economies of scale. Therefore, these
17 costs on the whole improve APUC's access to and use of capital, which benefits all
18 of its subsidiaries, including Liberty Black Mountain. It follows that an allocated
19 share of these costs should also be recovered in rates. These services provided by
20 APUC specifically optimize the performance of the utilities, while ensuring access
21 to capital is available and quality service is provided. If the utilities did not have
22 access to the professional services provided by APUC, then they would be forced
23 to incur associated costs for financing, capital investment, audits, taxes and other
24 similar services on a stand-alone basis, which would substantially increase such
25 costs. Simply put, without incurring these costs, APUC would not be able to invest
26 capital in its subsidiaries, including the regulated utilities. Like other items in the

1 allocated cost pool, it is also my understanding that the Commission has approved
2 these costs for recovery in recent rate cases for affiliated entities. These cases are
3 discussed further later in this testimony.

4 **Q. HAS LIBERTY BLACK MOUNTAIN PROVIDED SUPPORT IN THIS**
5 **CASE TO SHOW THAT THE COSTS IN THE APUC ALLOCATION ARE**
6 **REASONABLE AND NECESSARY?**

7 A. Yes. First, Liberty Black Mountain provided a revised breakdown of corporate
8 allocations and direct cost line items that roll up into the operating expense
9 categories on the C Schedules.¹⁴ The transaction detail included amounts removed
10 from the pool of corporate costs. Invoice or journal entry backup for expenses over
11 \$1,000 were also provided.¹⁵ Later, we provided detailed information
12 demonstrating that many of the costs that Staff and RUCO propose to disallow are
13 requirements of being a publicly traded entity on the TSX.¹⁶ Additional
14 information on the APUC allocation was provided in response to RUCO data
15 requests.¹⁷ Finally, the Company provided the Liberty Utilities CAM, which
16 summarizes the APUC and Liberty Utilities cost allocation methodology.
17 Inexplicably, neither Ms. Brown nor Mr. Coley appear to have reviewed the CAM.
18 They did not address the CAM in their rebuttal testimony. The CAM fully
19 supports the reasonable corporate cost allocations here. Ms. Brown's and Mr.
20 Coley's failure to even address the CAM should illustrate the flawed corporate cost
21 analysis used and applied by Staff and RUCO in this case.

22 ¹⁴ See Company's revised narrative response to Staff Data Request BAB 1.18 attached as
23 **Exhibit WRK-RB9.**

24 ¹⁵ *Id.*

25 ¹⁶ See the Company's narrative response to Staff Data Request CSB 6.1, which is attached
26 as **Exhibit WRK-RB10.**

¹⁷ The Company's narrative responses to RUCO Data Requests 1.20, 6.11, 6.12, 8.01,
10.01 and 10.03 are attached as **Exhibit WRK-RB11.**

1 All told, the Company provided very detailed documentation to support the
2 underlying costs, including substantial evidence to show that the costs are not only
3 required, but necessary and reasonable. This is virtually the same evidence that
4 was satisfactory to Staff in the last rate cases for Liberty Utilities (Litchfield Park
5 Water & Sewer) Corp. ("Liberty Litchfield Park") and Liberty Utilities (Rio Rico
6 Water & Sewer) Corp. ("Liberty Rio Rico"), as discussed further below.

7 **B. The Story of the APUC Cost Allocation Since Decision No. 71865.**

8 **Q. YOU MENTIONED SEVERAL TIMES THAT THE COMMISSION HAS**
9 **INCLUDED SIMILAR COSTS IN THE REVENUE REQUIREMENT FOR**
10 **OTHER LIBERTY UTILITIES?**

11 A. Yes, for Liberty Rio Rico and Liberty Litchfield Park. That was my point about
12 Staff and RUCO turning back the clock. Mr. Coley and Ms. Brown present their
13 positions on this issue as if Decision No. 71865 was the last word of the
14 Commission on the matter. This does a disservice to the Commission and the
15 Company. There have been four other Commission decisions for Liberty Utilities
16 since the Liberty Black Mountain rate order that these witnesses rely on primarily
17 for their recommendations to disallow these costs.¹⁸ These subsequent rate cases
18 show a clear progression in the Commission's understanding of Liberty's cost
19 allocation, including the development of the CAM, based on Liberty showing that
20 these costs are necessary and inure to the benefit of the customers.

21 **Q. WHAT WAS THE FIRST RATE CASE AFTER DECISION NO. 71865**
22 **WHERE THE COST ALLOCATION METHODOLOGY WAS**
23 **ADDRESSED?**

24 A. Decision No. 72059, for Liberty Rio Rico. Mr. Coley discusses and relies on this

25 _____
26 ¹⁸ As noted, Mr. Coley also relies on Decision No. 72059 (January 6, 2011). However, Mr. Coley also ignored the latter decisions in which the same costs were allowed.

1 case, and includes a lengthy passage from the decision.¹⁹ But he leaves out the
2 most important part of the Commission's resolution of the corporate cost allocation
3 in that case for purposes of this rate case:

4 In a future rate case, with additional evidence, the Company
5 may be able to meet its burden to demonstrate that the APT²⁰
6 management fees costs provide real, non-duplicative benefits
7 to [Liberty Rio Rico] ratepayers, but we find that [Liberty Rio
8 Rico] has not met its burden in this case." (Emphasis
9 added.)²¹

10 **Q. OKAY, THANK YOU. WHAT WAS THE NEXT RATE CASE AFTER
11 DECISION NO. 72059 IN WHICH THE COST ALLOCATION WAS
12 ADDRESSED?**

13 **A.** The Liberty Utilities (Bella Vista Water) Corp. rate case, Decision No. 72251
14 (April 7, 2011), was just a few months after Decision No. 72059, and less than a
15 year after the last decision for Liberty Black Mountain. In that case the
16 Commission also addressed the APUC cost allocation, writing that

17 The APT Cost Pool allocation to the Liberty [Utilities]
18 affiliates has been at issue in every Liberty [Utilities] rate
19 case. As the parties have reviewed the costs that have been
20 included in the Central Cost Pool, they have identified certain
21 expenses that should have been directly billed to one or
22 another of APUC'S facilities, as well as expenses which were
23 not adequately documented or not appropriate to be recovered
24 from utility ratepayers. Each rate case has refined the
25 process.²²

26 **Q. WHAT WAS THE NEXT RATE CASE WHERE THE COMMISSION
ALLOWED RECOVERY OF THE CORPORATE COST ALLOCATION?**

¹⁹ Direct Testimony of Timothy Coley ("Coley Dt.") at 47:1 – 48:18.

²⁰ APT stands for Algonquin Power Trust, a predecessor name to Algonquin Power & Utilities Corporation.

²¹ Decision No. 72059 at 22:4-6.

²² Decision No. 72251 at 27:9-13.

1 A. The next rate case for Liberty Rio Rico was Decision No. 73996 (July 20, 2013).
2 However, a great deal of effort and collaboration occurred in the interval between
3 the two Liberty Rio Rico rate decisions in 2011 and 2013. Liberty's prior rates
4 manager, Chris Krygier, had numerous meetings with Staff, explaining the APUC
5 CAM and the cost allocation methodology. The Staff involved in those cases
6 worked with Liberty and Mr. Krygier relating to the corporate costs, and applied an
7 open-minded and fair approach. That's why we are so disappointed with
8 Ms. Brown's testimony, which leaves the Commission with the impression that
9 nothing happened since the last Liberty Black Mountain rate case in 2010.
10 Ultimately, Staff and RUCO agreed with Liberty Rio Rico on the level of corporate
11 costs to be included in the determination of the revenue requirement as of an
12 agreement by all parties to the total level of operating expenses.²³

13 **Q. SO THE ISSUE WASN'T LITIGATED IN THAT RATE CASE,**
14 **MR. KILLEEN?**

15 A. No. It appears it did not need to be. In that rate case, Liberty Rio Rico included
16 test year APUC cost allocations equal to \$133,975 and \$59,282 for Liberty Rio
17 Rico's water and wastewater divisions, respectively. Staff recommended
18 adjustments equal to \$38,083 and \$27,931 to the two divisions, respectively.²⁴
19 In direct, Staff's witness testified that Staff's adjustment was based on Liberty Rio
20 Rico's inability to segregate the items it is requesting to recover from those it is not
21 requesting to recover.²⁵

22 ²³ Decision No. 73996 at 17 – 20.

23 ²⁴ See Direct Testimony of Mary J. Rimback (filed December 31, 2012 in Docket No.
24 WS-02676A-12-0196) (“Rimback RR Dt.”) at 26 – 28, 32 – 34.

25 ²⁵ See Rimback RR Dt. at 26 – 28, 33:17-23 & 27:21-26. See also Surrebuttal Testimony
26 of Mary J. Rimback (filed February 19, 2013 in Docket No. WS-02676A-12-0196) at 15:1
– 16:7 (Liberty Rio Rico did not identify the components of the total pool of costs that the
Company is requesting to recover).

1 **Q. WHAT WAS RUCO'S POSITION IN THE LAST LIBERTY RIO RICO**
2 **RATE CASE?**

3 A. RUCO recommended adjustments of \$31,266 and \$10,225 to the amounts allocated to
4 the water and wastewater divisions, respectively. RUCO relied exclusively on the
5 previous Liberty Rio Rico decision, Decision No. 72059, and argued that some of
6 the expense pool should be borne by the utility's shareholders and by the other
7 unregulated utilities of APUC, and RUCO made an adjustment to remove some
8 corporate allocations that RUCO felt were unnecessary in the provision of water and
9 wastewater service.²⁶

10 In the end, Liberty Rio Rico, Staff and RUCO agreed to cost allocation
11 amounts of approximately \$101,000 and \$37,000 for the water and wastewater
12 divisions, respectively, reductions of approximately \$32,000 and \$22,000 relative to
13 the amount originally requested. No mention was made of Decision No. 71865.
14 Presumably, had Staff and RUCO not come to the final conclusion that the allocated
15 APUC corporate costs were supported, reasonable, necessary and beneficial to utility
16 customers, they would not have recommended Commission approval of those expense
17 levels, which both parties did.

18 **Q. WAS THE LIBERTY LITCHFIELD PARK DECISION THE NEXT ONE**
19 **AFTER DECISION NO. 73996 FOR LIBERTY RIO RICO?**

20 A. Yes. In Decision No. 74437 (April 14, 2014) the Commission adopted the parties'
21 agreement on a level of operating expenses that included Corporate Cost allocation
22 expenses.²⁷ In that rate case for Liberty Litchfield Park, there was no dispute
23 between Staff and Liberty Litchfield Park on the corporate cost allocation, which
24

25 ²⁶ Direct Testimony of Timothy J. Coley (filed December 31, 2012 in Docket No. WS-
02676A-12-0196) at 11 – 12.

26 ²⁷ Decision No. 74437 at 7:18 – 8:2.

1 included more than just the minimal legal, tax and audit expenses that Staff
2 recommends be allowed in this rate case.²⁸ Again, Staff did not apply or revert to
3 the prior Liberty Black Mountain Decision No. 71865. Rather, Staff seems to have
4 justly recognized that Decision No. 71865 was no longer applicable given the
5 additional evidence and proof offered by Liberty Litchfield Park subsequent to that
6 rate case.

7 **Q. WHAT ABOUT RUCO'S POSITION IN THE LIBERTY LITCHFIELD**
8 **PARK RATE CASE?**

9 A. RUCO's witness initially went back to Decision No. 72059 and argued for a lower
10 corporate cost allocation expense than was being advocated by Liberty Litchfield
11 Park and Staff.²⁹ RUCO's positions softened in surrebuttal as RUCO seemed to
12 finally accept that customers benefit from the access to capital, which would not be
13 possible without the costs included in the cost pool, and recommended a
14 considerable reduction to its own decrease in this expense.³⁰ RUCO did not take
15 the same overly narrow position it does in this rate case, and again, RUCO
16 ultimately agreed to the level of operating expenses, including the corporate cost
17 allocation, for Liberty Litchfield Park as reflected in the decision of the
18 Commission adopting the joint recommendation by RUCO, Staff and Liberty
19 Litchfield Park.

20
21
22
23 ²⁸ See Direct Testimony of Darron W. Carlson (filed September 26, 2013 in Docket Nos.
SW-01427A-13-0042 and W-01428A-13-0043 (consolidated)) ("Carlson LP Dt.") at
22:11 – 25:4.

24 ²⁹ Direct Testimony of Robert B. Mease (filed September 27, 2013 in Docket Nos. SW-
25 01427A-13-0042 and W-01428A-13-0043 (consolidated)) at 27 – 31.

26 ³⁰ Surrebuttal Testimony of Robert B. Mease (filed November 12, 2013 in Docket Nos.
SW-01427A-13-0042 and W-01428A-13-0043 (consolidated)) at 21 – 23.

1 Q. WHY DO YOU THINK THE SITUATION WAS SO DIFFERENT IN THE
2 LAST RATE CASE FOR LIBERTY RIO RICO AND THE LAST RATE
3 CASE FOR LIBERTY LITCHFIELD PARK COMPARED TO THE LAST
4 LIBERTY BLACK MOUNTAIN RATE CASE?

5 A. We presented new evidence that had not been provided in any prior Liberty rate
6 cases. This new information overwhelmingly demonstrates that many of the costs
7 included in the APUC cost allocation pool are legal requirements of the TSX.
8 Additionally, we spent significant time with Staff, and later RUCO, working
9 through the details of the corporate cost process and how the Liberty utilities in
10 Arizona benefit from the shared services model. These cooperative efforts resulted
11 in the development of the CAM, which was attached to my direct testimony as
12 Exhibit WRK-DT3. The CAM details how the parent company allocates expenses
13 and the processes and controls surrounding them. It was to Liberty's own
14 detriment that it took us a few rate cases to do a better job supporting the corporate
15 cost allocation. But Staff and RUCO are the reason that we are now going
16 backwards in this rate case and rendering all that effort null and void.

17 **III. REBUTTAL TO STAFF AND RUCO ON APUC COST ALLOCATION.**

18 Q. HAVE YOU REVIEWED THE TESTIMONY ON THE CORPORATE
19 COST ALLOCATION FILED BY STAFF AND RUCO?

20 A. Yes.

21 Q. AND BASED ON YOUR REBUTTAL TESTIMONY SO FAR, YOU
22 OBVIOUSLY DO NOT AGREE WITH THEIR RECOMMENDED
23 ADJUSTMENTS TO THE CORPORATE COST ALLOCATION FROM
24 APUC TO LIBERTY BLACK MOUNTAIN.

25 A. No. As I have tried to explain above, Staff and RUCO have reversed the clock
26 back several years, ignoring that the Commission has continued to revisit our cost

1 allocation subsequent to Decision No. 71865. As a result, Staff and RUCO
2 recommend the elimination of costs that are critical to Liberty Black Mountain's
3 efficient operations, including access to capital.

4 **Q. WHAT SPECIFICALLY DOES RUCO RECOMMEND ON CORPORATE**
5 **COSTS, MR. KILLEEN?**

6 A. RUCO recommends reducing the corporate cost allocation by \$27,147, which is
7 reduction of over 70 percent from the amount requested, in order to align more
8 closely with Decision No. 71865, the last rate case for Liberty Black Mountain, and
9 Decision No. 72059, the rate case for Liberty Rio Rico before its most recent rate
10 case.³¹

11 **Q. WHAT SPECIFICALLY DOES STAFF RECOMMEND ON CORPORATE**
12 **COSTS?**

13 A. Staff recommends reducing the corporate cost allocation to only \$7,742,
14 a reduction of more than \$31,000, or nearly 80 percent of the total amount
15 requested for the APUC allocation to the Company.³² Staff relies solely on the
16 prior decision for Liberty Black Mountain in reaching its recommendation. In fact,
17 Ms. Brown recalculates the allocation using the methodology approved in that rate
18 case.³³ Ms. Brown also complains that the Company did not support its request
19 because it failed to provide the total number of companies that APUC owns or
20 operates or the corporate depreciation rate.³⁴ Ms. Brown does not explain,

21 ³¹ Coley Dt. at 46:13 – 48:18. Notably, RUCO's adjustments are to the number for the
22 APUC allocation included in the initial filing. As Mr. Bourassa explains in his rebuttal,
23 the number has been revised in this rebuttal filing. Rebuttal Testimony of Thomas J.
24 Bourassa at 44:2-5.

24 ³² Direct Testimony of Crystal S. Brown ("Brown Dt.") at 30:13 – 33:12. As with
25 RUCO's adjustment, Staff's is based on the initial requested allocation expense level, not
26 the revised rebuttal level of this expense.

25 ³³ Brown Dt. at 32:13-22.

26 ³⁴ Brown Dt. at 33:1-6.

1 however, how this impacted her recommendation. Again, it is alarming that
2 Ms. Brown did not bother to even address the Liberty Utilities CAM filed with the
3 Company's application in this case. Ms. Brown's failure to review the CAM is not
4 a justification for going back five years to different circumstances, different
5 evidence and different cost allocation methodologies.

6 **Q. HOW DOES LIBERTY BLACK MOUNTAIN RESPOND TO THESE**
7 **RECOMMENDATIONS BY STAFF AND RUCO?**

8 A. The recommendations by Staff and RUCO are severely flawed. Both parties have
9 (1) ignored the progression of Commission decisions addressing this issue since the
10 last rate order for Liberty Black Mountain; (2) missed the evidence demonstrating
11 that the costs being disallowed are necessary and required costs of service; and
12 (3) failed to recognize the benefits realized by customers.

13 **Q. DID STAFF OR RUCO ADDRESS THE COMMISSION'S STATEMENT IN**
14 **DECISION NO. 72059 THAT THE COMMISSION WOULD CONTINUE**
15 **TO EVALUATE THE COMPANY'S COST ALLOCATION?**

16 A. No, and Mr. Coley even claims to rely on Decision No. 72059. I believe it is
17 inappropriate and unfair for Ms. Brown and Mr. Coley to rely solely on the early
18 Liberty rate cases where the costs at issue were also disallowed. By trying to
19 narrow the focus, Staff and RUCO are negating several years of effort by Liberty
20 to work with Staff and RUCO to explain, refine and improve the cost allocation
21 model, including the development of CAM. Neither witness makes any mention of
22 the CAM. Staff and RUCO know, and should have informed the Commission, that
23 after those two early cases they reference Liberty and its utilities have continued to
24 try to show the necessity and benefit of the expenses, and that the Commission has
25 not only authorized an increasing percentage of these costs, but explicitly left open
26 the door for the Company to attempt to recover more of the costs than were

1 authorized in the last Liberty Black Mountain rate case several years ago.

2 **Q. BUT MR. KILLEEN, ISN'T IT POSSIBLE THAT STAFF AND RUCO JUST**
3 **CONCLUDED AGAIN THAT LIBERTY BLACK MOUNTAIN FAILED TO**
4 **MEET ITS BURDEN OF PROOF?**

5 A. That's not what Mr. Coley testified. He said their disallowance is necessary to
6 align this case with Decision Nos. 71865 and 72059.³⁵ He does not discuss any of
7 the changes that have been made since Decision No. 72059, including the
8 development of the CAM. Ms. Brown relies exclusively on the reasoning in
9 Decision No. 71865, and does not discuss the CAM or any of the supporting
10 evidence the Company provided. She ignored everything we provided in support
11 of the allocation. I find this arbitrary when compared to Staff's position in the more
12 recent Liberty Litchfield Park rate case. In that case, Staff agreed from the start
13 that more than limited legal, audit and tax costs Ms. Brown allows here were
14 reasonable and should be recovered.³⁶ I do not understand how Ms. Brown could
15 simply ignore Mr. Carlson's recent testimony for Staff addressing the same costs
16 she disallows in this case, or the two Commission decisions more recent than
17 Decision No. 71865 adopting, with Staff support, far more costs than Ms. Brown
18 would recommend.

19 **Q. SO YOU DO NOT AGREE WITH MS. BROWN'S TESTIMONY THAT**
20 **THE COMPANY FAILED TO PROVIDE SUFFICIENT SUPPORT FOR**
21 **THE ALLOCATION?**

22 A. Yes. This is just an excuse raised by Ms. Brown for her failure to review the CAM
23 and supporting evidence provided by the Company. It appears that Ms. Brown
24 took the path of least resistance and reverted to the prior Liberty Black Mountain

25 ³⁵ Coley Dt. at 48:12-13.

26 ³⁶ Carlson LP Dt. at 22:11 – 25:4.

1 rate case without any further review of the evidence provided. Here, the Company
2 provided copies of all invoices in the cost pool, along with the CAM, which gives a
3 detailed summary of the benefits and needs for such corporate costs.
4 The Company did not have a CAM when Decision No. 71865 was decided, and it
5 is completely arbitrary for Ms. Brown to act as if a CAM does not exist now. Even
6 further, the Company provided detailed support for all of the costs excluded by
7 Ms. Brown in data responses, including providing the relevant sections of the TSX
8 and NYSE rules, along with supporting information regarding Board of Directors
9 for other publicly traded utilities and insurance costs. It doesn't appear as if
10 Ms. Brown reviewed any of that information.

11 Any competent and objective review would illustrate that the cost
12 allocations incurred by Liberty Black Mountain for investor communications,
13 board of director fees and insurance, escrow fees and other professional services
14 are legally required by rules of the TSX and/or directly relate to costs of providing
15 capital from the TSX. The evidence in this case clearly illustrates that Liberty
16 Black Mountain's access to capital from the TSX is directly and inextricably linked
17 to those costs as a condition of APUC being publicly traded on the TSX.

18 **Q. ON THAT SAME NOTE, MR. KILLEEN, COULDN'T LIBERTY BLACK**
19 **MOUNTAIN HAVE CHOSEN NOT TO CONTEST STAFF'S AND RUCO'S**
20 **RECOMMENDATIONS THEREBY DECREASING RATE CASE**
21 **EXPENSE?**

22 **A.** No. As can be seen from this case, what happens in one case for a Liberty utility
23 impacts other subsequent rate cases. We simply cannot allow Staff and RUCO to
24 try to reestablish a precedent that the APUC cost allocation is not a necessary and
25 reasonable cost of service that benefits customers through APUC's access to
26 capital and the other services APUC provides. We have worked for the past

1 several years to reverse this impression because it simply is not accurate.

2 **Q. PLEASE SUMMARIZE THE BENEFITS CUSTOMERS RECEIVE FROM**
3 **THE ALLOCATED COSTS THAT STAFF AND RUCO DISALLOW.**

4 A. Again, the fundamental truth is that Liberty Black Mountain would not have access
5 to capital from APUC unless APUC incurred those costs as required by the TSX,
6 and as required by a publicly traded entity to properly conduct its business.
7 Ms. Brown and Mr. Coley simply can't overcome that undeniable fact that the
8 costs in the APUC cost allocation include costs that are necessary for Liberty
9 Utilities to have access to the capital Liberty Black Mountain and the other
10 affiliates need for capital investment in infrastructure. Neither Staff nor RUCO
11 questions the Company's obligation to spend millions of dollars to remove a used
12 and useful, fully compliant wastewater treatment plant because the customers wish
13 it. Yet both recommend disallowing the costs the shareholder incurs to raise that
14 capital. That begs the question, why would APUC want to pay all of the costs to
15 raise capital so it can invest another \$3.8 million dollars in Liberty Black
16 Mountain? It can invest just about anywhere else and get a better return.

17 **Q. ANYTHING ELSE?**

18 A. Two points. First, it is very frustrating to have to continue to litigate over the issue
19 when other similarly situated utilities do not have those hurdles to overcome.
20 While the amount at issue in this case may not be substantial, the six Liberty
21 utilities operating in Arizona do incur a significant portion of the allocated costs.
22 If the Commission were to start to again disallow these costs, it would make
23 Arizona an even less attractive environment for investment. There are costs to
24 obtain capital and operate properly, and those costs are part of the cost of service.

25 Second, both Staff and RUCO recommend lower rate case expense.
26 Yet both make issues of an expense that is not a significant portion of the

1 Company's actual cost structure and despite recent cases where both know full well
2 the landscape for these costs changed. If Staff and RUCO choose to relitigate
3 issues, that is their right. But in doing so, they should accept that they are
4 increasing the cost of rate cases because that cost is part of rate case expense.
5 Staff and RUCO also shouldn't complain if capital is not available to Liberty Black
6 Mountain for the plant closing or future projects given that Staff and RUCO both
7 deny recovery of the underlying costs to obtain that capital.

8 **Q. WILL THERE BE PRACTICAL IMPACTS IF THE STAFF AND/OR**
9 **RUCO RECOMMENDATIONS REGARDING APUC COST**
10 **ALLOCATIONS WERE TO BE ADOPTED BY THE COMMISSION?**

11 A. If the Commission is going to say that the costs of raising capital to invest in
12 projects that benefit the customers are not recoverable, then we have to think very
13 hard about putting more money into Arizona. The current plant closure project for
14 Liberty Black Mountain is a good example. What if we financed the whole project
15 with debt? Would Staff and RUCO argue that the loan closing costs only benefit
16 the shareholder and should not be recovered through rates? If they did, I believe
17 the Commission would reject that argument as specious. It should do the same
18 with Staff and RUCO's argument that costs absolutely necessary to raise capital,
19 including costs related to APUC being listed on the TSX, are unreasonable and
20 should not be recovered from customers. This argument is also specious.

21 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

22 A. Yes.
23
24
25
26

EXHIBIT WRK-RB1



Part VII Halting of Trading, Suspension and Delisting of Securities

(4) Failure To Comply With TSX Requirements & Policies

Listing Agreement

Sec. 713.

TSX may delist the securities of a listed issuer that fails to comply with its Listing Agreement or other agreements with TSX, or fails to comply with TSX requirements and policies. Examples of failure to comply with the Listing Agreement include, but are not limited to, failure to obtain the prior consent of TSX to issue additional equity securities; failure to obtain the consent of TSX before undergoing a material change in the business if the listed issuer is subject to [Section 501](#); and failure to comply with TSX's requirements for stock options and security based compensation arrangements.

Disclosure Policies

Sec. 714.

TSX may delist the securities of a listed issuer that has failed to comply with TSX's Timely Disclosure policy (see [Sections 406 to 423.8](#) and [472 to 475](#)) or with disclosure requirements under any securities law to which the listed issuer is subject. In addition, TSX may delist the securities of a listed issuer that is engaged in the business of mineral exploration, development or production if such listed issuer has failed to comply with TSX's "Disclosure Standards for Companies Engaged in Mineral Exploration, Development & Production" (see [Appendix B](#)).

EXHIBIT WRK-RB2



Print

Sec. 406.

It is a cornerstone policy of the Exchange that all persons investing in securities listed on the Exchange have equal access to information that may affect their investment decisions. Public confidence in the integrity of the Exchange as a securities market requires timely disclosure of material information concerning the business and affairs of companies listed on the Exchange, thereby placing all participants in the market on an equal footing.

The timely disclosure policy of the Exchange is the primary timely disclosure standard for all TSX listed issuers. National Policy 51-201 *Disclosure Standards* of the CSA, "Disclosure Standards", assists issuers in meeting their legislative disclosure requirements. While the legislative and Exchange timely disclosure requirements differ somewhat, the CSA clearly states in National Policy 51-201 *Disclosure Standards* that they expect listed issuers to comply with the requirements of the Exchange.

To minimize the number of authorities that must be consulted in a particular matter, in the case of securities listed on the Exchange, the Exchange is the relevant contact. The issuer may, of course, consult with the government securities administrator of the particular jurisdiction. In the case of securities listed on more than one stock market, the issuer should deal with each market.

The requirements of the Exchange and National Policy 51-201 *Disclosure Standards* are in addition to any applicable statutory requirements. The Exchange enforces its own policy. Companies whose securities are listed on the Exchange are legally obligated to comply with the provisions on timely disclosure set out in section 75 of the OSA and the Regulation under the Act. Reference should also be made to National Instrument 71-102 *continuous Disclosure and Other Exemptions Relating to Foreign Issuers*, National Instrument 55-102 *System for Electronic Disclosure by Insiders*, and National Instrument 62-103 *The Early Warning System and Related Take-Over bid and Insider Reporting Issues*.

In addition to the foregoing requirements, companies whose securities are listed on the Exchange and who engage in mineral exploration, development and/or production, must follow the "Disclosure Standards for Companies Engaged in Mineral Exploration, Development and Production" as outlined in Appendix B of this Manual for both their timely and continuous disclosure.

The Market Surveillance Division monitors the timely disclosure policy on behalf of the Exchange.

© TSX Inc. All rights reserved. Do not copy, distribute, sell or modify this document without TSX Inc.'s prior written consent. TSX materials, including manuals, trading rules, policies and forms, are reproduced by Complanet with the permission of TSX Inc. and TSX Venture Exchange Inc. under a non-exclusive license. Neither TSX Inc. nor any of its affiliated companies guarantees the accuracy, adequacy, completeness or availability of any information and nor shall they be responsible for any errors or omissions or otherwise.

EXHIBIT WRK-RB3

5.1.4 National Policy 51-201 Disclosure Standards

NATIONAL POLICY 51-201 DISCLOSURE STANDARDS

Table of Contents

Part I - Introduction

- 1.1 Purpose

Part II - Timely Disclosure

- 2.1 Timely Disclosure
- 2.2 Confidentiality
- 2.3 Maintaining Confidentiality

Part III - Overview of the Statutory Prohibitions Against Selective Disclosure

- 3.1 Tipping and Insider Trading
- 3.2 Persons Subject to Tipping Provisions
- 3.3 Necessary Course of Business
- 3.4 Necessary Course of Business Disclosures and Confidentiality
- 3.5 Generally Disclosed
- 3.6 Unintentional Disclosure
- 3.7 Administrative Proceedings

Part IV - Materiality

- 4.1 Materiality Standard
- 4.2 Materiality Determinations
- 4.3 Examples of Potentially Material Information
- 4.4 External Political, Economic and Social Developments
- 4.5 Exchange Policies

Part V - Risks Associated with Certain Disclosures

- 5.1 Private Briefings with Analysts, Institutional Investors and other Market Professionals
- 5.2 Analyst Reports
- 5.3 Confidentiality Agreements with Analysts
- 5.4 Analysts as "Tippees"
- 5.5 Earnings Guidance
- 5.6 Application of National Policy Statement 48
- 5.7 Selective Disclosure Violations Can Occur in a Variety of Settings

Part VI - Best Disclosure Practices

- 6.1 General
- 6.2 Establishing a Corporate Disclosure Policy
- 6.3 Overseeing and Coordinating Disclosure
- 6.4 Board and Audit Committee Review of Certain Disclosure
- 6.5 Authorizing Company Spokespersons
- 6.6 Recommended Disclosure Model
- 6.7 Analyst Conference Calls and Industry Conferences
- 6.8 Analyst Reports
- 6.9 Updating Forward-Looking Information
- 6.10 Quiet Periods
- 6.11 Insider Trading Policies and Blackout Periods
- 6.12 Electronic Communications
- 6.13 Chat Rooms, Bulletin Boards and e-mails
- 6.14 Handling Rumours

Acquisitions and Dispositions

- significant acquisitions or dispositions of assets, property or joint venture interests
- acquisitions of other companies, including a take-over bid for, or merger with, another company

Changes in Credit Arrangements

- the borrowing or lending of a significant amount of money
- any mortgaging or encumbering of the company's assets
- defaults under debt obligations, agreements to restructure debt, or planned enforcement procedures by a bank or any other creditors
- changes in rating agency decisions
- significant new credit arrangements

4.4 External Political, Economic and Social Developments

Companies are not generally required to interpret the impact of external political, economic and social developments on their affairs. However, if an external development will have or has had a direct effect on the business and affairs of a company that is both material and uncharacteristic of the effect generally experienced by other companies engaged in the same business or industry, the company is urged to explain, where practical, the particular impact on them. For example, a change in government policy that affects most companies in a particular industry does not require an announcement, but if it affects only one or a few companies in a material way, such companies should make an announcement.

4.5 Exchange Policies

- (1) The Toronto Stock Exchange Inc. (the "TSX") and the TSX Venture Exchange Inc. ("TSX Venture") each have adopted timely disclosure policy statements which include many examples of the types of events or information which may be material. Companies should also refer to the guidance provided in these policies when trying to assess the materiality of a particular fact, change or piece of information.
- (2) The TSX and TSX Venture policies require the timely disclosure of "material information". Material information includes both material facts and material changes relating to the business and affairs of a company. The timely disclosure obligations in the exchanges' policies exceed those found in securities legislation. It is not uncommon, or inappropriate, for exchanges to impose requirements on their listed companies which go beyond those imposed by securities legislation.³¹ We expect listed companies to comply with the requirements of the exchange they are listed on. Companies who do not comply with an exchange's requirements could find themselves subject to an administrative proceeding before a provincial securities regulator.³²

Part V - Risks Associated with Certain Disclosures

5.1 Private Briefings with Analysts, Institutional Investors and other Market Professionals

- (1) The role that analysts play in seeking out information, analyzing and interpreting it and making recommendations can contribute to a more efficient marketplace. Companies should be sensitive though to the risks involved in private meetings with analysts. We are not suggesting that companies should stop having private briefings with analysts or that these private meetings are somehow illegal. Companies should have a firm policy of providing only non-material information and publicly disclosed information to analysts.

³¹ For example, securities legislation provides that a recognized stock exchange may impose additional requirements within its jurisdiction.

³² See *In the Matter of Air Canada, supra*, note 16. In this case, the parties to the settlement agreed that by disclosing earnings information to 13 analysts and not generally disclosing the information, the company failed to comply with the provisions of the TSX Company Manual and thereby acted contrary to the public interest. In the Excerpt from the Settlement Hearing Containing the Oral Reasons for Decision, the Ontario Securities Commission said, "[w]e feel that it will help foster confidence in the financial markets to know that the law requires, and that good corporations will comply with the requirement for, full disclosure of all material information on a timely basis as required by ... the Toronto Stock Exchange's listing agreement and listing requirements."

EXHIBIT WRK-RB4

Special Initial Margin and Capital Requirements—

Occasionally, a listed issue may be placed under special initial margin and capital requirements. Such a restriction in no way reflects upon the quality of corporate management, but, rather indicates a determination by the Floor Officials of the Exchange that the market in the issue has assumed a speculative tenor and has become volatile due to the influence of credit, which, if ignored, may lead to unfair and disorderly trading.

The determination to impose restrictions is based on a careful inspection of the trading for the latest one week period, defined as the previous Friday through subsequent Thursday, matched against various criteria. Other factors, such as the capitalization turnover, the ratio of last year's average weekly volume to the volume for the period considered, arbitrage, stop order bans, short position, earnings and recent corporate news are also reviewed.

The restriction itself is aimed primarily at eliminating the extension of credit to those who buy a security and sell it the same day seeking a short term profit. Such customers must have the full purchase value in the account prior to the entry of an order. Concomitantly, a broader requirement is usually imposed on all other margin customers in that they must put up the full purchase price within five business days, rather than only the percentage required by the Federal Reserve Board. Cash customers, of course, must in all instances put up 100% of the cost in seven days.

Amended: September 2, 2015 (NYSE-2015-38).

202.05 Timely Disclosure of Material News Developments

A listed company is expected to release quickly to the public any news or information which might reasonably be expected to materially affect the market for its securities. This is one of the most important and fundamental purposes of the listing agreement which the company enters into with the Exchange.

A listed company should also act promptly to dispel unfounded rumors which result in unusual market activity or price variations.

The issuer of income deposit securities traded as a unit shall publicize any change in the terms of the unit, such as changes to the terms and conditions of any of the components (including changes with respect to any original issue discount or other significant tax attributes of any component), or to the ratio of the components within the unit. Such publication shall be made as soon as practicable in relation to the effective date of the change, and should otherwise be made in accordance with the procedures specified in Section 202.06 below. In addition, the issuer must provide information regarding the terms and conditions of the components of the unit (including information with respect to any original issue discount or other significant tax attributes of any component), and the ratio of the components comprising the unit on its website.

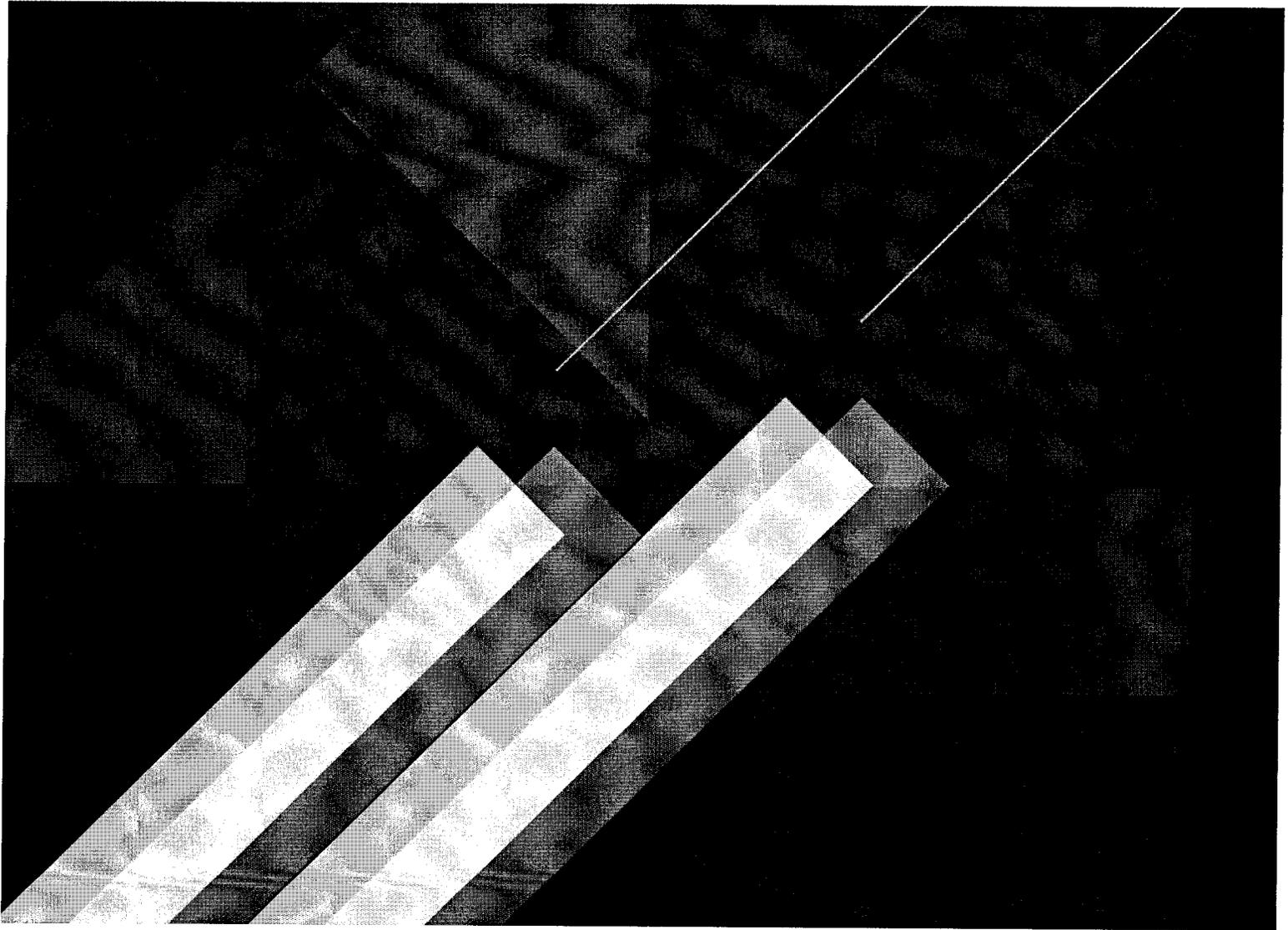
202.06 Procedure for Public Release of Information; Trading Halts

(A) Immediate Release Policy

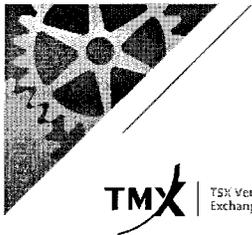
Information required to be released quickly to the public under Section 202.05 above should be disclosed by means of any Regulation FD compliant method (or

EXHIBIT WRK-RB5

GUIDE TO LISTING



TMX | Toronto Stock Exchange | TSX Venture Exchange



LISTING REQUIREMENTS FOR INDUSTRIAL, TECHNOLOGY AND REAL ESTATE COMPANIES

INITIAL LISTING REQUIREMENTS	TSXV TIER 1 INDUSTRIAL TECHNOLOGY LIFE SCIENCES	TSXV TIER 2 INDUSTRIAL TECHNOLOGY LIFE SCIENCES	TSXV TIER 1 REAL ESTATE OR INVESTMENT	TSXV TIER 2 REAL ESTATE OR INVESTMENT
NET TANGIBLE ASSETS, REVENUE OR ARM'S LENGTH FINANCING (AS APPLICABLE)	\$5,000,000 net tangible assets or \$5,000,000 revenue If no revenue, two-year management plan demonstrating reasonable likelihood of revenue within 24 months	\$750,000 net tangible assets or \$500,000 in revenue or \$2,000,000 Arm's Length Financing If no revenue, two-year management plan demonstrating reasonable likelihood of revenue within 24 months	Real Estate: \$5,000,000 net tangible assets Investment: \$10,000,000 net tangible assets	\$2,000,000 net tangible assets or \$3,000,000 Arm's Length Financing
ADEQUATE WORKING CAPITAL AND CAPITAL STRUCTURE	Adequate working capital and financial resources to carry out stated work program or execute business plan for 18 months following listing; \$200,000 unallocated funds	Adequate working capital and financial resources to carry out stated work program or execute business plan for 12 months following listing; \$100,000 unallocated funds	Adequate working capital and financial resources to carry out stated work program or execute business plan for 18 months following listing; \$200,000 unallocated funds	Adequate working capital and financial resources to carry out stated work program or execute business plan for 12 months following listing; \$100,000 unallocated funds
PROPERTY	Issuer has significant interest in business or primary asset used to carry on business		Real Estate: Issuer has significant interest in real property Investment: No requirement	
PRIOR EXPENDITURES AND WORK PROGRAM	History of operations or validation of business		Real Estate: No requirement Investment: Disclosed investment policy	Real Estate: No requirement Investment: (i) disclosed investment policy and (ii) 50% of available funds must be allocated to at least 2 specific investments
MANAGEMENT AND BOARD OF DIRECTORS	Management, including board of directors, should have adequate experience and technical expertise relevant to the company's business and industry as well as adequate public company experience. Companies are required to have at least two independent directors.			
DISTRIBUTION, MARKET CAPITALIZATION AND PUBLIC FLOAT	Public float of 1,000,000 shares; 250 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares; 20% of issued and outstanding shares in the hands of Public Shareholders	Public float of 500,000 shares; 200 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares; 20% of issued and outstanding shares in the hands of Public Shareholders	Public float of 1,000,000 shares; 250 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares; 20% of issued and outstanding shares in the hands of Public Shareholders	Public float of 500,000 shares; 200 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares; 20% of issued and outstanding shares in the hands of Public Shareholders
SPONSORSHIP	Sponsor Report may be required			

EXHIBIT WRK-RB6

with prompt notice to the Exchange and only so long as a majority of the members of the compensation committee continue to be independent, may remain a member of the compensation committee until the earlier of the next annual shareholders' meeting of the listed company or one year from the occurrence of the event that caused the member to be no longer independent.

Disclosure Requirements

If a listed company makes a required Section 303A disclosure in its annual proxy statement, or if the company does not file an annual proxy statement, in its annual report filed with the SEC, it may incorporate such disclosure by reference from another document that is filed with the SEC to the extent permitted by applicable SEC rules. If a listed company is not a company required to file a Form 10-K, then any provision in this Section 303A permitting a company to make a required disclosure in its annual report on Form 10-K filed with the SEC shall be interpreted to mean the annual periodic disclosure form that the listed company does file with the SEC. For example, for a closed-end management investment company, the appropriate form would be the annual Form N-CSR.

Amended: November 25, 2009 (NYSE-2009-89); January 11, 2013 (NYSE-2012-49); August 22, 2013 (NYSE-2013-40).

303A.01 Independent Directors

Listed companies must have a majority of independent directors.

Commentary: Effective boards of directors exercise independent judgment in carrying out their responsibilities. Requiring a majority of independent directors will increase the quality of board oversight and lessen the possibility of damaging conflicts of interest.

Amended: November 25, 2009 (NYSE-2009-89).

303A.02 Independence Tests

In order to tighten the definition of "independent director" for purposes of these standards:

(a)(i) No director qualifies as "independent" unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company).

(ii) In addition, in affirmatively determining the independence of any director who will serve on the compensation committee of the listed company's board of directors, the board of directors must consider all factors specifically relevant to determining whether a director has a relationship to the listed company which is material to that director's ability to be independent from management in connection with the duties of a compensation committee member, including, but not limited to:

(A) the source of compensation of such director, including any consulting, advisory or other compensatory fee paid by the listed company to such director; and

(B) whether such director is affiliated with the listed company, a subsidiary of the listed company or an affiliate of a subsidiary of the listed company.

Commentary: It is not possible to anticipate, or explicitly to provide for, all circumstances that might signal potential conflicts of interest, or that might bear on the materiality of a director's relationship to a listed company (references to "listed company" would include any parent or subsidiary in a consolidated group with the listed company). Accordingly, it is best that boards making "independence" determinations broadly consider all relevant facts and

EXHIBIT WRK-RB7

POLICY 3.1

DIRECTORS, OFFICERS, OTHER INSIDERS & PERSONNEL AND CORPORATE GOVERNANCE

Scope of Policy

This Policy describes the qualifications that Directors, Officers and other Insiders, as well as certain personnel, of an Issuer must meet in order for the Issuer to be listed and remain listed on the Exchange, as well as corporate governance standards and policies required to be implemented by all Issuers. This Policy is not an exhaustive statement of corporate governance requirements applicable to Issuers. Nothing in this Policy limits the obligations and responsibilities imposed on Issuers by applicable corporate and Securities Laws. This Policy must be read in conjunction with applicable corporate and Securities Laws, including National Instrument 58-101 - *Disclosure of Corporate Governance Practices* ("NI 58-101"), National Policy 58-201 - *Corporate Governance Guidelines* ("NP 58-201") and National Instrument 52-110 - *Audit Committees* ("NI 52-110").

The main headings in this Policy are:

1. Definitions
2. Exchange Review of Directors, Officers, Other Insiders & Personnel
3. Initial Listing Requirements
4. Continued Listing Requirements
5. Qualifications and Duties of Directors and Officers
6. Disclosure of Insider Interests
7. Transfer Agent, Registrar and Escrow Agent
8. Security Certificates
9. Dissemination of Information and Insider Trading
10. Unacceptable Trading
11. Corporate Power and Authority
12. Auditors
13. Financial Statements, MD & A and Certification
14. Shareholders' Meetings and Proxies
15. Shareholder Rights Plans
16. Proceeds from Distributions
17. Issuers with Head Office Outside Canada
18. Assessment of a Significant Connection to Ontario
19. Corporate Governance Guidelines
20. Disclosure of Corporate Governance Practices
21. Audit Committees

- (a) every Director and Officer must disclose to the board of Directors either in writing or in person at the next Directors' meeting, the nature and extent of any material interest, directly or indirectly, that they have in any material contract or proposed contract with the Issuer. The Director or Officer must make this disclosure as soon as they become aware of the agreement or the intention of the Issuer to consider or enter into the proposed agreement;
- (b) the board of Directors must implement procedures so that each material agreement or proposed agreement between the Issuer and any Director or Officer, directly or indirectly, will be considered and approved by a majority of the disinterested Directors; and
- (c) the board of Directors must implement procedures to ensure proper public dissemination is made of the material interest of any Officer or Director of the Issuer in any material agreement or proposed agreement between the Issuer and that Director or Officer. The majority of disinterested Directors must consider the proper scope and nature of the disclosure.

7. Transfer Agent, Registrar and Escrow Agent

- 7.1 Each Issuer must maintain a record of its current registered shareholders, a record of each allotment or issuance and a record of each transfer in the registered ownership of its securities. As these records are complex for a publicly traded company, an Issuer must appoint a registrar and transfer agent to perform these services. In making such appointment, an Issuer must comply with the corporate laws of its incorporating or continuing jurisdiction, which may impose specific requirements for transfer agents and registrars.
- 7.2 While its securities are listed on the Exchange, an Issuer must appoint and maintain a transfer agent and registrar with a principal office in one or more of Vancouver, British Columbia; Calgary, Alberta; Toronto, Ontario; Montreal, Quebec; or Halifax, Nova Scotia.
- 7.3 Except for those transfer agents that are listed in Appendix 3A, which have been previously approved as acceptable transfer agents by the Exchange, an applicant seeking to become an acceptable transfer agent under Appendix 3A must be a trust company in good standing under applicable legislation.
- 7.4 Each class of Listed Shares must be directly transferable at the Issuer's registrar and transfer agent.

EXHIBIT WRK-RB8

Section 6 Agencies, Depositories, Trustees

601.00 Services to be Provided by Transfer Agents and Registrars

(A) For Listed Stock

A company having stock listed on the Exchange is required to maintain transfer facilities where:

- All stock of the company listed on the Exchange will be accepted for the purpose of transfer.
- All such stock which is convertible or called for redemption will be accepted for such conversion or redemption.
- All subscription rights issued to holders of listed stock of the company will be accepted for transfer or payment and securities subscribed for will be deliverable; and where all other rights or benefits pertaining to ownership of listed stock of the company, which may be issued, granted or allotted by the company, shall be accepted for transfer, exercise, payment and delivery.
- All dividends declared on stock of the company listed on the Exchange will be payable.
- The company must also maintain registrar facilities for all stock of the company listed on the Exchange. The registrar must be located in close proximity to the location at which the transfer of such securities is serviced directly.

(B) For Listed Bonds

The term "bond" includes any security evidencing indebtedness.

A company having bonds listed on the Exchange is required to maintain facilities where:

- All bonds of the company listed on the Exchange which may be registered as to principal and interest, or as to principal only, may be accepted for registration.
- All such bonds which are convertible or called for redemption will be accepted for such conversion or redemption.
- All rights or benefits pertaining to ownership of listed bonds of the company, and issued, granted or allotted by the company, will be accepted for transfer, payment or exercise.
- Principal of, and interest on, all bonds of the company listed on the Exchange will be payable.

Note: Transfer agents need not notify the Exchange of each issuance of shares, nor is it necessary for registrars to obtain a release from the Exchange before registering additional shares. It is necessary only for transfer agents to notify the Exchange of the number of shares outstanding at the end of each calendar

EXHIBIT WRK-RB9

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S FIRST SET OF DATA REQUESTS**

October 6, 2015

Respondent: Crystal L Greene
Title: Senior Manager of Finance and Accounting
Company: Liberty Utilities
Address: 12725 W Indian School Rd, Suite D101, Phoenix, AZ 85392

Company Response Number: **BAB 1.18 REVISED**

Q. Allocations – Please provide a schedule that identifies for each operating expense line item on the Income Statement (Schedule C-1), how much of the test year expenses are Company direct, and from each level of allocation as discussed in the application.

RESPONSE: The attached file Allocation BAB 1.18 Revised.xlsx includes a revised breakdown of corporate allocations and direct cost line items that roll up into the operating expense categories on Schedule C-1. Furthermore, the detailed transactions are listed on each tab as APUC Detail, LABS Detail, LUC Detail, and LU 8020 Detail. The following tabs are the amounts removed from the pool of corporate costs: APUC Remove, LABS Remove, LUC Remove, and LU 8020 Remove. Additionally, the company has included all invoice or journal entry backup over \$1K in the appropriate pdf documents listed below. Note that any invoices for legal services are not being provided because they contain information that is subject to and protected by the attorney-client privilege, as well as information that is confidential and/or proprietary. However, Staff may arrange to review an unredacted statement of legal fees related to this rate case by contacting the Company's legal counsel, attn: Whitney Birk at 602-559-9576. The proposed manner of review of legal invoices is the same as used by Staff and counsel for the Company in other rate cases for the past several years. The Company reserves, and in no way intends to waive the attorney-client privilege with respect to production of these documents, which are being made available on a limited basis to allow Staff to verify amounts incurred by the Company on matters that may be included in operating expenses.

ATTACHMENT: Allocation BAB 1.18 Revised.xlsx
APUC Allocations 2014.pdf

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S FIRST SET OF DATA REQUESTS**

October 6, 2015

Respondent: Crystal L Greene
Title: Senior Manager of Finance and Accounting
Company: Liberty Utilities
Address: 12725 W Indian School Rd, Suite D101, Phoenix, AZ 85392

LUC Allocations 2014.pdf
LABS Allocations 2014.pdf
LU 8020 Allocations 2014.pdf

EXHIBIT WRK-RB10

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S SIXTH SET OF DATA REQUESTS**

October 30, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School, Suite D-101
Avondale, AZ 85392

Company Response Number: CSB 6.1

- Q. Allocation of Costs from Algonquin Power & Utilities "APUC" to Liberty Utilities (Black Mountain Sewer) ("Black Mountain") – This is a follow-up to data request BAB 1.18. On page 5 of the Cost Allocation Manual provided in the testimony of Mr. Killeen, it indicates that APUC incurs the expenses shown in the table below. In regards to these expenses, please provide the total expense amount (i.e. total expense to be allocated), allocation percent and the amount ultimately allocated to Black Mountain (i.e. allocated directly from APUC to Black Mountain or allocated to an affiliate which, in turn, allocates to Black Mountain):

Description of APUC Expense	Total APUC Expense	Allocation Percent	APUC Amount Allocated to Affiliate	Allocation Percent	APUC Amount Allocated to Black Mountain	NARUC Account Number
Legal Costs	\$	%	\$	%		
Tax Services	\$	%	\$	%		
Audit	\$	%	\$	%		
Investor Relations	\$	%	\$	%		
Director Fees and Insurance	\$	%	\$	%		
Licenses, Fees and Permits	\$	%	\$	%		
Escrow and Transfer Agent Fees	\$	%	\$	%		
Other Professional Services	\$	%	\$	%		
Office Administration	\$	%	\$	%		
Total	\$		\$			

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S SIXTH SET OF DATA REQUESTS**

October 30, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School, Suite D-101
Avondale, AZ 85392

Also, please provide the following information:

- a. **Legal, General** - Please provide or make available for inspection a schedule listing all the underlying invoices and any other cost documentation to support this expense. Also, as part of your response, please answer or provide the following:
 - (1) Describe the various types of legal matters and the total cost incurred for each type of matter included in the expense amount.
 - (2) State whether or not each matter is routine or extraordinary.
 - (3) If it is a routine item, please explain why and provide examples with supporting invoices.
 - (4) If it is an extraordinary item, please provide the number of years you believe the cost would benefit Black Mountain.
- b. **Tax Services** - Please provide underlying invoices and any other cost documentation to support this expense.
- c. **Audit** - Please provide underlying invoices and any other cost documentation to support this expense. Please state the type of audit performed.
- d. **Investor Relations** - Please provide underlying invoices and any other cost documentation to support this expense. Please provide an explanation of the expense, such as but not limited to, what types of activities are performed. Also state how the expense is used in the provision of service for Black Mountain's ratepayers.

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S SIXTH SET OF DATA REQUESTS**

October 30, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School, Suite D-101
Avondale, AZ 85392

- e. **Director Fees and Insurance** - Please provide underlying invoices and any other cost documentation to support this expense. Please provide a schedule listing each director, his/her annual salary, and the primary job duties. Also state how the expense for each employee is used in the provision of service for Black Mountain's ratepayers.
- f. **Licenses/Fees and Permits** - Please provide underlying invoices and any other cost documentation to support this expense. Please provide a schedule listing each component of the amount and identify all of the licenses, fees, and permits that are included in this cost. Also state how each expense is used in the provision of service for Black Mountain's ratepayers.
- g. **Escrow and Transfer Agent Fees** - Please provide underlying invoices and any other cost documentation to support this expense. Please provide an explanation of the expense, such as but not limited to, what types of activities are performed. Also state how the expense is used in the provision of service for Black Mountain's ratepayers.
- h. **Other Professional Services** - Please provide underlying invoices and any other cost documentation to support this expense. Please provide a schedule listing each component of the amount and identify all of the professional services that are included in this cost. Also state how each expense is used in the provision of service for Black Mountain's ratepayers.
- i. **Office Administration** - Please provide underlying invoices and any other cost documentation to support this expense. Please provide a schedule listing each component of the amount. Also state how each expense is used in the provision of service for Black Mountain's ratepayers.

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S SIXTH SET OF DATA REQUESTS**

October 30, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School, Suite D-101
Avondale, AZ 85392

- j. **Allocation Percentages** – Please provide a calculation for the allocation percentages

OBJECTION: Invoices for legal services are not being provided because they contain information that is subject to and protected by the attorney-client privilege, as well as information that is confidential and/or proprietary. However, Staff may arrange to review an unredacted statement of legal fees related to this rate case by contacting the Company's legal counsel, attn: Whitney Birk at 602-559-9576. The proposed manner of review of legal invoices is the same as used by Staff and counsel for the Company in other rate cases for the past several years. The Company reserves, and in no way intends to waive the attorney-client privilege with respect to production of these documents, which are being made available on a limited basis to allow Staff to verify amounts incurred by the Company on matters that may be included in operating expenses.

RESPONSE: Without waiving its objection, Liberty Black Mountain responds as follows. For each of the items listed in the chart below, Liberty Black Mountain provides the total expense amount (i.e. total expense to be allocated), allocation percent and the amount ultimately allocated to Black Mountain (i.e. allocated directly from APUC to Liberty Black Mountain or allocated to an affiliate which, in turn, allocates to Liberty Black Mountain).

One of APUC's primary functions is to ensure its subsidiaries, including Liberty Black Mountain, have access to capital. APUC is listed on the Toronto Stock Exchange, a leading financial market. In order to allow its subsidiaries to have continued access to those capital markets, APUC incurs certain legal and other costs. These services and costs are a prerequisite to the subsidiaries, including Liberty Black Mountain, having continued access to those capital markets.

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S SIXTH SET OF DATA REQUESTS**

October 30, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School, Suite D-101
Avondale, AZ 85392

Description of APUC Expense	Total APUC Expense	Allocation Percent	APUC Amount Allocated to Affiliate	Allocation Percent	APUC Amount Allocated to Black Mountain	NARUC Account Number
Legal Costs	\$389,618.02	16.17%	\$63,001.23	3.86%	\$2,431.85	734
Tax Services	\$637,075.68	16.17%	\$103,015.14	3.86%	\$3,976.38	734
Audit	\$687,211.34	16.17%	\$111,122.07	3.86%	\$4,289.31	734
Investor Relations	\$87,327.97	16.17%	\$14,120.93	3.86%	\$545.07	734
Director Fees and Insurance	\$728,234.51	16.17%	\$117,755.52	3.86%	\$4,545.36	734
Licenses, Fees and Permits	\$211,229.89	16.17%	\$34,155.87	3.86%	\$1,318.42	734
Escrow and Transfer Agent Fees	\$55,605.20	16.17%	\$8,991.36	3.86%	\$347.07	734
Other Professional Services	\$443,302.95	16.17%	\$71,682.09	3.86%	\$2,766/93	734
Office Administration	\$2,823,698.31	16.17%	\$456,592.02	3.86%	\$17,624.45	734
Total	\$6,063,303.87		\$980,436.23		\$37,844.84	

a. In subpart (a), Commission Staff requests that the Company provide or make available for inspection a schedule listing all the underlying invoices and any other cost documentation to support relating to legal costs incurred by APUC and allocated to Liberty Black Mountain.

- (1) Describe the various types of legal matters and the total cost incurred for each type of matter included in the expense amount.

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S SIXTH SET OF DATA REQUESTS**

October 30, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School, Suite D-101
Avondale, AZ 85392

RESPONSE: See chart below.

	Total APUC Expense	Allocation %	APUC Allocated to Affiliate	Allocation %	APUC Amount Allocated to Black Mountain
Review of Contracts/Projects	\$ 178,284.60	16.17%	\$ 28,828.62	3.86%	\$ 1,112.78
Compliance Filing Review	\$ 7,279.99	16.17%	\$ 1,177.17	3.86%	\$ 45.44
Shareholder Questions/Review	\$ 21,465.21	16.17%	\$ 3,470.92	3.86%	\$ 133.98
General Issues (HR/IT/Finance/Tax)	\$ 182,588.21	16.17%	\$ 29,524.51	3.86%	\$ 1,139.65
Total	\$ 389,618.02		\$ 63,001.23		\$ 2,431.85

General legal services and costs incurred by APUC involve legal matters not specific to any single facility, including review of audited financial statements, annual information filings, SEDAR filings,¹ review of contracts

¹ The System for Electronic Document Analysis and Retrieval (SEDAR) is a mandatory document filing and retrieval system for Canadian publicly traded companies. SEDAR is administered by the Canadian Securities Administrators, a coordinating body comprised of 13 Canadian provincial and territorial securities commissions. SEDAR is similar to EDGAR, the filing system operated by the United States Securities and Exchange Commission. Through registered filing agents, Canadian public companies file documents such as prospectuses, financial statements, material change reports and other similar documents through SEDAR. As stated on the SEDAR website, www.sedar.com is the official site that provides access to most public securities documents and information filed by public companies and investment funds with the thirteen provincial and territorial regulatory authorities . . . in the SEDAR filing system. The statutory

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S SIXTH SET OF DATA REQUESTS**

October 30, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School, Suite D-101
Avondale, AZ 85392

with credit facilities, incorporation, tax issues of a legal nature, market compliance, and other similar legal costs. These legal services are required in order for APUC to provide capital funding to individual utilities, including Liberty Black Mountain. Additionally, these legal services ensure that APUC's subsidiaries remain compliant in all aspects of operations and prevent those entities from being exposed to unnecessary risks.

(2) State whether or not each matter is routine or extraordinary.

RESPONSE: See response to CSB 6.1(a)(1) above. These general legal expenses are routine and recurring operating expenses relating to the legal services and items set forth above. These general legal expenses are necessary expenses incurred in relation to operation, financing and management, human resource issues, and other issues of the regulated entities under APUC, which is why the Commission has approved these costs for recovery in recent rate cases for affiliated entities.

(3) If it is a routine item, please explain why and provide examples with supporting invoices.

RESPONSE: See response to CSB 6.1(a)(1) and 6.1(a)(2) above. Legal invoices are subject to the attorney-client privilege. Invoices for legal services are not being provided with this response because they contain information that is subject to and protected by the attorney-client privilege, as well as information that is confidential and/or proprietary.

objective in making public this filed information is to enhance investor awareness of the business and affairs of public companies and investment funds and to promote confidence in the transparent operation of capital markets in Canada." See www.sedar.com/homepage_en.htm.

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S SIXTH SET OF DATA REQUESTS**

October 30, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School, Suite D-101
Avondale, AZ 85392

Examples of general legal services allocated to the Company include updating of the SEDAR filings and profile of APUC, legal services relating to TSX requirements, human resource issues, dealing with Canadian securities commissions, quarterly reports through SEDAR and Annual Information Form filings with Canadian securities agencies, and other similar matters.

- (4) If it is an extraordinary item, please provide the number of years you believe the cost would benefit Black Mountain.

RESPONSE: These general legal expenses are routine and recurring operating expenses relating to the legal services and items set forth above. As noted above, general legal services incurred by APUC involve legal matters not specific to any single facility, including review of audited financial statements, annual information filings, SEDAR filings, review of contracts with credit facilities, incorporation, tax issues of a legal nature, market compliance, and other similar legal costs. These legal services are required in order for APUC to provide capital funding to individual utilities. Additionally, the services ensure that APUC's subsidiaries, including Liberty Black Mountain, remain compliant in all aspects of operations and prevent those entities from being exposed to unnecessary risks. Liberty Black Mountain benefits from these legal services as a necessary expense for access to capital and compliance with operational and legal requirements, which is why the Commission in recent rate cases for affiliated entities has allowed these expenses for recovery.

- b. **Tax Services** - Please provide underlying invoices and any other cost documentation to support this expense.

RESPONSE: See attached Allocations.xlsx, tabs APUC Detail, LABS Detail, and LUC Detail. All of the corporate allocation general ledger detail is listed and can

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S SIXTH SET OF DATA REQUESTS**

October 30, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School, Suite D-101
Avondale, AZ 85392

be filtered by "Account Description." Commission Staff may refer to the specific "Item #" to determine the invoice/backup documentation in the pdf files named APUC Allocations, LABS Allocations, and LUC Allocations.

The services provided by APUC specifically optimize the performance of the utilities, keeping rates low for customers while ensuring access to capital is available. If the utilities did not have access to the services provided by APUC, then they would be forced to incur associated costs for financing, capital investment, audits, taxes and other similar services on a stand-alone basis, which would substantially increase such costs. Simply put, without incurring these costs, APUC would not be able to invest capital in its subsidiaries, including the regulated utilities.

In connection with the provision of Financing Services, APUC incurs the following types of costs: (i) strategic management costs (board of director, third-party legal services, accounting services, tax planning and filings, insurance, and required auditing); (ii) capital access costs (communications, investor relations, trustee fees, escrow and transfer agent fees); (iii) financial control costs (audit and tax expenses); and (iv) administrative (rent, depreciation, general office costs).

Tax services are part of the financial control costs incurred by APUC including costs for audit services and tax services. These costs are necessary to ensure that the subsidiaries are operating in a manner that meets audit standards and regulatory requirements, which have strong financial and operational controls, and financial transactions are recorded accurately and prudently. Without these services, the regulated utilities would not have a readily available source of capital funding from APUC, and the Commission in recent has approved these costs for recovery in recent rate cases for affiliated entities.

Taxes are paid on behalf of the regulated utilities at the parent level as part of a consolidated United States tax return. Third parties provide tax services such as

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S SIXTH SET OF DATA REQUESTS**

October 30, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School, Suite D-101
Avondale, AZ 85392

planning and filing. Filing tax returns on a consolidated basis benefits each regulated utility by reducing the costs that otherwise would be incurred by such utility in filing its own separate tax return.

- c. **Audit** - Please provide underlying invoices and any other cost documentation to support this expense. Please state the type of audit performed.

RESPONSE: See attached Allocations.xlsx, tabs APUC Detail, LABS Detail, and LUC Detail. All of the corporate allocation general ledger detail is listed and can be filtered by "Account Description." Commission Staff may refer to the specific "Item #" to determine the invoice/backup documentation in the pdf files named APUC Allocations, LABS Allocations, and LUC Allocations

The services provided by APUC specifically optimize the performance of the utilities, keeping rates low for customers while ensuring access to capital is available. If the utilities did not have access to the services provided by APUC, then they would be forced to incur associated costs for financing, capital investment, audits, taxes and other similar services on a stand-alone basis, which would substantially increase such costs. Simply put, without incurring these costs, APUC would not be able to invest capital in its subsidiaries, including the regulated utilities.

In connection with the provision of Financing Services, APUC incurs the following types of costs: (i) strategic management costs (board of director, third-party legal services, accounting services, tax planning and filings, insurance, and required auditing); (ii) capital access costs (communications, investor relations, trustee fees, escrow and transfer agent fees); (iii) financial control costs (audit and tax expenses); and (iv) administrative (rent, depreciation, general office costs).

Audits are done on a yearly basis and reviews are performed quarterly on all facilities owned by APUC on an aggregate level. These corporate parent level

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S SIXTH SET OF DATA REQUESTS**

October 30, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School, Suite D-101
Avondale, AZ 85392

audits reduce the cost of the stand-alone audits significantly for utilities, which must perform its own separate audits. Where stand-alone audits are not required, ratepayers receive benefits of additional financial rigor, as well as access to capital, and financial soundness checks by third parties. Finally, during rate cases, the existence of audits provides Commission Staff and intervenors additional reliance on the company records, thus reducing overall rate case costs. The aggregate audit is necessary for the regulated utilities to have continued access to capital markets and unit holders.

APUC incurred audit fees for several reasons. First, audits are required of APUC as a publicly traded company on the Toronto Stock Exchange. This legal requirement is very similar to being traded on the New York Stock Exchange. Canadian National Policy 51-102, Section 4.1, requires audited financial statements to be issued each year by publicly listed companies: "Annual financial statements filed under subsection (1) must be audited."² Not performing this audit would risk putting Liberty Black Mountain's ultimate parent company in violation of Toronto Stock Exchange rules. Second, corporate parent level audits reduce the cost of standalone audits significantly for utilities such as Liberty Black Mountain, which must perform its own separate audits. Where standalone audits are not required, ratepayers receive benefits of additional financial rigor, as well as access to capital, and financial soundness checks by third parties. Third, during rate cases, the existence of audits provides Staff and intervenors additional reliance on the company records, thus reducing overall rate case costs. Finally, the aggregate audit is necessary for the regulated utilities to have continued access to capital markets from APUC and its subsidiaries, which ultimately benefits customers and the Commission has approved these costs for recovery in recent rate cases for affiliated entities.

² Please see attached "National Policy 51-201.pdf," § 4.1.

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S SIXTH SET OF DATA REQUESTS**

October 30, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School, Suite D-101
Avondale, AZ 85392

d. **Investor Relations** - Please provide underlying invoices and any other cost documentation to support this expense. Please provide an explanation of the expense, such as but not limited to, what types of activities are performed. Also state how the expense is used in the provision of service for Black Mountain's ratepayers.

RESPONSE: See attached Allocations.xlsx, tabs APUC Detail, LABS Detail, and LUC Detail. All of the corporate allocation general ledger detail is listed and can be filtered by "Account Description." Commission Staff may refer to the specific "Item #" to determine the invoice/backup documentation in the pdf files named APUC Allocations, LABS Allocations, and LUC Allocations.

Unit holder and investor communication costs are incurred to comply with filing and regulatory requirements of the Toronto Stock Exchange and meet the expectations of shareholders. These costs include items such as news releases and unit holder conference calls. In the absence of shareholder communication costs, investors would not invest in the units of APUC, and in turn, APUC would not have capital to invest in its subsidiaries. Without such communications services, the subsidiaries would not have a readily available source of capital funding.

Investor relations and unitholder communications expenses are an important aspect of being publicly traded, and are critical to services provided by Liberty Black Mountain. APUC, a publicly traded entity, must issue certain communications subject to the Toronto Stock Exchange's (TSX) rules and regulations. Examples include 714³ of the Toronto Stock Exchange Company Manual stating that "TSX may delist securities of a listed issuer that has failed to comply with TSX's Timely Disclosure policy..." Additionally, Section 406 of the Toronto Stock Exchange Company Manual in part states "Companies whose securities are listed on the Exchange are legally obligated to comply with the provisions on timely

³ Please see attached file "TMX Section 714 timely disclosure requirements."

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S SIXTH SET OF DATA REQUESTS**

October 30, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School, Suite D-101
Avondale, AZ 85392

disclosure..."⁴ Finally, the Canadian National Policy 51-201 Disclosure Standards⁵ states in § 4.5 that "Companies who do not comply with an exchange's requirements could find themselves subject to an administrative proceeding before a provincial securities regulator."

These requirements are no different than publicly traded companies on the New York Stock Exchange (NYSE) whose Listed Company Manual, § 202.05 states "A listed company is expected to release quickly to the public any news or information which might reasonably be expected to materially affect the market for its securities. This is one of the most important and fundamental purposes of the listing agreement which the company enters into with the Exchange."⁶

These investor relation expenses are necessary for APUC to raise capital and provide capital to its regulated utility subsidiaries. As a publicly traded entity, APUC could not provide capital to Liberty Black Mountain without complying with the investor communication requirements of the Toronto Stock Exchange, and the Commission has approved these costs for recovery in recent rate cases for affiliated entities.

- e. **Director Fees and Insurance** - Please provide underlying invoices and any other cost documentation to support this expense. Please provide a schedule listing each director, his/her annual salary, and the primary job duties. Also state how the expense for each employee is used in the provision of service for Black Mountain's ratepayers.

RESPONSE: See attached Allocations.xlsx, tabs APUC Detail, LABS Detail, and LUC Detail. All of the corporate allocation general ledger detail is listed and can be filtered by "Account Description." Commission Staff may refer to the

⁴ Please see attached file "TMX Section 406 - timely disclosure requirements."

⁵ Please see attached file "National Policy 51-201."

⁶ Please see attached file "NYSE Listed Company Manual, Sec 2."

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S SIXTH SET OF DATA REQUESTS**

October 30, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School, Suite D-101
Avondale, AZ 85392

specific "Item #" to determine the invoice/backup documentation in the pdf files named APUC Allocations, LABS Allocations, and LUC Allocations.

Trustee Fees, also known as Board of Directors Fees, are an important aspect of being publicly traded. The Company incurred this expense out of compliance with law and to adhere to sound corporate governance practices.

The Toronto Stock Exchange's Guide to Listing states that "Management, including board of directors, should have adequate experience and technical expertise relevant to the company's business and industry as well as adequate public company experience. Companies are required to have at least two independent directors."⁷ The NYSE has a similar requirement in Section 303A.01 "Listed companies must have a majority of independent directors. Effective boards of directors exercise independent judgment in carrying out their responsibilities. Requiring a majority of independent directors will increase the quality of board oversight and lessen the possibility of damaging conflicts of interest."⁸

Additionally, as shown in the graph below,⁹ APUC's Board of Directors is smaller than or similar size to comparable boards of directors (taken from a sample cost of capital proxy group).

⁷ Please see attached file "TMX Guide to Listing (Capital Opportunity)," at page 26 of the PDF.

⁸ Please see attached file "NYSE Listing Requirements for BOD."

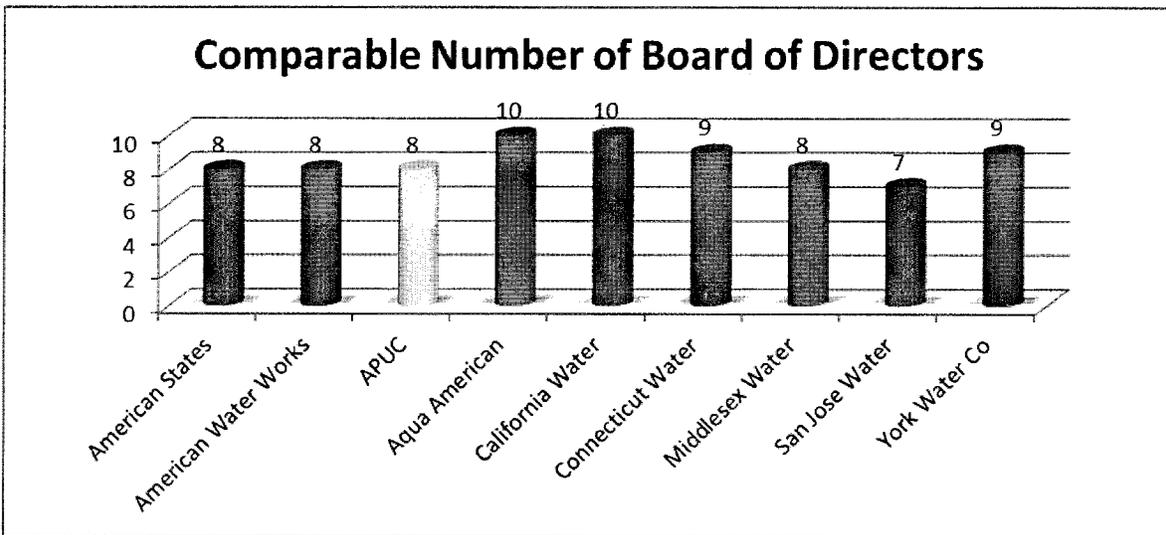
⁹ The support can be found in each listed company's SEC 14A filing, which are included as attachments to this data request, see the 8 files containing the phrase "Proxy."

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S SIXTH SET OF DATA REQUESTS**

October 30, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School, Suite D-101
Avondale, AZ 85392



In conjunction with having a Board of Directors, APUC also has Board of Directors Insurance. Similar to attracting talented employees, attracting talented Board of Directors is important as a publicly traded company. Insurance covering the Board of Directors is critical as evidenced by the numerous other publicly traded utilities that have similar insurance. Please see the attached files labeled with "D&O Ins" which are examples of other utilities having similar insurance. The Commission has approved these costs for recovery in recent rate cases for affiliated entities.

f. **Licenses/Fees and Permits** - Please provide underlying invoices and any other cost documentation to support this expense. Please provide a schedule listing each component of the amount and identify all of the licenses, fees, and permits that are included in this cost. Also state how each expense is used in the provision of service for Black Mountain's ratepayers.

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S SIXTH SET OF DATA REQUESTS**

October 30, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School, Suite D-101
Avondale, AZ 85392

RESPONSE: See attached Allocations.xlsx, tabs APUC Detail, LABS Detail, and LUC Detail. All of the corporate allocation general ledger detail is listed and can be filtered by "Account Description." Commission Staff may refer to the specific "Item #" to determine the invoice/backup documentation in the pdf files named APUC Allocations, LABS Allocations, and LUC Allocations.

In connection with APUC's participation in the Toronto Stock Exchange, APUC incurs certain license and permit fees such as SEDAR fees, annual filing fees, licensing fees, etc. These licensing and permit fees are required in order to sell units on the Toronto Stock Exchange, which in turn provides funding for utility operations. Incurring these expenses are important for Liberty Black Mountain's parent company to continue being listed on the Toronto Stock Exchange and are necessary for Liberty Black Mountain to have access to the capital markets. Not paying fees such as SEDAR filings (similar to SEC filings) or licensing fees could create potential fines or risk delisting of APUC. The Commission has approved these costs for recovery in recent rate cases for affiliated entities.

g. **Escrow and Transfer Agent Fees** - Please provide underlying invoices and any other cost documentation to support this expense. Please provide an explanation of the expense, such as but not limited to, what types of activities are performed. Also state how the expense is used in the provision of service for Black Mountain's ratepayers.

RESPONSE: See attached Allocations.xlsx, tabs APUC Detail, LABS Detail, and LUC Detail. All of the corporate allocation general ledger detail is listed and can be filtered by "Account Description." Commission Staff may refer to the specific "Item #" to determine the invoice/backup documentation in the pdf files named APUC Allocations, LABS Allocations, and LUC Allocations.

In connection with payment of dividends to unit holders, APUC incurs escrow fees. Escrow fees are incurred to ensure continued access to capital and ensure

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S SIXTH SET OF DATA REQUESTS**

October 30, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.
Address: 12725 W. Indian School, Suite D-101
Avondale, AZ 85392

continuing and ongoing investments by shareholders. Without such escrow fees, APUC's subsidiaries would not have a readily available source of capital funding.

Toronto Stock Exchange Policy 3-1, Section 7 requires that APUC maintain a transfer agent. In particular, section 7.1¹⁰ provides that "[e]ach Issuer must maintain a record of its current registered shareholders, a record of each allotment or issuance and a record of each transfer in the registered ownership of its securities." Additionally, section 7.2 requires that "[w]hile its securities are listed on the Exchange, an Issuer must appoint and maintain a transfer agent and registrar..." Not maintaining an Escrow Agent would risk putting Liberty Black Mountain's parent company in violation of Toronto Stock Exchange rules, and, in turn, if APUC did not have access to the capital markets, then neither would Liberty Black Mountain, depriving Liberty Black Mountain's customers of this important benefit. Finally, this requirement appears materially identical to the NYSE's requirements in Section 6¹¹ of the Listed Company Manual: "[t]he company must also maintain registrar facilities for all stock of the company listed on the Exchange." The Commission has approved these costs for recovery in recent rate cases for affiliated entities.

h. **Other Professional Services** – Please provide underlying invoices and any other cost documentation to support this expense. Please provide a schedule listing each component of the amount and identify all of the professional services that are included in this cost. Also state how each expense is used in the provision of service for Black Mountain's ratepayers.

RESPONSE: See attached Allocations.xlsx, tabs APUC Detail, LABS Detail, and LUC Detail. All of the corporate allocation general ledger detail is listed and can be filtered by "Account Description." Commission Staff may refer to the

¹⁰ Please see attached file "TMX Policy 3-1."

¹¹ Please see attached file "NYSE Section 6 (Agencies, Depositories, Trustees)".

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S SIXTH SET OF DATA REQUESTS**

October 30, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School, Suite D-101
Avondale, AZ 85392

specific "Item #" to determine the invoice/backup documentation in the pdf files named APUC Allocations, LABS Allocations, and LUC Allocations.

APUC incurs Other Professional Services including strategic plan reviews, capital market advisory services, ERP System maintenance, benefits consulting, and other similar professional services. By providing these services at a parent level, the subsidiaries are able to benefit from economies of scale. Additionally, some of these services improve APUC's access to capital, which benefits all of its subsidiaries.

These services provided by APUC specifically optimize the performance of the utilities, keeping rates low for customers while ensuring access to capital is available and quality service is provided. If the utilities did not have access to the professional services provided by APUC, then they would be forced to incur associated costs for financing, capital investment, audits, taxes and other similar services on a stand-alone basis, which would substantially increase such costs. Simply put, without incurring these costs, APUC would not be able to invest capital in its subsidiaries, including the regulated utilities. The Commission has approved these costs for recovery in recent rate cases for affiliated entities.

- i. **Office Administration** - Please provide underlying invoices and any other cost documentation to support this expense. Please provide a schedule listing each component of the amount. Also state how each expense is used in the provision of service for Black Mountain's ratepayers.

RESPONSE: See attached Allocations.xlsx, tabs APUC Detail, LABS Detail, and LUC Detail. All of the corporate allocation general ledger detail is listed and can be filtered by "Account Description." Commission Staff may refer to the specific "Item #" to determine the invoice/backup documentation in the pdf files named APUC Allocations, LABS Allocations, and LUC Allocations.

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO STAFF'S SIXTH SET OF DATA REQUESTS**

October 30, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School, Suite D-101
Avondale, AZ 85392

Administrative costs incurred by APUC such as rent, depreciation of office furniture, depreciation of computers, and general office costs are required to house all of the services mentioned above. Without these administrative costs, APUC could not perform these services and provide the necessary services to the regulated utilities, including Liberty Black Mountain. These administrative costs also include training for corporate employees. Put simply, APUC incurs these administrative costs in providing services to its subsidiaries, including Liberty Black Mountain. The Commission has approved these costs for recovery in recent rate cases for affiliated entities.

j. **Allocation Percentages** – Please provide a calculation for the allocation percentages.

RESPONSE: See attached Allocations.xlsx on tab 4factor Main-lw for the allocation percentages.

EXHIBIT WRK-RB11

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO RUCO'S FIRST SET OF DATA REQUESTS**

August 10, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School Rd., Ste D-101
Avondale, AZ 85392

Company Response Number: 1.20

Q. Shared Facilities Allocations - Please describe in detail any operating or administrative facilities which the Company shares with other entities, affiliated or not, and the basis for quantification and allocation of the related capital costs.

RESPONSE: The Company does not share any of its operating or administrative facilities with other entities. Liberty Black Mountain, however, benefits from various functions and services that are provided by Liberty Utilities employees in the Avondale office. Those personnel perform shared services for the Company such as accounting, customer service, construction management, engineering, IT support, human resources, legal and general management, among other functions. The costs for the Avondale facility are allocated to Liberty Black Mountain based upon an industry utilized allocation methodology (i.e., a four-factor type methodology). The Avondale office is not owned by Liberty Utilities or any affiliate. Further, Liberty Black Mountain derives substantial benefit from services provided by Liberty Utilities employees located in the Oakville office building in Canada. As set forth in the Company's application and testimony, a portion of the capital cost of the Oakville building is allocated to Liberty Black Mountain. Also, the costs and expenses of the Oakville building are allocated to Liberty Black Mountain in accordance with the January 1, 2014, Cost Allocation Manual. That Cost Allocation Manual and the direct testimony of William Killeen set forth the basis for such allocation.

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO RUCO'S SIXTH SET OF DATA REQUESTS**

November 19, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School Rd., Suite D-101
Avondale, AZ 85392

Company Response Number: 6.11

- Q. Corporate Allocations – Please identify each rate base and operating income account that includes any corporate allocations shown on the Company's respective B-2 and C-2 Schedules. The Company's response should clearly delineate each account and the amount of any corporate allocation(s).

RESPONSE: For the respective B-2 rate base account, please see attached "RUCO 6.11-B-2 Allocation Totals v1.xlsx."

For the respective C-1 allocations, the accounts are shown in the original application schedule C-1 under Salaries and Wages and Contractual Service Professional.

- a. For Salaries and Wages, \$7,031 was included in the unadjusted balance of \$228,309.
- b. For Contractual Services Professional, \$165,389 was included in the unadjusted balance of \$316,663. That amount was then reduced by a proforma amount of \$3,152 for a test year adjusted amount of \$162,237. As noted in the Company's revised response to BAB 1.18, the test year amount for Contractual Services Professional amount was reduced by \$3,152 which was recalculated to a revised reduction of \$28,302. The revised amount on the C-1 schedule for Contractual Services Professional is \$288,361.

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO RUCO'S SIXTH SET OF DATA REQUESTS**

November 18, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School Rd., Suite D-101
Avondale, AZ 85392

Company Response Number: 6.12

- Q. Total Corporate Cost Allocations Pool – Please provide the total corporate cost allocation pool beginning with the parent company and continuing down the corporate organizational chart to the allocations being charged to Liberty Black Mountain Sewer. Please provide this information in an Excel format similar to Attachment A as provided, which has been used by the Company in prior rate Application proceedings.

RESPONSE: The Company provided this chart in response to Staff Data Request CSB 6.1. The Company provided the excel detail along with the invoices with reference numbers in its revised response to Staff Data Request BAB 1.18.

Description of APUC Expense	Total APUC Expense	Allocation Percent	APUC Amount Allocated to Affiliate	Allocation Percent	APUC Amount Allocated to Black Mountain	NARUC Account Number
Legal Costs	\$389,618.02	16.17%	\$63,001.23	3.86%	\$2,431.85	734
Tax Services	\$637,075.68	16.17%	\$103,015.14	3.86%	\$3,976.38	734
Audit	\$687,211.34	16.17%	\$111,122.07	3.86%	\$4,289.31	734
Investor Relations	\$87,327.97	16.17%	\$14,120.93	3.86%	\$545.07	734
Director Fees and Insurance	\$728,234.51	16.17%	\$117,755.52	3.86%	\$4,545.36	734
Licenses, Fees and Permits	\$211,229.89	16.17%	\$34,155.87	3.86%	\$1,318.42	734

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO RUCO'S SIXTH SET OF DATA REQUESTS**

November 18, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School Rd., Suite D-101
Avondale, AZ 85392

Escrow and Transfer Agent Fees	\$55,605.20	16.17%	\$8,991.36	3.86%	\$347.07	734
Other Professional Services	\$443,302.95	16.17%	\$71,682.09	3.86%	\$2,766/93	734
Office Administration	\$2,823,698.31	16.17%	\$456,592.02	3.86%	\$17,624.45	734
Total	\$6,063,303.87		\$980,436.23		\$37,844.84	

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO RUCO'S EIGHTH SET OF DATA REQUESTS**

November 18, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School Rd., Suite D-101
Avondale, AZ 85392

Company Response Number: 8.01

Q. Total Corporate Cost Allocations Pool – In addition to RUCO DR 6.12, please provide the following:

1. Any and all corporate allocations related to any expense account on Schedule C-1 that contain labor and wages charged, direct and allocable billings, to Black Mountain Sewer from the ultimate-parent Company – Algonquin Power & Utilities (“APUC”), parent Company – Liberty Utilities Corp. (“LUC”), and/or any other of its affiliates such as Algonquin Power Company (“APCO”);

RESPONSE: The Company provided a revised response to Staff Data Request BAB 1.18 that includes all the detail and invoices for the cost pool for the corporate allocations. See the detailed schedule and referenced invoices for labor and/or consulting labor. Liberty Black Mountain does not have any labor charges from APCO.

2. For any related labor and wages billings to Black Mountain Sewer, please provide an individual listing showing each employees name, title, employee’s entity location (i.e., Algonquin Power & Utilities Corp. (“APUC”), Liberty Utilities Canada (“LUC”), APCO and/or Liberty Utilities etc.), salary and/or hourly rate, and any and all vacant positions to which Black Mountain Sewer is being billed;

RESPONSE: The Company had \$337,252.00 in local salaries which includes Accounting, Customer Service, Human Resources, Operations, and Admin professionals. Information regarding employee names and salaries are personal and confidential. Liberty

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO RUCO'S EIGHTH SET OF DATA REQUESTS**

November 18, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.
Address: 12725 W. Indian School Rd., Suite D-101
Avondale, AZ 85392

Black Mountain was not billed for any vacant positions in the test year. Any salary or consulting labor for Corporate Allocations in the test year were included in the cost pool. Reference the Company's revised response to Staff Data Request BAB 1.18.

3. Identify the amounts identified in 2. above and to which operating income accounts those labor and wage charges are being directly charged and/or allocated to. This response should also clearly identify any and all vacant positions to which are included in the Company's rate Application;

RESPONSE: The labor amounts for Sewer Operations was included in NARUC account 701. The labor amounts for Customer Service, Accounting, Human Resources, and Administrative personnel was included in NARUC account 734. Any labor and/or consultant labor for APUC allocations was included in NARUC account 734. The Company did not charge Liberty Black Mountain for any vacant positions.

4. Please identify the payroll taxes, pension and other benefits that are being charged to Black Mountain Sewer as identified in 1 through 3 above;

RESPONSE: The Company is charging an average rate of 32.5% for labor burden on all direct labor costs which includes payroll taxes, pension, employee insurance, and 401K.

5. Please identify any and all incentive compensation by amount, employee name, employee location in reference to affiliate employed by, and to which accounts these charges are recorded for Black Mountain Sewer;

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO RUCO'S EIGHTH SET OF DATA REQUESTS**

November 18, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School Rd., Suite D-101
Avondale, AZ 85392

RESPONSE: The Company is charging an average allocation for the incentive program per each month of \$53K. This amount is allocated directly to Liberty Black Mountain by the allocation factor of 3.86%. Information regarding employee names, compensation and salaries are personal and confidential.

6. Please identify the incentive program type (i.e., performance, financial, and/or customer service etc.) to which the charges apply as identified in 5. above; and

RESPONSE: See the Company's response to RUCO 1.64 for information regarding the incentive program.

7. Please identify which of the charges identified in 5. and 6. above are allocated from either LUC and/or APUC..

RESPONSE: The charges referenced in question 5 are not from LUC or APUC.

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO RUCO'S TENTH SET OF DATA REQUESTS**

November 18, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School Rd., Suite D-101
Avondale, AZ 85392

Company Response Number: 10.01

Q. Corporate Cost Allocations – Please provide responses and all accounting documentation to these the requests as they pertain to Liberty Black Mountain Sewer's corporate cost allocations as follows:

1. If not already provided, please identify each operating income account on Schedule C-1 that contains any corporate cost allocation from any and all affiliated companies within Algonquin Power & Utilities Corporation ("APUC") including APUC itself. If this information was provided in a previous data response ("DR") to any party and in the format requested here, please identify in which DR this information was provided. The last statement applies to all of the following requests to RUCO DR 10.01.
2. Please identify the amounts of any cost allocations contained in each Liberty Black Mountain Sewer operating income account on Schedule C-1 identified in response to 1. above.
3. Please identify the method utilized to allocate the cost allocations in 1. and 2. above to Liberty Black Mountain Sewer in this case.
4. Please provide each account and amount of corporate costs with supporting accounting documentation that were **directly** charged by any parent/affiliate company to Liberty Black Mountain Sewer. The response should clearly identify which parent/ affiliate company (i.e. APUC, Algonquin Power Company ("APCo"), Liberty Utilities (Canada) Corp. ("LUC"), and Liberty Utilities Service Corp.

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO RUCO'S TENTH SET OF DATA REQUESTS**

November 18, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School Rd., Suite D-101
Avondale, AZ 85392

("LUSC")) that the costs are allocated from to the regulated utilities such as Liberty Black Mountain Sewer in this case.¹

5. Please provide the same information as requested in 4. above that were **indirectly** charged (i.e allocated costs) by any parent/affiliate company to Liberty Black Mountain Sewer in this case.
6. Please identify each affiliate company that APUC currently owns in any state (i.e. USA), province (i.e. Canada), and/or country (i.e. worldwide). Indicate the state, province, and/or country of each entities location and whether each company identified above is either a regulated or non-regualted entity and by what regulatory body the entity is regulated by, if it is a regulated entity. The response should clearly identify which entities identified above are non-regulated too.

RESPONSE:

1. See the Company's revised response to Staff Data Request BAB 1.18 for Corporate Allocations for a detailed listing. Corporate Allocations are charged to account 734 on the income statement.
2. See the Company's revised response to Staff Data Request BAB 1.18.
3. See the Company's revised response to Staff Data Request BAB 1.18.
4. See the Company's revised response to Staff Data Request BAB 1.18.
5. See the Company's revised response to Staff Data Request BAB 1.18.

¹ These responses should tie to each operating income account that contains either direct and indirect charges in 10.01 (1.) and (2.) above.

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO RUCO'S TENTH SET OF DATA REQUESTS**

November 18, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School Rd., Suite D-101
Avondale, AZ 85392

6. Algonquin Power & Utilities Corp. (APUC) is a renewable energy and utility company with assets across North America. Through its two operating subsidiaries, Algonquin Power Company (APCo) and Liberty Utilities Co., APUC acquires and operates energy generation assets including hydroelectric, wind, thermal, and solar power facilities, as well as utility distribution businesses (including water, wastewater, electricity and natural gas distribution utilities). In addition, APUC now has a footprint in transmission assets. Below is a list of utilities and subsidiaries owned by Liberty Utilities Co.

Name:	Address:	Specific Utility Service
Liberty Energy Utilities (New Hampshire) Corp.	15 Buttrick Road, Londonderry, NH 03053	n/a
Liberty Utilities Service Corp.	12725 W. Indian School Road, Suite D-101, Avondale, AZ	n/a
Liberty Utilities (Midstates Natural Gas) Corp.	2751 North High Street, Jackson, MO 63755	Natural Gas service in Illinois, Iowa and Missouri
Liberty Utilities (CalPeco Electric) LLC	1125 Muscat Ave. Sanger, CA 93657	Electric service in California
Liberty Utilities (Pine Bluff Water) Inc.	1100 State Street P.O. Box 6070 Pine Bluff, AR 71611	Water distribution service in Arkansas
Liberty Utilities (Peach State Natural Gas) Corp.	2300 Victory Dr. Columbus, GA 31901-3455	Natural Gas service in Georgia
Liberty Utilities (Granite State Electric) Corp.	15 Buttrick Road, Londonderry, NH 03053	Electric service in New Hampshire
Liberty Utilities (EnergyNorth Natural Gas) Corp.	15 Buttrick Road, Londonderry, NH 03053	Natural Gas service in New Hampshire
Liberty Utilities Energy Solutions Corp.	12725 W. Indian School Road, Suite D-101, Avondale, AZ	n/a
Liberty Utilities Energy Solutions (Appliance) Corp.	12725 W. Indian School Road, Suite D-101, Avondale, AZ	n/a

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO RUCO'S TENTH SET OF DATA REQUESTS**

November 18, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School Rd., Suite D-101
Avondale, AZ 85392

Name:	Address:	Specific Utility Service
Liberty Utilities Energy Solutions (CNG) Corp.	12725 W. Indian School Road, Suite D-101, Avondale, AZ	n/a
Liberty Utilities Energy Solutions (LNG) Corp.	12725 W. Indian School Road, Suite D-101, Avondale, AZ	n/a
Liberty Utilities Energy Solutions (Solar) Corp.	15 Buttrick Road, Londonberry, NH	n/a
Liberty Utilities Energy Solutions (Solar1) Corp.	15 Buttrick Road, Londonberry, NH	n/a
Liberty WWH Inc.	15 Buttrick Road, Londonberry, NH	n/a
Liberty Utilities (New England Natural Gas Company) Corp.	12725 W. Indian School Road, Suite D-101, Avondale, AZ 85392	Natural Gas service in Massachusetts
Liberty Utilities (Pipeline & Transmission) Corp.	12725 W. Indian School Road, Suite D-101, Avondale, AZ 85392	n/a
Liberty Utilities (Black Mountain Sewer) Corp.	12725 W. Indian School Road, Suite D-101, Avondale, AZ 85392	Sewer service in Arizona
Liberty Utilities (Environmental Services) LLC	12725 W. Indian School Road, Suite D-101, Avondale, AZ 85392	n/a
Liberty Utilities (Gold Canyon Sewer) Corp.	12725 W. Indian School Road, Suite D-101, Avondale, AZ 85392	Sewer service in Arizona
Liberty Utilities (Litchfield Park Water & Sewer) Corp.	12725 W. Indian School Road, Suite D-101, Avondale, AZ 85392	Water and Sewer service in Arizona
Liberty Utilities (Woodmark Sewer) Corp.	16623 FM 2493 Tyler, TX 75703	Sewer service in Texas
Liberty Utilities (Tall Timbers Sewer) Corp.	16623 FM 2493 Tyler, TX 75703	Sewer Service in Texas
Liberty Utilities (Bella Vista Water) Corp.	12725 W. Indian School Road, Suite D-101, Avondale, AZ 85392	Water distribution service in Arizona
Liberty Utilities (Entrada Del Oro Sewer) Corp.	12725 W. Indian School Road, Suite D-101, Avondale, AZ 85392	Sewer service in Arizona
Liberty Utilities (Rio Rico Water & Sewer) Corp.	12725 W. Indian School Road, Suite D-101, Avondale, AZ 85392	Water distribution and sewer service in Arizona

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO RUCO'S TENTH SET OF DATA REQUESTS**

November 18, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School Rd., Suite D-101
Avondale, AZ 85392

Name:	Address:	Specific Utility Service
Liberty Utilities (Northwest Sewer) Corp.	12725 W. Indian School Road, Suite D-101, Avondale, AZ 85392	n/a
Liberty Utilities (Sub) Corp.	12725 West Indian School Road, Suite D-101, Avondale, AZ 85392	n/a
Liberty Utilities (Silverleaf Water) LLC	16623 FM 2493 Tyler, TX 75703	Water distribution service in Texas
Liberty Utilities (Seaside Water) LLC	16623 FM 2493 Tyler, TX 75703	Water distribution service in Texas
Liberty Utilities (Fox River Water) LLC	16623 FM 2493 Tyler, TX 75703	Water distribution service in Illinois
Liberty Utilities (Missouri Water) LLC	16623 FM 2493 Tyler, TX 75703	Water distribution service in Missouri
Liberty Utilities (White Hall Water) Corp.	101 Parkway Drive Whitehall, AR 71602	Water distribution service in Arkansas
Liberty Utilities (White Hall Sewer) Corp.	101 Parkway Drive Whitehall, AR 71602	Sewer service in Arkansas

The following Liberty Utilities entities are regulated by the regulatory commissions set forth below:

Utility	Commission / Address
Liberty Utilities (Calpeco Electric) LLC	California Public Service Commission 505 Van Ness Avenue San Francisco, CA 94102
Liberty Utilities (New England Natural Gas Company) Corp.	Massachusetts Department of Public Utilities One South Station Boston, MA 02110
Liberty Utilities (Peach State Natural Gas) Corp.	Georgia Public Service Commission 244 Washington St Atlanta, GA 30334-5701
Liberty Utilities (Pine Bluff Water) Inc.	Arkansas Public Service Commission 1000 Center Street PO Box 400 Little Rock, AR 72203-0400

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO RUCO'S TENTH SET OF DATA REQUESTS**

November 18, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School Rd., Suite D-101
Avondale, AZ 85392

Utility	Commission / Address
Lilberty Utilities (Midstates Natural Gas) Corp.	Illinois Commerce Commission 527 East Capitol Avenue Springfield, Illinois 62701
Lilberty Utilities (Midstates Natural Gas) Corp.	Missouri Public Service Commission 200 Madison Street, PO Box 360 Jefferson City, MO 65102-0360
Lilberty Utilities (Midstates Natural Gas) Corp.	Iowa Utilities Board 1375 East Court Avenue Des Moines, Iowa 50319
Liberty Utilities (Granite State Electric) Corp.	New Hampshire Public Service Commission 21 South Fruit Street, Suite 10, Concord, N.H. 03301-2429
Liberty Utilities (EnergyNorth Natural Gas) Corp.	New Hampshire Public Service Commission 21 South Fruit Street, Suite 10, Concord, N.H. 03301-2429
Liberty Utilities (Black Mountain Sewer) Corp.	Arizona Corporation Commission 1200 W. Washington Phoenix, AZ 85007-2996
Liberty Utilities (Gold Canyon Sewer) Corp.	Arizona Corporation Commission 1200 W. Washington Phoenix, AZ 85007-2996
Liberty Utilities (Litchfield Park Water & Sewer) Corp.	Arizona Corporation Commission 1200 W. Washington Phoenix, AZ 85007-2996
Liberty Utilities (Woodmark Sewer) Corp.	Public Utility Commission of Texas 1701 N. Congress Avenue PO Box 13326 Austin, TX 78711-3326
Liberty Utilities (Tall Timbers Sewer) Corp.	Public Utility Commission of Texas 1701 N. Congress Avenue PO Box 13326 Austin, TX 78711-3326
Liberty Utilities (Bella Vista Water) Corp.	Arizona Corporation Commission 1200 W. Washington Phoenix, AZ 85007-2996
Liberty Utilities (Entrada Del Oro Sewer) Corp.	Arizona Corporation Commission

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO RUCO'S TENTH SET OF DATA REQUESTS**

November 18, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School Rd., Suite D-101
Avondale, AZ 85392

Utility	Commission / Address
	1200 W. Washington Phoenix, AZ 85007-2996
Liberty Utilities (Rio Rico Water & Sewer) Corp.	Arizona Corporation Commission 1200 W. Washington Phoenix, AZ 85007-2996
Liberty Utilities (Silverleaf Water) LLC	Public Utility Commission of Texas 1701 N. Congress Avenue PO Box 13326 Austin, TX 78711-3326
Liberty Utilities (Seaside Water) LLC	Public Utility Commission of Texas 1701 N. Congress Avenue PO Box 13326 Austin, TX 78711-3326
Liberty Utilities (Missouri Water) LLC	Missouri Public Service Commission 200 Madison Street, PO Box 360 Jefferson City, MO 65102-0360
Liberty Utilities (White Hall Water) Corp.	City of White Hall, 101 Parkway Dr. White Hall, AR 71612; Not regulated by the APSC
Liberty Utilities (White Hall Sewer) Corp.	City of White Hall, 101 Parkway Dr. White Hall, AR 71612; Not regulated by the APSC

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO RUCO'S TENTH SET OF DATA REQUESTS**

November 16, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School Rd., Suite D-101
Avondale, AZ 85392

Company Response Number: 10.03

Q. Direct Labor Distribution/Expenses – For each of the industries identified in response to RUCO DR 10.02 above, please provide the Direct Labor expenses (i.e. dollar amount) that were directly charged and associated with each industry separately for the twelve-months ending on December 31, 2014.²

RESPONSE: See the attached file labeled “APUC Direct Charges Summary 2014 for AZ.xlsx.”

² Please state the dollars in US dollars.

1 SHAPIRO LAW FIRM, P.C.
Jay L. Shapiro (No. 014650)
2 1819 E. Morten Avenue, Suite 280
Phoenix, Arizona 85020
3 Telephone (602) 559-9575
jay@shapslawaz.com
4

LIBERTY UTILITIES
5 Todd C. Wiley (No. 015358)
12725 W. Indian School Road, Suite D-101
6 Avondale, Arizona 85392
Todd.Wiley@libertyutilities.com
7

8 Attorneys for Liberty Utilities (Black Mountain Sewer) Corp.

9 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO: SW-02361A-15-0206

15
16 IN THE MATTER OF THE APPLICATION
OF LIBERTY UTILITIES (BLACK
MOUNTAIN SEWER) CORP., AN
17 ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE
18 OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN ITS
19 WASTEWATER RATES AND CHARGES
FOR UTILITY SERVICE BASED
20 THEREON.

DOCKET NO: SW-02361A-15-0207

21
22 **REBUTTAL TESTIMONY OF**
23 **THOMAS J. BOURASSA**

24 **RATE BASE, INCOME STATEMENT & RATE DESIGN**

25 **January 6, 2016**
26

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

TABLE OF CONTENTS

I. INTRODUCTION 1

II. SUMMARY OF THE COMPANY’S REBUTTAL POSITION..... 1

III. RATE BASE 4

 A. Overview 4

 B. Plant-in-Service (PIS)..... 5

 1. Allocated Corporate Plant 7

 2. Plant Reclassification and Not Used and Useful Plant 10

 C. Accumulated Depreciation (A/D) 16

 D. Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization (AA) 19

 E. Advances-in-Aid of Construction (AIAC)..... 23

 F. Accumulated Deferred Income Taxes (ADIT)..... 24

 G. Cash Working Capital (CWC) 27

 H. Remaining Rate Base Items in Dispute..... 28

 1. Regulatory Liability for Scottsdale Capacity..... 28

 2. Depreciation Study and Plant Inventory 31

IV. REVENUES AND EXPENSES..... 34

V. COST OF SERVICE STUDY (COSS)..... 46

VI. RATE DESIGN 48

1 **I. INTRODUCTION.**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
4 Phoenix, Arizona 85029.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. I am testifying on behalf of the Liberty Utilities (Black Mountain Sewer) Corp.
7 (“Liberty Black Mountain” or “Company”).

8 **Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE**
9 **INSTANT CASE?**

10 A. Yes, my direct testimony was submitted in support of the initial application in this
11 docket. There were two volumes, one addressing rate base, income statement and
12 rate design, and the other addressing cost of capital.

13 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

14 A. I will provide rebuttal testimony in response to the direct filings by Staff and
15 RUCO. More specifically, this first volume of my rebuttal testimony relates to rate
16 base, income statement and rate design for Liberty Black Mountain. In a second,
17 separate volume of my rebuttal testimony, I will present an update to the
18 Company’s requested cost of capital, and provide rebuttal to Staff and RUCO on
19 the cost of capital and rate of return applied to the fair value rate base, and the
20 determination of operating income.

21 **II. SUMMARY OF THE COMPANY’S REBUTTAL POSITION.**

22 **Q. WHAT IS THE REVENUE INCREASE THE COMPANY IS PROPOSING**
23 **IN THIS REBUTTAL TESTIMONY?**

24 A. The Company proposes a total revenue requirement non-inclusive of rate case
25 expense (recovered via a surcharge) of \$2,254,363, which constitutes an increase in
26 revenues of \$14,515, or 0.65 percent over adjusted test year revenues.

1 The Company continues to seek annual revenues of \$150,000 to recover a total,
2 estimated, rate case expense of \$450,000. The total annual revenues the Company
3 seeks at this stage of the rate case are \$2,404,363 (\$2,254,363 + \$150,000) and the
4 total increase in annual revenues is \$164,515, or 7.34 percent. This does not
5 include any recovery of the costs of plant closure, which are being separately
6 accounted for and discussed.

7 **Q. HOW DOES THIS COMPARE WITH THE COMPANY'S DIRECT**
8 **FILING?**

9 A. It is somewhat lower. In the direct filing, the Company requested a total revenue
10 requirement non-inclusive of rate case expense (recovered via a surcharge) of
11 \$2,296,777, which required an increase in revenues of \$56,929, or 2.54 percent.
12 Annual revenues to recover rate case expense were another \$150,000. The total
13 annual revenues the Company sought in its direct filing were \$2,446,777
14 (\$2,296,777 + \$150,000), and the total increase in annual revenues was \$200,929,
15 or 9.24 percent.

16 **Q. WHAT'S DIFFERENT?**

17 A. In its rebuttal filing, Liberty Black Mountain has adopted a number of rate base and
18 revenue/expense adjustments recommended by Staff and/or RUCO, as well as
19 proposed additional adjustments of its own. The net result of these adjustments is
20 that the Company's proposed operating expenses have decreased by \$27,062, from
21 \$1,981,235 in the direct filing to \$1,954,172. This includes an increase of \$7,386
22 in rate base from the direct filing of \$3,412,024 to \$3,419,410 due to proposed
23 changes to plant-in-service ("PIS"), accumulated depreciation ("A/D"), Advances –
24 in-Aid of Construction ("AIAC"), Contributions-in-Aid of Construction ("CIAC"),
25 Accumulated Deferred Income Taxes ("ADIT"), and Cash Working Capital
26 ("CWC").

1 The Company continues to propose an 8.62 percent return on rate base that
2 is based upon a capital structure consisting of 30 percent debt and 70 percent
3 equity, a cost of debt of 3.53 percent, and a return on equity of 10.8 percent.
4 I discuss the proposed capital structure, cost of debt, and cost of equity in the
5 second volume of my rebuttal testimony covering cost of capital.

6 **Q. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE**
7 **INCREASES FOR THE COMPANY, RUCO AND STAFF AT THIS STAGE**
8 **OF THE PROCEEDING?**

9 A. The proposed revenue requirements and proposed rate increases are as follows:

	<u>Revenue Requirement</u>		
	<u>Plus Rate Case Expense</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
12	Company-Direct	\$2,446,777	\$ 200,925 9.24%
13	Staff	\$2,068,334	\$(171,514) -7.66%
14	RUCO	\$1,956,557	\$(284,244) -12.68%
15	Company-Rebuttal	\$2,404,363	\$ 164,515 7.34%

16 Again, I need to emphasize that none of these numbers include recovery of the
17 more than \$1 million in plant closure costs the Company has already incurred and
18 requested approval to recover in this rate case.

19 **Q. IS THE COMPANY STILL SEEKING A SEPARATE PLANT CLOSURE**
20 **SURCHARGE?**

21 A. Yes, the Company is still seeking a plant closure surcharge, however, the Company
22 now requests that the closure cost surcharge be computed in three stages consistent
23 with the Proposed Settlement Agreement (the "Settlement Agreement") reached
24 between Liberty Black Mountain, the Town of Carefree (the "Town"), CP
25 Boulders, LLC dba Boulders Resort (the "Resort"), Wind P1 Mortgage Borrower,
26 L.L.C. ("Wind P1"), and the Boulders Homeowners Association (the "BHOA")

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

(collectively, the “Signatories”), filed on November 16, 2015. The Town and the Resort are intervenors in this docket.

I will explain the details of the surcharge proposal in the Rate Design section of my rebuttal testimony. For now, to summarize, the Stage 1 surcharge is contemplated to be \$6.31 per customer per month; the Stage 2 surcharge is contemplated to be an additional \$7.96 per customer per month; and the Stage 3 surcharge is contemplated to be an additional \$16.70 per customer per month. All three are year one surcharges, and the surcharge would be recomputed annually to reflect previously recovered amortization. The surcharge would stay in effect until such time as the Commission included the final plant closure costs in rate base. Again, all of these surcharges are understood and supported by the public parties in this case, as is evidenced by the Settlement Agreement; and the surcharges are necessary to allow the Company to move forward with the unprecedented step of closing used and useful plant and contracting for replacement capacity from a third party, the City of Scottsdale.

III. RATE BASE.

A. Overview.

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES’ RESPECTIVE RATE BASE RECOMMENDATIONS.

A. Yes, the rate bases proposed by the Company and Staff are as follows:

	<u>OCRB</u>	<u>FVRB</u>
Company-Direct	\$ 3,412,024	\$ 3,412,034
Staff	\$ 3,004,503	\$ 3,004,503
RUCO	\$ 3,235,735	\$ 3,235,735
Company Rebuttal	\$ 3,419,410	\$ 3,419,410

1 As with the revenue numbers I discussed above, none of these rate bases account
2 for the plant closure costs in any way.

3 **Q. OKAY, THANK YOU. WOULD YOU PLEASE DISCUSS THE**
4 **COMPANY'S PROPOSED ORIGINAL COST RATE BASE?**

5 A. Yes. The Company's rebuttal rate base adjustments OCRB are detailed on rebuttal
6 schedules B-2, pages 3 through 7. Rebuttal Schedule B-2, page 1 and 2,
7 summarize the Company's proposed adjustments and the rebuttal OCRB.

8 **B. Plant-in-Service (PIS).**

9 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
10 **REBUTTAL ADJUSTMENTS TO PIS AND IDENTIFY ANY**
11 **ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?**

12 A. Rebuttal B-2 adjustment 1, as summarized on Rebuttal Schedule B-2, page 2,
13 consists of five adjustments labeled as "A," "B," "C," "D," and "E" on Rebuttal
14 Schedule B-2, page 3.

15 Adjustment A reflects the reclassification and the removal of not used and
16 useful PIS, which is based upon the Company's response to Staff data requests
17 DH 3.5, DH 3.6, DH 3.10, and DH 3.35 and summarized in response to RUCO
18 data request 6.03. The Company's net reduction to PIS is \$10,254. As will be
19 discussed, both Staff and RUCO recommend similar adjustments but differ in some
20 respects to the Company's recommendation both in the amounts reclassified and
21 the net adjustment to PIS.

22 Adjustment B removes \$317 of AFUDC from PIS and reflects the adoption
23 of RUCO PIS adjustment number 4.

24 Adjustment C reduces PIS by \$29,760 reflecting a correction to a plant
25 addition amount in 2011 for account 389 – Other Plant and Communication
26 equipment.

1 Adjustment D reflects additional corporate plant totaling \$77,992 that was
2 inadvertently omitted in the Company's initial filing. Total corporate plant
3 recommended by the Company now totals \$175,457 (\$97,465 included in the
4 initial filing plus \$77,992). The corporate plant represents the allocated portion of
5 all the used and useful plant used to provide service to customers. As will be
6 discussed, both Staff and RUCO recommend the exclusion of all corporate plant.

7 Adjustment E reflects the reconciliation of PIS to the reconstructed PIS
8 shown on Schedule B-2, pages 3.5 to 3.12.

9 **Q. PLEASE SUMMARIZE THE RECOMMENDED PIS BALANCES OF THE**
10 **PARTIES AND THE DIFFERENCES.**

11 A. The Company recommends a PIS balance of \$14,204,095.¹ Staff recommends a
12 PIS balance of \$14,034,150,² a difference of \$169,945 compared to the Company's
13 recommended balance. RUCO recommends a PIS balance of \$14,060,969,³ a
14 difference of \$143,126 compared to the Company's recommended balance.

15 **Q. WHAT ARE THE REASONS FOR THE DIFFERENCES IN THE**
16 **RECOMMENDED PIS BALANCES BETWEEN THE COMPANY AND**
17 **STAFF?**

18 A. There are four reasons. First, Staff's PIS balance excludes \$175,457 of corporate
19 plant. Second, Staff's net reclassification and not used and useful adjustment is
20 \$(5,059)⁴ compared to the Company's net reclassification adjustment of
21 \$(10,255),⁵ which is a difference of \$5,196. Third, the Company is proposing a

22 ¹ See Rebuttal Schedule B-2, page 1.

23 ² See Staff Direct Schedule CSB-3.

24 ³ See RUCO Direct Schedule TJC-2.

25 ⁴ See Staff Direct Schedule CSB-6. The schedule shows a net reduction to PIS of
\$34,819, but this includes a plant addition correction of \$29,760. The reclassification and
not used and useful PIS adjustment is actually \$5,059.

26 ⁵ See Rebuttal Schedule B-2, page 3.1.

1 reduction to PIS of \$29,760 for a correction to a 2011 plant addition that is
2 reflected in the Staff plant reclassification and not used and useful
3 recommendation. Fourth, the Company has adopted RUCO's recommendation to
4 remove \$317 from PIS related to AFUDC, which is not reflected in the Staff
5 recommendations. These four differences total \$169,945 (\$175,457 less \$5,196
6 less \$317).

7 **Q. WHAT ARE THE REASONS FOR THE DIFFERENCES IN THE**
8 **RECOMMENDED PIS BALANCES BETWEEN THE COMPANY AND**
9 **RUCO?**

10 A. There are three reasons. First, RUCO's PIS balance excludes \$175,457 of
11 corporate plant. Second, RUCO's net reclassification and not used and useful
12 adjustment is \$(7,683)⁶ compared to the Company's net reclassification adjustment
13 of \$(10,254),⁷ which is a difference of \$(2,572). Third, the Company is proposing
14 a reduction to PIS of \$29,760 for a correction to a 2011 plant addition, which is not
15 reflected in the RUCO recommendations. These three differences total \$143,125
16 (\$175,457 less \$2,572 less \$29,760).

17 **1. Allocated Corporate Plant.**

18 **Q. PLEASE DISCUSS THE STAFF AND RUCO RECOMMENDATIONS TO**
19 **EXCLUDE ALLOCATED CORPORATE PLANT.**

20 A. Staff recommends the exclusion of all allocated corporate plant because the plant is
21 owned by the parent company.⁸ There are at least two problems with Staff's logic.
22 First, and foremost, Staff's logic suggests that ratepayers should not pay for the
23 cost of capital related to the investment (return \$s) in corporate plant that is used by

24 ⁶ See RUCO Direct Schedule TJC-4(c), page 1 of 2.

25 ⁷ See Rebuttal Schedule B-2, page 3.1.

26 ⁸ See Direct Testimony of Crystal S. Brown ("Brown Dt.") at 11.

1 Liberty Black Mountain to provide service and which provides benefits for the
2 customers. Second, Staff's recommendation is contrary to past recommendations
3 by Staff in other rate cases.

4 RUCO recommends the exclusion of allocated corporate plant because the
5 Company has not requested allocated corporate plant in past cases for any of the
6 Liberty utilities.⁹ RUCO's reasoning is flawed. Under this logic, no utility could
7 seek recovery of any cost it had not previously requested. RUCO is making cost
8 recovery recommendations irrespective of the merits. To make matters worse,
9 RUCO's recommendation to exclude corporate plant, regardless of the merits, is
10 contrary to past recommendations by RUCO in other rate cases.

11 **Q. DOESN'T RUCO ALSO STATE THAT IT REQUESTED BACK-UP**
12 **DOCUMENTATION OF THE CORPORATE PLANT AND DID NOT**
13 **RECEIVE IT?**

14 A. Yes. But, RUCO misstated what it requested.¹⁰ RUCO did not request back-up
15 documentation for all corporate plant in RUCO data request 3.11.¹¹ In RUCO data
16 request 3.11, RUCO inquired about why there was no allocated accumulated
17 depreciation on the corporate computers and software account only. The Company
18 responded that there should have been \$264 of allocated A/D. This does not equate
19 to a lack of support for the corporate plant assets.

20 **Q. HAVE YOU INCREASED THE A/D BALANCE FOR CORPORATE**
21 **COMPUTERS AND SOFTWARE THAT WAS IN THE ORIGINAL**
22 **FILING?**

23
24 _____
⁹ See Direct Testimony of Timothy J. Coley ("Coley Dt.") at 20 – 21.

25 ¹⁰ Coley Dt. at 21.

26 ¹¹ Attached as **Exhibit TJB-RB1** is a copy of the Company's response.

1 A. Yes. However, the increase to A/D is \$1,320, not \$264.¹²

2 **Q. DO LIBERTY BLACK MOUNTAIN'S RATEPAYERS BENEFIT FROM**
3 **THE CORPORATE STRUCTURE?**

4 A. Yes. Liberty Black Mountain's corporate structure provides access to lower cost
5 capital, as well as financial, technical and managerial expertise, and the ability to
6 share certain facilities and operating expenses with other systems. In effect, these
7 benefits enable the Company to provide better service at lower cost than would
8 otherwise be available from a stand-alone operation. And, while the parent entity
9 owns the corporate plant, it is used for the provision of service by each of the
10 regulated utilities owned by the parent, including Liberty Black Mountain. Staff
11 even admits that Liberty Black Mountain uses a portion of the corporate plant to
12 provide service to its customers.¹³ Denying the recognition of allocated corporate
13 plant ignores these benefits and denies Liberty Black Mountain's investors the
14 recovery of a fair return on all plant investment necessary to provide service to its
15 customers. Further, by denying recognition of allocated corporate plant, Liberty
16 Black Mountain would be penalized for being part of the Liberty/APUC corporate
17 structure, which will discourage use of similar corporate structures and lead to
18 higher costs to customers in the future. This is true because companies will avoid
19 using economies of scale-based approaches to corporate structure, and will instead
20 be force to establish stand-alone companies that do not share in corporate costs, if
21 the shared costs are not recovered.

22 **Q. HAS ALLOCATED CORPORATE PLANT BEEN RECOVERABLE IN**
23 **OTHER WATER AND/OR WASTEWATER RATE CASES?**

24 A. Yes. Allocated corporate plant has been included in PIS (and rate base) in a

25 ¹² See Rebuttal Schedule B-2, page 4.5, line 8.

26 ¹³ *Id.*

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

number of prior rate cases. Examples include the Arizona-American Water Company rate cases (Decision No. 67093, Decision No. 71410, Decision No. 72047, Decision No. 70351, and Decision No. 73145), Chaparral City Water Company rate cases (Decision No. 68176 and Decision No. 71308), and the recent EPCOR Water Arizona rate case (Decision No. 75268).

Q. DID STAFF OR RUCO RECOMMEND THE EXCLUSION OF ALLOCATED CORPORATE PLANT IN THOSE CASES?

A. No. Neither Staff nor RUCO recommended the exclusion of allocated corporate plant used to provide service to customers in any of the rate cases mentioned above.

2. Plant Reclassification and Not Used and Useful Plant.

Q. DO YOU HAVE ANY CONCERNS WITH STAFF’S RECOMMENDED PLANT RECLASSIFICATIONS AND ADJUSTMENTS FOR NOT USED AND USEFUL PLANT ADJUSTMENTS?

A. There are at least two primary concerns with the Staff recommended adjustment. First, Staff’s recommended adjustments to PIS do not match Staff’s detail schedules. Second, and more importantly, the Company does not agree with some of plant reclassifications. The disagreements were communicated to Staff in the Company’s responses to Staff data request DH 3.5, DH 3.6, DH 3.10, and DH 3.35 after the Company reviewed the underlying documentation.

With respect to the first concern, the following table compares Staff Direct Schedule CSB-6 with the Staff detail set forth on pages 9 through 14 of Ms. Hains’ testimony:

Table 1

<u>Acct No.</u>	<u>Description</u>	<u>Per Staff Sch. CSB-6</u>	<u>Per Hains' Tables On Pages 9 - 14</u>	<u>Difference</u>
351	Organization	-	-	-
352	Franchises	-	-	-
353	Land and Land Rights	1,500	1,500	-
354	Structures and Improvements	(163,446)	(166,838)	3,392
355	Power Generation Equipment	3,839	3,839	(0)
360	Collection Sewers – Force	1,602	1,602	0
361	Collection Sewers – Gravity	(2,370)	(2,010)	(360)
362	Special Collecting Structures	-	-	-
363	Services to Customers	-	-	-
364	Flow Measuring Devices	-	-	-
365	Flow Measuring Installations	-	-	-
366	Reuse Services	-	-	-
367	Reuse Meters And Installation	-	-	-
370	Receiving Wells	-	-	-
371	Effluent Pumping Equipment	113,158	107,469	5,689
374	Reuse Distribution Reservoirs	-	-	-
375	Reuse Trans. and Dist. System	-	-	-
380	Treatment and Disposal Equipment	(5,782)	(5,782)	(0)
381	Plant Sewers	-	-	-
382	Outfall Sewer Lines	-	-	-
389	Other Plant and Misc. Equipment	(1,850)	(3,150)	(1,300)
390	Office Furniture and Equipment	-	-	-
390.1	Computers and Software	-	-	-
391	Transportation Equipment	-	-	-
392	Stores Equipment	-	-	-
393	Tools, Shop and Garage Equipment.	-	-	-
394	Laboratory Equipment	-	-	-
395	Power Operated Equipment	-	-	-
396	Communication Equipment	48,289	51,437	(3,148)
397	Miscellaneous Equip.	-	-	-
398	Other Tangible Plant - Scottsdale Capacity	-	-	-
	Subtotal	\$ (5,059)	\$ (11,283)	\$ 5,196
389	Other Plant and Misc. Equip. Correction	(29,760)	-	(29,760)
	Total	\$ (34,819)	\$ (11,283)	\$ (24,564)

1 As indicated, not only do the amounts per plant account not match in several
2 instances, but Staff removes \$5,196 less than set forth in its own detail schedules.¹⁴
3 Staff does not explain the discrepancies.¹⁵

4 With respect to the second concern and assuming the detail set forth in Ms.
5 Hains' testimony is the correct basis for Staff's reclassification and not used and
6 useful plant adjustment, the following table summarizes the differences between
7 the Company and Staff:
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

23 ¹⁴ See Direct Testimony of Dorothy Hains ("Hains Dt.") at 9 – 14. Compare Ms. Hains'
24 tables on pages 9 and 10 with Ms. Brown's Direct Schedule CSB-6. Ms. Hains
25 recommends removing a total of \$11,283 from PIS, which consists of \$2,638 of
disallowed plant items (\$2,577.68 plus \$360) and \$10,345 (\$7142.78 plus \$1,202.09) of
PIS reclassified to O&M expense.

26 ¹⁵ Brown Dt. at 11.

Table 2

<u>Acct No.</u>	<u>Description</u>	<u>Per Hains Tables On Pages 9 – 14</u>	<u>Company Sch. B-2, p. 3.1</u>	<u>Difference</u>
351	Organization	-	-	-
352	Franchises	-	-	-
353	Land and Land Rights	1,500	1,500	-
354	Structures and Improvements	(163,806)	(152,549)	(11,257)
355	Power Generation Equipment	3,839	3,839	-
360	Collection Sewers - Force	1,602	568	1,034
361	Collection Sewers - Gravity	(2,010)	-	(2,010)
362	Special Collecting Structures	-	-	-
363	Services to Customers	-	-	-
364	Flow Measuring Devices	-	-	-
365	Flow Measuring Installations	-	-	-
366	Reuse Services	-	-	-
367	Reuse Meters And Installation	-	-	-
370	Receiving Wells	-	-	-
371	Effluent Pumping Equipment	105,087	85,996	19,091
374	Reuse Distribution Reservoirs	-	-	-
375	Reuse Trans. and Dist. System	-	-	-
380	Treatment and Disposal Equipment	(5,782)	(5,782)	0
381	Plant Sewers	-	-	-
382	Outfall Sewer Lines	-	-	-
389	Other Plant and Misc. Equipment	(3,150)	(3,150)	-
390	Office Furniture and Equipment	-	(62,224)	62,224
390.1	Computers and Software	-	62,224	(62,224)
391	Transportation Equipment	-	-	-
392	Stores Equipment	-	-	-
393	Tools, Shop and Garage Equipment.	-	-	-
394	Laboratory Equipment	-	-	-
395	Power Operated Equipment	-	-	-
396	Communication Equipment	51,437	59,323	(7,886)
397	Miscellaneous Equip.	-	-	-
398	Other Tangible Plant - Scottsdale Capacity	-	-	-
		<u>\$ (11,283)</u>	<u>\$ (10,255)</u>	<u>\$ (1,028)</u>
389	Other Plant and Misc. Equip. Correction	(29,760)	(29,760)	(0)
	Total	<u>\$ (41,043)</u>	<u>\$ (40,015)</u>	<u>\$ (1,028)</u>

1 **Q. CAN YOU PLEASE EXPLAIN WHAT'S DIFFERENT BETWEEN STAFF'S**
2 **\$11,283 NET REDUCTION AND THE COMPANY'S \$10,254 NET**
3 **REDUCTION TO PIS?**

4 A. The differences by plant account are primarily due to a disagreement about the
5 reclassification from one plant account to another. With respect to the net
6 difference of \$1,028, there are the three amounts that comprise the difference:
7 \$2,557.96, \$(1,190), and \$(360). Regarding the \$2,577.96, the Company does not
8 agree with Staff to remove this amount \$2,577.68 from PIS.¹⁶ After review of the
9 invoice, the Company determined the invoice was for Liberty Black Mountain and
10 not Liberty Utilities (Gold Canyon Sewer), Corp. ("Liberty Gold Canyon") as Staff
11 suggests.¹⁷ Regarding the \$1,190, the Company determined that this amount
12 belonged to Liberty Utilities (Litchfield Park Water & Sewer) Corp. ("Liberty
13 Litchfield Park") and proposes to remove this amount from PIS. Finally, regarding
14 the \$360, the Company determined that this amount belonged to Liberty Gold
15 Canyon and proposes to remove this amount from PIS.

16 **Q. THANK YOU. PLEASE DISCUSS RUCO'S RECLASSIFICATION AND**
17 **NOT USED AND USEFUL PLANT ADJUSTMENTS.**

18 A. RUCO's recommended adjustments are based upon the Company response to
19 RUCO data request 6.03.¹⁸ That data response also formed the basis of the
20 Company's recommendation. The following table summarizes the differences
21 between the Company and the RUCO recommendations:
22

23 ¹⁶ Hains Dt. at 9. In table under heading Disallowed Plant Items is a description for an
invoice to JCPI services for \$2,577.68

24 ¹⁷ While the purchase order indicated the invoice was for Liberty Gold Canyon, the
25 Company verified that this asset was installed at a Liberty Black Mountain location and
therefore was recorded correctly to Liberty Black Mountain's PIS.

26 ¹⁸ Coley Dt. at 19.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

Table 3

<u>Acct No.</u>	<u>Description</u>	<u>RUCO Sch. TJC-4(c)</u>	<u>Company Sch. B-2, p. 3.1</u>	<u>Difference</u>
351	Organization	-	-	-
352	Franchises	-	-	-
353	Land and Land Rights	1,500	1,500	-
354	Structures and Improvements	(152,909)	(152,549)	(360)
355	Power Generation Equipment	3,839	3,839	-
360	Collection Sewers – Force	568	568	-
361	Collection Sewers – Gravity	-	-	-
362	Special Collecting Structures	-	-	-
363	Services to Customers	-	-	-
364	Flow Measuring Devices	-	-	-
365	Flow Measuring Installations	-	-	-
366	Reuse Services	-	-	-
367	Reuse Meters And Installation	-	-	-
370	Receiving Wells	-	-	-
371	Effluent Pumping Equipment	85,996	85,996	-
374	Reuse Distribution Reservoirs	-	-	-
375	Reuse Trans. and Dist. System	-	-	-
380	Treatment and Disposal Equipment	(2,211)	(5,782)	3,572
381	Plant Sewers	-	-	-
382	Outfall Sewer Lines	-	-	-
389	Other Plant and Misc. Equipment	(3,150)	(3,150)	-
390	Office Furniture and Equipment	(62,224)	(62,224)	-
390.1	Computers and Software	62,224	62,224	-
391	Transportation Equipment	-	-	-
392	Stores Equipment	-	-	-
393	Tools, Shop and Garage Equipment.	-	-	-
394	Laboratory Equipment	-	-	-
395	Power Operated Equipment	-	-	-
396	Communication Equipment	58,683	59,323	(640)
397	Miscellaneous Equip.	-	-	-
398	Other Tangible Plant - Scottsdale Capacity	-	-	-
		<u>\$ (7,683)</u>	<u>\$ (10,254)</u>	<u>\$ 2,572</u>

Q. PLEASE EXPLAIN THE DIFFERENCES BETWEEN THE COMPANY AND RUCO.

A. The \$360 difference for plant account 354 – Structures and Improvements appears to be due to an error. RUCO’s work papers shows that RUCO removed \$1,080 from plant account 354 that is associated with Liberty Gold Canyon, but the

1 Company's response to RUCO data request 6.03 only shows \$720 to be
2 reclassified to Liberty Gold Canyon.

3 The \$3,572 difference for plant account 380 – Treatment and Disposal
4 Equipment is related to a filter media invoice totaling \$7,142.78. RUCO only
5 removed one-half of the invoice amount because RUCO believes that half-of the
6 remaining life of the media remains.¹⁹ The Company doesn't necessarily disagree
7 with RUCO's position, but the Company has agreed with Staff to remove the full
8 invoice amount.

9 Finally, the \$640 difference for plant account 396 – Communication
10 Equipment appears to be due to an error. The RUCO work papers show a 2011
11 adjustment for \$639.52, but there is no such adjustment appearing in the
12 Company's response to RUCO data request 6.03 for 2011.

13 **C. Accumulated Depreciation (A/D).**

14 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
15 **REBUTTAL ADJUSTMENTS TO A/D AND IDENTIFY ANY**
16 **ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?**

17 **A.** Rebuttal B-2 adjustment 2, as summarized on Rebuttal Schedule B-2, page 2,
18 consists of six adjustments labeled as "A," "B," "C," "D," "E," and "F" on
19 Rebuttal Schedule B-2, page 4.

20 Adjustment A increases A/D to correct a formula error in the Company
21 initial filing plant reconstruction schedule. As will be discussed, both Staff and
22 RUCO recommend adjustments to A/D include a correction of the error.

23 Adjustment B increases A/D for changes to plant related the reclassification
24 and the removal of not used and useful PIS (Adjustment 1-A) discussed previously.

25
26 ¹⁹ Coley Dt. at 20.

1 As will be discussed further below, both Staff and RUCO recommend similar
2 adjustments based upon their respective recommendations for reclassification and
3 removal of not used and useful PIS.

4 Adjustment C reduces A/D related to the removal of AFUDC from PIS
5 discussed previously (Adjustment 1-B).

6 Adjustment D reduces A/D related to the plant addition correction discussed
7 previously (Adjustment 1-C).

8 Adjustment E reflects additional A/D related to the additional corporate
9 plant discussed previously (Adjustment 1-D).

10 Adjustment F reflects the reconciliation of A/D to the reconstructed A/D
11 shown on Schedule B-2, pages 3.6 to 3.13.

12 **Q. PLEASE SUMMARIZE THE RECOMMENDED A/D BALANCES OF THE**
13 **PARTIES AND THE DIFFERENCES.**

14 A. The Company recommends an A/D balance of \$8,785,220.²⁰ Staff recommends an
15 A/D balance of \$8,747,014,²¹ a difference of \$38,206 compared to the Company's
16 recommended balance. RUCO recommends a PIS balance of \$8,759,927,²²
17 a difference of \$25,293 compared to the Company's recommended balance.

18 **Q. WHAT ARE THE REASONS FOR THE DIFFERENCES IN THE**
19 **RECOMMENDED A/D BALANCES BETWEEN THE COMPANY AND**
20 **STAFF AND RUCO?**

21 A. The parties' respective A/D adjustments reflect each of the parties' recommended
22 adjustment to the PIS balances. The major cause of the difference between the
23 Company's recommended A/D balance and the other parties is that the Company's

24 ²⁰ See Rebuttal Schedule B-2, page 1.

25 ²¹ See Staff Direct Schedule CSB-3.

26 ²² See RUCO Direct Schedule TJC-2.

1 A/D balance includes \$30,594 of A/D related to allocated corporate plant.
2 I discussed earlier that Staff and RUCO exclude allocated corporate plant in PIS
3 and, therefore, the related A/D is also excluded. Other minor differences arise
4 from the fact that the parties reclassify plant differently, particularly Staff, and
5 those differences result from different depreciation rates being applied to the
6 reclassified amounts. Additionally, RUCO's adjustments to PIS do not include the
7 plant addition correction for 2011 of \$(29,760) discussed earlier, which, if adopted
8 by RUCO, would eliminate \$6,947 of the difference between the Company and
9 RUCO.

10 **Q. PLEASE RESPOND TO MR. COLEY'S DISCUSSION ON PAGES 16 AND**
11 **17 OF HIS REBUTTAL TESTIMONY ABOUT SYSTEMATIC AND**
12 **RATIONAL DEPRECIATION.**

13 A. Candidly, Mr. Coley's discussion is much ado about nothing. I spoke with
14 Mr. Coley several months ago when he called me about what he thought was a
15 formulaic error for computing depreciation from July 2008 to December 2008 in
16 the Company's B-2 plant schedule. He identified the error and I agreed that it was
17 computing depreciation incorrectly. I corrected the error, while on the phone, and
18 we examined each plant account's computation until he was satisfied with the
19 results. I then sent Mr. Coley the revised work paper. I did not hear from him
20 again until his direct testimony claiming the Company's depreciation was
21 irrational.²³

22 I just don't get it. I informed Mr. Coley that the Company would correct the
23 A/D balance in its rebuttal filing and that if RUCO proposed a correction in its
24 direct testimony there would be no dispute. This was a formulaic error that was

25 ²³ I subsequently sent Staff the same revised work paper, which appears to be incorporated
26 into Staff's work papers.

1 readily corrected. It had nothing to do with the Company's or my inability to track
2 plant or calculate depreciation. In other words, it was not a systematic or process
3 issue. So I am perplexed that Mr. Coley spent so much time discussing the subject
4 of "systematic and rationale depreciation" given our previous conversation(s) and
5 agreement on this being a mere formula error. I can only conclude that this part of
6 his testimony, like his assertion that the Company "scratched and clawed" to come
7 up with this rate increase, was intended to put the Company in a bad light in this
8 rate case. Rather than address the case on its own merits, which are unique and
9 complex, including, among other things, the issues surrounding an order that a
10 utility remove used and useful plant at the cost of millions of dollars, and
11 developing a new rate design reliant on billing information from a municipality,
12 RUCO pretends that this is a normal, simple case and its testimony reflects that
13 unfounded pretense.

14 **D. Contributions-in-Aid of Construction (CIAC) and Accumulated**
15 **Amortization (AA).**

16 **Q. PLEASE DISCUSS THE COMPANY'S PROPOSED REBUTTAL**
17 **ADJUSTMENTS TO CIAC AND IDENTIFY ANY ADJUSTMENTS YOU**
18 **HAVE ACCEPTED FROM STAFF AND/OR RUCO?**

19 **A.** In rebuttal B-2 adjustment 3, as shown on Schedule B-2, page 2, the Company
20 adopted RUCO's proposed adjustments to CIAC that has resulted in an increase to
21 CIAC of \$983,517.²⁴ The increase to CIAC is primarily the result of reclassifying
22 expired AIAC to CIAC. Both the Company and RUCO recommend a CIA balance
23 of \$6,445,253.

24
25
26 ²⁴ See RUCO Direct Schedule TJC-6.

1 **Q. PLEASE DISCUSS THE STAFF RECOMMENDED CIAC BALANCE.**

2 A. Staff recommends a CIAC balance of \$7,036,330 – \$591,077 higher than the
3 Company’s recommended balance. Staff’s recommended balance is higher for two
4 reasons. First, Staff erroneously reclassifies an accounting error in the AIAC
5 balance from the original filing of \$239,786 to CIAC asserting this amount is
6 unsupported AIAC. But, the amount was never AIAC to begin with so it can’t then
7 become CIAC. Second, Staff reclassifies \$351,292 of unexpired AIAC to CIAC.²⁵
8 The Company disagrees with Staff on the reclassification of unexpired AIAC, as
9 AIAC does not become CIAC until the contract expires. Further, the Staff
10 adjustment is partly based upon estimates of post-test year refunds that are not
11 known and measurable at this time because the refunds have not been made, and
12 won’t be made until August 2016.

13 **Q. PLEASE COMMENT ON MR. COLEY’S TESTIMONY ON PAGE 38**
14 **THAT LINE EXTENSION AGREEMENTS MUST BE EXPIRED AFTER**
15 **FIVE YEARS PER A.A.C. 14-2-606.**

16 A. Mr. Coley has ignored the fact that the Company has a tariff authorizing ten-year
17 refund periods.²⁶

18 **Q. THANK YOU. WHAT ABOUT ACCUMULATED AMORTIZATION (AA)?**

19 A. Also in rebuttal B-2 adjustment 3, as shown on Schedule B-2, page 2, the Company
20 increases AA by \$93,143 to reflect the additional amortization on the AIAC
21 transferred to CIAC as discussed previously. The Company recommends an AA
22 balance of \$5,333,859.²⁷

23
24 ²⁵ Includes \$244,639 for Studios at Carefree, \$115,668 for Carefree Ironwood Estates, and
less estimated 2015 refunds of \$9,015.

25 ²⁶ See Rebuttal Testimony of Matthew Garlick (“Garlick Rb.”) at 20.

26 ²⁷ See Rebuttal Schedule B-2, page 2.

1 **Q. HOW DOES THE COMPANY'S RECOMMENDED AA BALANCE**
2 **COMPARE TO STAFF'S?**

3 A. Staff recommends an AA balance of \$5,271,848, which is lower than the
4 Company's recommendation by \$62,011. As noted, Staff's recommended balance
5 is misstated because Staff transfers \$239,786 for erroneously recorded AIAC to
6 CIAC. Staff's recommended balance also includes amortization of unexpired
7 AIAC that Staff transfers to CIAC. I have previously discussed why the Company
8 does not agree with Staff on this matter.

9 **Q. ARE THERE ANY OTHER ISSUES WITH THE STAFF RECOMMENDED**
10 **AA BALANCE?**

11 A. Yes. First, Staff treats its transfers from AIAC to CIAC as if occurring entirely in
12 2014, when in fact some of the contracts expired in 2009 and 2012. Had Staff
13 properly accounted for the year of AIAC expiration, Staff's computed AA balance
14 would be higher. Further, Staff computes a half-year of amortization in the year
15 Staff transfers AIAC to CIAC.²⁸ This is wrong. The composite depreciation rate is
16 already computed using the half-year convention, so Staff is understating the
17 computed amortization.

18 **Q. WHAT ABOUT RUCO'S RECOMMEND AA BALANCE?**

19 A. RUCO recommends an AA balance of \$5,616,555, which is higher than the
20 Company's recommendation by \$282,696. The difference in recommended
21 balances is largely due to the fact that RUCO computes amortization on fully
22 amortized CIAC in its reconstruction of the AA balance.

23 **Q. DOESN'T RUCO SAY THERE IS NO FULLY AMORTIZED CIAC?**

24 A. That is what RUCO asserts. But, in making its assertion RUCO follows a group
25

26 ²⁸ See Staff Direct Schedule CSB-9.

1 procedure when accounting for CIAC,²⁹ despite the fact that RUCO uses a vintage
2 group procedure for plant depreciation accounting from the prior test year end to
3 the current test year end to reconstruct its A/D balance.³⁰ RUCO's approach to
4 accounting for CIAC is inconsistent with its approach to accounting for plant
5 depreciation and should be rejected.

6 **Q. WHAT ABOUT RUCO'S ARGUMENT THAT THE LXA DATE**
7 **ESTABLISHES THE VINTAGE YEAR NOT THE LXA EXPIRATION**
8 **DATE?**

9 A. First, it doesn't really matter what you define as the vintage group as long as each
10 vintage group is accounted for separately, which RUCO does not do. It makes the
11 most sense to use the year of expiration because AIAC only becomes CIAC and
12 begins to be amortized when the LXA agreement expires; similar to plant, which
13 does not begin to depreciate until it is placed into service. Second, this is entirely
14 consistent with the ratemaking framework.

15 **Q. PLEASE EXPLAIN.**

16 A. From the time the LXA is originally signed and recorded and up until expiration,
17 the Company records depreciation on the plant and the Company makes refunds on
18 the LXA.³¹ Both the net plant balance and the AIAC net balance decrease
19 annually. For ratemaking, utilities are allowed depreciation expense in rates during
20 this time because the depreciation provides the cash flows to make AIAC refunds.
21 Upon expiration of the LXA, the remaining AIAC balance is transferred to CIAC.
22 Refunds cease and from that point forward, the transferred CIAC balance is
23

24 ²⁹ Coley Dt. at 41.

25 ³⁰ Coley Dt. at 14 – 15.

26 ³¹ We don't track vintage groups for AIAC because AIAC is not depreciated or amortized,
rather AIAC is refunded according to the terms of the agreement.

1 amortized and the Company continues to record depreciation on the plant. Ideally,
2 the net plant balance at the time of transfer is approximately equal to the
3 transferred CIAC balance. Going forward, the annual depreciation expense is
4 offset by the CIAC amortization, eliminating the recovery of depreciation expense
5 in rates. And, similar to when the LXA is being refunded, going forward both the
6 net plant balance and the CIAC net balance decrease until they reach zero.

7 RUCO often argues that when plant is fully depreciated, depreciation should
8 cease otherwise the Company over recovers. Then, in a similar manner, when
9 CIAC is fully amortized, the amortization should also cease; otherwise, the
10 Company will under recover depreciation expense. Ratepayers get a windfall from
11 understated depreciation expense. The Company's recommended treatment of
12 fully amortized CIAC is the only approach that does not result in a mismatch
13 between plant and CIAC.

14 **E. Advances-in-Aid of Construction (AIAC).**

15 **Q. PLEASE DISCUSS THE COMPANY'S PROPOSED REBUTTAL**
16 **ADJUSTMENTS TO AIAC AND IDENTIFY ANY ADJUSTMENTS YOU**
17 **HAVE ACCEPTED FROM STAFF AND/OR RUCO.**

18 A. In rebuttal B-2 adjustment 3, as shown on Schedule B-2, page 2, the Company
19 reduces AIAC by \$1,223,173 to reflect the additional amortization on the AIAC
20 transferred to CIAC as discussed previously. The Company recommends an AIAC
21 balance of \$520,739.³²

22 **Q. PLEASE DISCUSS THE STAFF RECOMMENDED AIAC BALANCE.**

23 A. Staff recommends an AIAC balance of \$169,328 – \$351,411 lower than the
24 Company's recommended balance. The Staff recommend balance is lower because
25

26 ³² See Rebuttal Schedule B-2, page 2.

1 Staff transfers unexpired AIAC to CIAC. The Company disagrees with the transfer
2 of unexpired AIAC to CIAC because, as I have explained already, AIAC does not
3 become CIAC until the contract expires.

4 **Q. PLEASE DISCUSS THE RUCO RECOMMENDED AIAC BALANCE.**

5 A. RUCO recommends an AIAC balance of \$614,739 – \$94,000 higher than the
6 Company’s recommended balance. The \$94,000 difference is AIAC that is
7 funding CWIP or is still cash. The Company does not believe that this AIAC
8 should be included in rate base until the plant that it is intended to fund is also in
9 rate base. RUCO’s recommended AIAC balance is based on a mismatch.

10 **F. Accumulated Deferred Income Taxes (ADIT).**

11 **Q. PLEASE DISCUSS THE COMPANY’S PROPOSED REBUTTAL**
12 **ADJUSTMENTS TO ADIT AND IDENTIFY ANY ADJUSTMENTS YOU**
13 **HAVE ACCEPTED FROM STAFF AND/OR RUCO.**

14 A. In rebuttal B-2 adjustment 4, as shown on Schedule B-2, page 2, the Company
15 increases ADIT by \$182,942 to reflect the Company’s rebuttal recommendations
16 for PIS, A/D, CIAC, and AIAC. The Company also updated the tax basis
17 information to the finalized 2014 tax returns. The Company recommends an ADIT
18 balance of \$258,059.³³

19 **Q. PLEASE DISCUSS THE STAFF RECOMMENDED ADIT BALANCE.**

20 A. Staff recommends an ADIT balance of \$212,375 – \$45,684 lower than the
21 Company’s recommended balance. The Staff recommended balance is based upon
22 the Staff recommended PIS, A/D, AIAC and CIAC balances. However, Staff also
23 artificially reduces the state tax basis in plant to equal the federal tax basis in plant,
24 which results in an overstatement of the ADIT balance. When corrected, Staff’s

25
26 ³³ See Rebuttal Schedule B-2, page 2.

1 ADIT balance should be \$158,714, \$53,661 lower than Staff recommended ADIT
2 balance.

3 **Q. WHY DOES STAFF FORCE THE STATE TAX BASIS TO EQUAL THE**
4 **FEDERAL TAX BASIS?**

5 A. I am not quite sure. Ms. Brown states that Staff believes there could be corporate
6 tax items from the consolidated return of APUC in the Company's state ADIT
7 computation and that the Company's ADIT computation did not include a state
8 component.³⁴

9 **Q. DO YOU AGREE?**

10 A. No. Let's take Staff's first assertion that the state ADIT computation includes
11 APUC corporate tax items. This is false. Staff was provided a separate tax
12 depreciation schedule for Liberty Black Mountain that served as the basis of
13 Liberty Black Mountain's portion of the consolidated return. Nowhere in the state
14 tax schedule are APUC corporate plant items shown. I have used the same ADIT
15 construction in the instant case as I have for other companies, including Liberty
16 Utilities, and this is the first time I have heard this argument from Staff.³⁵

17 With respect to whether the Company separately stated the state tax
18 component in the ADIT computation in the prior case, it is true. However, that
19 does not mean that a state ADIT component cannot be computed separately from
20 the federal ADIT component. Again, I have used the same ADIT construction in
21 the instant case as in other Liberty Utilities companies rate cases since the last
22 Black Mountain rate case and I have never before heard this argument from Staff.

23
24 ³⁴ Brown Dt. at 27.

25 ³⁵ See *Liberty Utilities (Rio Rico Water & Sewer) Corp.*, Docket No. WS-02676A-12-
26 0196; *Liberty Litchfield Park*, Docket Nos. SW-01428A-13-0042 and W-01427A-13-0043
(consolidated); *Lago Del Oro Water Company*, Docket No. W-01944A-13-0215; *Quail
Creek Water Company, Inc.*, Docket No. W-02514A-14-0343.

1 Rather than identifying specific APUC corporate items in the tax schedule or
2 identifying any other specific items that need to be taken out of the ADIT
3 computation, Ms. Brown simply makes up a number and adjusts the state tax basis
4 to equal to federal tax basis. Bottom line, both of Staff's "excuses" for forcing the
5 state tax basis to equal the federal tax basis are red herrings and should be rejected.

6 **Q. WHY IS THERE A SEPARATE STATE TAX BASIS COMPONENT IN**
7 **YOUR COMPUTATION OF ADIT?**

8 A. Because the federal tax basis in plant is different than the state tax basis,
9 particularly because bonus depreciation has been allowed in the past few years
10 (2008-2012) for federal tax purposes, but not allowed for state tax purposes.

11 **Q. IS IT POSSIBLE FOR THE NET STATE TAX BASIS TO EXCEED THE**
12 **NET BOOK BASIS IN PLANT?**

13 A. Yes. Depending on the book and tax depreciation rates, it is possible that the net
14 state tax basis could exceed the net books basis. In the instant case, the tax
15 depreciation rates on a composite basis are less than the book depreciation rates on
16 a composite basis. What this means is that the useful lives used for depreciating
17 plant on the tax return are on average less than the book useful lives used for
18 computing depreciation for book purposes. It is certainly not due to "excess
19 depreciation" as Staff asserts.³⁶

20 **Q. IS THERE DOCUMENTATION SHOWING THAT THE BOOK PLANT**
21 **HAS BEEN DEPRECIATING FASTER THAN THE TAX PLANT?**

22 A. Yes, despite Mr. Brown's claim.³⁷ All one needs to determine that fact is to look at
23 the federal and state tax depreciation schedules which show that most plant has
24 been depreciating at a 4 percent (25 year life) and compare that to the historical

25 ³⁶ Brown Dt. at 26 – 27.

26 ³⁷ Brown Dt. at 25.

1 book composite depreciation rates which have been averaging about 4.6 percent.

2 **Q. IS THERE 1986 TO 1996 CIAC FUNDED PLANT IN THE ADIT**
3 **CALCULATION?**

4 A. Yes. However, to account for this one would adjust both the book basis and the tax
5 basis for this plant and because this plant is now fully depreciated for tax and fully
6 depreciated for book, the end result would be the same.

7 **Q. WHAT ABOUT RUCO'S ADIT RECOMMENDATION?**

8 A. RUCO recommends an ADIT balance of \$452,937, \$45,684 higher than the
9 Company's recommended balance. Unfortunately, RUCO's ADIT balance is
10 vastly overstated because RUCO's ADIT balance is not based upon all of RUCO's
11 recommended PIS, A/D, AIAC and CIAC balances. Specifically, upon
12 examination of RUCO's work papers, I found that RUCO did not include its
13 recommended CIAC and AA balances in the computation of ADIT. After
14 correcting for this error, the RUCO ADIT balance should be \$274,609, which is
15 \$178,328 lower than its \$452,937 recommendation. This correction has a
16 significant impact on RUCO's rate base and rates.

17 **G. Cash Working Capital (CWC).**

18 **Q. PLEASE DISCUSS THE COMPANY'S PROPOSED REBUTTAL**
19 **ADJUSTMENTS TO CWC AND IDENTIFY ANY ADJUSTMENTS YOU**
20 **HAVE ACCEPTED FROM STAFF AND/OR RUCO.**

21 A. In rebuttal B-2 adjustment 5, as shown on Schedule B-2, page 2, the Company
22 decreases CWC by \$(49,592) to reflect the Company's rebuttal recommendations
23 for revenues and expenses and changes to the computation. The Company
24 recommends a CWC balance of \$(110,186).³⁸

25
26 ³⁸ See Rebuttal Schedule B-2, page 2.

1 **Q. WHAT CHANGES HAVE YOU MADE?**

2 A. Three changes. First, the revenue days have been increased from 0.56 days to 2.13
3 days to reflect the fact the under the proposed rate design for commercial
4 customers, the revenues will now be collected in arrears. Second, synchronized
5 interest expense has been added to the computation. Third, the Company has
6 removed rate case expense from the computation. Both Staff and RUCO include
7 interest expense and exclude rate case expense in their computations.

8 **Q. PLEASE DISCUSS STAFF'S AND RUCO'S RECOMMENDED CWC**
9 **BALANCE.**

10 A. Staff recommends a CWC balance of \$(137,370) – \$27,184 lower than the
11 Company's recommended balance. RUCO recommends a CWC balance of
12 \$(138,692) – \$28,510 lower than the Company's recommended balance. Staff's
13 and RUCO's recommended CWC balances reflect its respective recommended
14 revenues and expenses, as well as the exclusion of rate case expense, which the
15 Company now accepts.

16 **H. Remaining Rate Base Items in Dispute.**

17 **1. Regulatory Liability for Scottsdale Capacity.**

18 **Q. RUCO PROPOSES A REGULATORY LIABILITY OF \$51,451 RELATED**
19 **TO THE SCOTTSDALE TREATMENT CAPACITY FOR ALLEGED**
20 **OVER COLLECTION. PLEASE COMMENT.**

21 A. This recommendation by RUCO is simply outrageous. After multiple bites at this
22 apple, RUCO wants another bite by recommending regulatory liability for alleged
23 profit charged to ratepayers over and above actual cost.³⁹ The Company has
24 included in rates the amounts authorized by the Commission in each of the
25 Company's prior decisions. There is no excess profit.

26 ³⁹ Coley Dt. at 28.

1 Q. MR. BOURASSA, CAN YOU PLEASE PROVIDE SOME BACKGROUND
2 ON THIS ISSUE?

3 A. Yes. The Company has an agreement with the City of Scottsdale that allows it to
4 send wastewater flows to Scottsdale for treatment and disposal (“Scottsdale
5 Capacity”). The Company pays Scottsdale monthly for the use of this capacity
6 according to the parties’ written agreement,⁴⁰ and this amount is included in
7 purchased wastewater treatment expense. The purchased wastewater treatment
8 costs are separate from this discussion. In contrast, payments for capacity are
9 made in lump sums, not monthly or annually. Under the approach adopted by the
10 Commission in the Company’s past rate cases, the debt service on the debt used to
11 fund the acquisition of the Scottsdale Capacity is treated as an operating lease and
12 included in operating expenses as a lease expense.⁴¹ While the loans are not leases
13 (capital or operating), this was the regulatory treatment directed by the
14 Commission. There was no rate base treatment associated with the Scottsdale
15 Capacity loans under the approach ordered by the Commission.

16 RUCO challenged this ratemaking treatment in the 2005 rate case (Docket
17 No. SW-02361A-05-0657), claiming the rate making treatment for the loan
18 payments as a lease expense was not justified and sought to rate base the remaining
19 balance of the loans and treat the debt as part of the cost of capital. However, the
20 Commission correctly rejected RUCO’s challenge in Decision 69164 (December 5,
21 2006), noting in its order:

22
23
24 ⁴⁰ Mr. Garlick discusses the status of the amended capacity agreement between the
25 Company and the City of Scottsdale in his rebuttal testimony. Garlick Rb. at 12 – 13.

26 ⁴¹ See *Boulders Carefree Sewer Corporation*, Decision No. 59944 (December 26, 1996);
Boulders Carefree Sewer Corporation, Decision No. 60240 (June 12, 1997).

1 As Mr. Bourassa points out, if rate base treatment of the
2 Scottsdale [C]apacity costs had been approved in the
3 Company's prior rate case, the revenue requirement would
4 have included a return on and of the capacity costs, thereby
5 resulting in significantly higher rates in the interim period
6 since the last case. In this case, RUCO's proposal to accord
7 rate base treatment to the capacity rights would result in a
8 reduction to the Company's revenue requirement because the
9 original cost of the Scottsdale capacity has been amortized.
10 To switch ratemaking treatment after more than a decade,
11 would be arbitrary and inherently unfair to the Company.
12 We therefore reject RUCO's position on this issue.⁴²

13 In the most recent rate case (Decision 71865 dated September 1, 2010), the
14 loan payments were again included in operating expenses.⁴³ So, in all of the prior
15 rate cases, the lease expense included in operating expenses was computed
16 according to the formulation set forth in the Company's Application, Schedule C-2,
17 page 6.

18 Now, RUCO again seeks to challenge what the Commission in multiple rate
19 cases previously approved by making up a so-called over collection of interest
20 (profit) on the loans. However, in each prior rate case, the Commission approved
21 the computation of the lease expense included in operating expenses. In other
22 words, the Commission approved the amount the Company was authorized to
23 include in operating expenses. Therefore, there is no basis to include a regulatory
24 liability in rate base on the grounds that the Company's actual interest expense
25 component of the debt payment was more or less than was authorized in each of
26 last four rate cases. RUCO's proposal is simply another attempt to artificially
reduce the Company's rates. The Company has done as directed by the
Commission and the Commission should again reject RUCO's collateral attack.

⁴² *Liberty Black Mountain (formerly Black Mountain Sewer Corporation)*, Decision No. 69164, at 8:25 – 9:4.

⁴³ See Application (filed December 19, 2008 in Docket No. SW-02361A-08-0609), Company Direct Schedule C-2, page 4.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

2. Depreciation Study and Plant Inventory.

Q. STAFF RECOMMENDS THE COMPANY PERIODICALLY PREPARE A DEPRECIATION STUDY. PLEASE COMMENT.

A. I do not disagree with Staff that indicated depreciation rates from a depreciation study might be more accurate.⁴⁴ But depreciation studies are very expensive.⁴⁵ Very few utilities prepare these studies, including many Class A and B utilities. Given the expense, which should ultimately be borne by the ratepayers, it has been my experience that the typical and customary depreciation rates recommended by the Staff Engineering section have been adopted by utilities in lieu of performing these expensive studies. In fact, the depreciation rates the Company uses are the same depreciation rates proposed by Staff in Liberty Black Mountain's past cases, and in the instant case.

In other words, Ms. Brown wants the Company to spend a lot of money on something about which there is no disagreement in this rate case – the depreciation rates. Given that Staff makes no provision for cost recovery, and the fact that both Staff and RUCO oppose the recovery of reasonable rate case expense, the Commission should not saddle the Company with an expense that is not warranted. All it will end up doing is forcing the Company to defend itself on yet another issue in a future rate case.

Q. WHAT ABOUT STAFF'S CLAIM THAT YOU CANNOT USE GROUP DEPRECIATION WITHOUT PERIODIC DEPRECIATION STUDIES?

A. Staff suggests that the group procedure for accounting for depreciation is not appropriate when companies do not do periodic depreciation studies because plant

⁴⁴ Brown Dt. at 14.

⁴⁵ Depreciation studies can cost upwards of \$100,000 or more.

1 could still be depreciated after it is already fully depreciated.⁴⁶ I do not agree with
2 Staff that the group method leads to fully depreciated plant being depreciated.

3 **Q. OKAY, BUT WHAT ABOUT MS. BROWN'S ARGUMENT THAT**
4 **INACCURATE DEPRECIATION RATES LEAD TO OVER OR UNDER**
5 **RECOVERY OF DEPRECIATION EXPENSE?**

6 A. If Staff's "typical and customary" rates, which we are using in this rate case and
7 which I have used in dozens of rate cases over the past 10-15 years, are too high or
8 too low, then Staff should conduct a depreciation study and quit recommending the
9 rates it currently recommends. I assume, however, that if Staff recommends the
10 same depreciation rates in virtually every rate case, and the Commission routinely
11 adopts those depreciations rates, then the Staff "typical and customary"
12 depreciation rates are neither too high nor too low. I would also note that in all
13 cases, the Company stops depreciating once the group is fully depreciated under
14 the group procedure, so there is no excess or over recovery, contrary to Staff's
15 assertion.⁴⁷

16 **Q. ISN'T THE COMPANY USING A VINTAGE GROUP PROCEDURE IN**
17 **THIS CASE?**

18 A. Yes. I discuss the Company's approach on page 34 of my direct testimony. I am
19 understandably confused about Staff's discussion about the broad group procedure
20 and using it as a reason for imposing a requirement that the Company perform
21 costly, periodic depreciation studies. Apparently, Ms. Brown believes the
22 Company is still using the broad group procedure.⁴⁸ The vintage group procedure
23 breaks plant down into smaller groups, which actually alleviates potential issues

24 ⁴⁶ Brown Dt. at 16.

25 ⁴⁷ Brown Dt. at 17 – 18.

26 ⁴⁸ Brown Dt. at 18.

1 surrounding the claims (real or imaginary) of fully depreciated plant being
2 depreciated. It can also more readily highlight potential issues about whether the
3 depreciate rates are too high or too low without having to do a costly depreciation
4 study. The bottom line is that this is much ado about nothing, much like RUCO's
5 "irrational" depreciation arguments. The costs of complying with Staff's
6 recommendation far outweigh any potential benefits.

7 **Q. STAFF IS ALSO RECOMMENDING THAT THE COMPANY CONDUCT**
8 **AN INVENTORY OF ITS PLANT. PLEASE COMMENT.**

9 A. Ms. Brown's recommendation that the Company performs a physical inventory
10 that identifies the location of its plant assets and to file a plan that explains how it
11 will update and periodically reconcile the inventory list to the general ledger is
12 unnecessary.⁴⁹ For starters, Ms. Brown's claim that the Company doesn't know
13 where its plant is located is simply false. The Company already has control
14 procedures in place to ensure the Company does not purchase or acquire physical
15 assets unless they are actually received or otherwise constructed, in place, at the
16 agreed upon cost, and provide services to customers. Purchased orders identify the
17 system to which the asset belongs, and accounting audit trails exist that can be used
18 to locate the physical location of the asset if needed. The Company also has a
19 retirement policy, which has been okay with Staff in the past, and this policy
20 ensures that when assets are replaced a retirement is recorded and the plant
21 removed from the books.⁵⁰ Further, the already existing system master plan is
22 already updated periodically and shows the major components of the system.

23
24 ⁴⁹ Brown Dt. at 37.

25 ⁵⁰ See *Liberty Utilities (Bella Vista Water) Corp. (formerly Bella Vista Water Co., Inc.),*
26 *et al.*, Docket Nos. W-02465A-09-0411, W-20453A-09-0412, and W-20454A-09-0413
(consolidated), Decision No. 72251 (April 7, 2011) at 12:16 – 13:12. Liberty Black
Mountain is unaware of any opposition by Staff since Decision No. 72251.

1 A great deal of plant is underground and the only easy way to verify these assets
2 exist during a physical audit is to examine the system master plan.

3 Perhaps all of these reasons explain why Ms. Brown, who did not do any
4 on-site plant inspections, is making this recommendation when Staff's engineer
5 mentioned nothing about a concern locating plant. Mr. Garlick further addresses
6 this issue in his rebuttal testimony.⁵¹

7 **Q. BUT DOESN'T STAFF FINDING SOME PLANT COSTS IN THIS CASE**
8 **THAT NEEDED TO BE REMOVED FROM PIS SUPPORT'S**
9 **MS. BROWN'S RECOMMENDATION?**

10 A. No. A physical inventory would not necessarily have prevented those errors.
11 Human error and misjudgments can and will occur no matter how robust the
12 accounting controls. The objective is to minimize those errors, and correct them
13 when discovered, which in my view the Company's system of controls does. In the
14 instant case, the materiality of those adjustments (less than \$12,000) is extremely
15 small amounting to less than a few hundredths of a percent of the total plant costs.
16 That's an outstanding result, and such a small error rate should not cause the
17 slightest amount of concern to an auditor.

18 **IV. REVENUES AND EXPENSES.**

19 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
20 **ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY**
21 **ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO.**

22 A. The Company's rebuttal adjustments to revenues and/or expenses are detailed on
23 Rebuttal Schedule C-2, pages 1-9. The rebuttal income statement with adjustments
24 is summarized on Rebuttal Schedule C-1, pages 1 and 2.

25
26 ⁵¹ Garlick Rb. at 21.

1 Rebuttal adjustment 1 reduces the proposed annualized depreciation and
2 amortization expense by \$14,484 to \$469,787 based on the Company's proposed
3 rebuttal PIS and CIAC balances. The Staff's recommended depreciation and
4 amortization expense level of \$386,040 is lower than the Company's by \$83,347.

5 **Q. WHY IS STAFF'S RECOMMENDED DEPRECIATION AND**
6 **AMORTIZATION EXPENSE LOWER THAN THE COMPANY'S?**

7 A. Besides the differences in the parties' respective plant balances, there are two key
8 reasons why Staff's recommended depreciation expense is lower. First, Ms. Brown
9 has added approximately \$1,215,000 more fully depreciated plant to her
10 calculation. Specifically, she added \$1,073,782 to fully depreciated plant for
11 account 354 – Structures and Improvements, and \$151,507 to fully depreciated
12 plant for account 363 – Services to Customers. The addition of more fully
13 depreciated plant to the depreciation computation reduces the depreciation expense
14 by approximately \$39,000.

15 Second, Staff's amortizable CIAC balance is \$591,077 higher than the
16 Company's due to errors, and due to the transfer of unexpired AIAC to CIAC as
17 discussed earlier on pages 18 through 22. The additional amortizable CIAC
18 reduces depreciation expense by approximately \$35,000.

19 The remaining difference between the Company and Staff is mostly due to
20 Staff's exclusion of allocated corporate plant. I have discussed the reasons why the
21 Company disagrees with Staff regarding its exclusion of corporate plant previously
22 on pages 7 through 10.

23 **Q. IS THERE ANY ADDITIONAL FULLY DEPRECIATED PLANT?**

24 A. No. I will explain, but first a little background. In prior cases, the Company used
25 the group procedure for depreciation accounting, and in all cases the approved
26 balances for A/D were based upon this procedure. In the instant case, the

1 Company used a vintage group procedure from the last test year forward to the end
2 of the current test year. To switch from group to vintage and not violate the prior
3 Commission order, the Company started with prior Commission approved plant
4 and A/D treating the balances by plant as a vintage group (balances ending June
5 20, 2008), and for each year thereafter, treated each year's plant additions and
6 computed depreciation by each plant account as a separate vintage group.

7 This was done to try to eliminate disputes with Staff concerning
8 depreciation, which disputes in the past have proven to be costly and time
9 consuming. In recent cases, Staff has challenged the group procedure, regularly
10 asserting that there was fully depreciated plant and that using the vintage group
11 procedure to support its case.⁵² However, the Commission found the group
12 procedure as acceptable and rejected Staff's position in those cases.⁵³ That said,
13 based upon the Company's plant and A/D reconstruction, there was only \$769,072
14 of fully depreciated vintage groups.⁵⁴

15 The Company thought that transitioning to a vintage group method would
16 help to eliminate disputes over A/D and depreciation between the Company and
17 Staff. The disputes about depreciation accounting have been very contentious in
18 several recent cases, mainly centered on the group method vs. the vintage group
19 method.⁵⁵ By using this case to transition to Staff's preferred method, we thought
20 we would eliminate disputes over depreciation accounting methods. As the saying
21

22
23 ⁵² See, e.g., *Lago Del Oro Water Company*, Decision No. 74564 (June 20, 2014); *Quail
Creek Water Company, Inc.*, Decision No. 75306 (October 27, 2015).

24 ⁵³ See *id.*

25 ⁵⁴ See Rebuttal Schedule C-2, page 2. Excluding Land which in non-depreciable, the fully
depreciated plant is \$769,072 (\$1,241,595 less \$472,524).

26 ⁵⁵ See, e.g., Decision No. 74564; Decision No. 75306.

1 goes, "No good deed goes unpunished." But then, that is pretty much the theme of
2 the Company's rebuttal position in this rate case.

3 **Q. CAN YOU EXPLAIN THAT LAST BIT OF TESTIMONY,**
4 **MR. BOURASSA?**

5 A. I think the Company's witnesses have testified very well on this issue and I will
6 reference their rebuttal testimony here.⁵⁶ I will generally try to focus on the
7 specifics of Staff and RUCO's recommendations in this rate case. On the broader
8 issue, I would simply state that this rate case is about things (plant closure and new
9 rate design) that the customers and the Commission wanted from Liberty Black
10 Mountain, not anything Liberty Black Mountain has done or failed to do. Liberty
11 Black Mountain is trying to accomplish some extraordinary things for its
12 customers, at great difficulty, expense and risk. In response, Staff and RUCO
13 essentially seek to punish Liberty Black Mountain for coming in for a rate case to
14 address these unusual issues that the customers and the Commission want
15 addressed. One need look no further than the 8.6 percent and 8.95 percent equity
16 return recommendations to see my point. Frankly, I have been doing cases before
17 the Commission for 20 years and I have never seen recommendations by Staff or
18 RUCO that miss the mark more than their approaches in this case.

19 **Q. THANK YOU, MR. BOURASSA. LET'S CONTINUE ADDRESSING THE**
20 **DEPRECIATION ISSUE WITH STAFF. HOW DID STAFF DETERMINE**
21 **THAT THERE WAS ANOTHER \$1.215 MILLION OF ADDITIONAL**
22 **FULLY DEPRECIATED PLANT?**

23 A. Ms. Brown went back and reopened the 2005 rate case (Decision No. 69164 using
24 a 2004 test year) and fabricated new 2004 and prior year vintage groups, and then

25 _____
26 ⁵⁶ *E.g.*, Rebuttal Testimony of Greg Sorensen ("Sorensen Rb.") at 1 – 3; Garlick Rb. at 2,
19.

1 rolled the A/D depreciation forward to see if the vintage groups would be fully
2 depreciated by the end of the current test year.⁵⁷ For two of the plant accounts
3 Staff looked at, the 2004 vintage group became fully depreciated at some point
4 before the end of the current test year.

5 **Q. ASSUMING THAT YOU HAD ROLLED FORWARD THE PLANT FROM**
6 **THE 2004 TEST YEAR, AND NOT THE 2008 TEST YEAR, WOULD THE**
7 **A/D BALANCE HAVE BEEN LOWER THAN YOUR RECOMMENDED**
8 **A/D BALANCE?**

9 A. Yes. Following the vintage group procedure, the 2004 vintage group would have
10 stopped depreciating when it was fully depreciated. A/D would have been lower
11 and rate base higher than the Company recommended in its initial filing.

12 **Q. DID STAFF PROPOSE AN ADJUSTMENT TO LOWER THE A/D**
13 **BALANCE?**

14 A. No. If we assume that the Staff approach is valid, which it is not, then Staff should
15 have recommended a lower A/D and higher rate base as a result.

16 **Q. HAVE YOU SEEN THIS APPROACH BEFORE, WHICH GOES BACK TO**
17 **THE A/D BALANCES IN THE RATE CASE BEFORE THE LAST RATE**
18 **CASE AND ROLLS FORWARD THE A/D BALANCE?**

19 A. No. Nor should it be allowed now. The group procedure was used to set the PIS
20 and A/D balances in the prior case. If the Commission chooses to transition to
21 using vintage group instead of the group method, it should do so on a going
22 forward basis from the last rate case. Staff is going back and pretending the
23 Commission used the vintage method in the rate case prior to the last one. I am not
24

25
26 ⁵⁷ Brown Dt. at 35.

1 a lawyer, but I have been in a lot of rate cases and, to me, it sounds like either
2 retroactive ratemaking and/or a collateral attack on the prior order.

3 **Q. DOES STAFF DISPUTE THAT THE GROUP PROCEDURE WAS USED**
4 **TO SET THE PLANT AND A/D BALANCE IN THE PRIOR CASE?**

5 A. No.⁵⁸

6 **Q. WHAT ABOUT RUCO'S RECOMMENDED DEPRECIATION AND**
7 **AMORTIZATION EXPENSE?**

8 A. RUCO recommends depreciation and amortization expense of \$231,132. This is
9 lower than the Company's recommendation by \$238,655. There are three reasons
10 why RUCO's depreciation and amortization expense is lower. First, RUCO
11 includes fully amortized CIAC in its computation, which lowers its depreciation
12 and amortization expense by approximately \$206,000. I discussed the reasons why
13 the Company disagrees with RUCO regarding fully amortized CIAC previously on
14 pages 22 and 23. Second, RUCO includes amortization of its proposed regulatory
15 liability for the Scottsdale Capacity, which reduces depreciation expense by
16 another \$20,500. I discussed the reasons why the Company disagrees with RUCO
17 regarding its proposed regulatory liability previously on pages 29 and 30. Third,
18 the remaining difference is due to RUCO's exclusion of allocated corporate plant.
19 I have also already discussed the reasons why the Company disagrees with RUCO
20 regarding its exclusion of corporate plant previously on pages 7 through 10.

21 **Q. THANK YOU. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE**
22 **COMPANY'S PROPOSED REBUTTAL REVENUE AND/OR EXPENSE**
23 **ADJUSTMENTS.**

24 A. Rebuttal adjustment number 2 reflects property tax expense at the Company's
25

26 ⁵⁸ See Staff Response to Company Data Request 1.20.

1 rebuttal proposed revenue level.

2 **Q. ARE THE ANY DISPUTES BETWEEN THE PARTIES ON THE**
3 **METHODOLOGY FOR COMPUTING PROPERTY TAXES, THE**
4 **ASSESSMENT RATIO, OR THE PROPERTY TAX RATE?**

5 A. No.

6 **Q. PLEASE CONTINUE.**

7 A. Rebuttal adjustment number 3 is intentionally left blank. Normally, this
8 adjustment corresponds to the Company rate case expense request. However, the
9 Company continues to recommend that rate case expense be recovered via a
10 surcharge because the Company has to file again within three years of the time this
11 rate case will be decided.

12 **Q. WHY DOES THE TIMING OF THE NEXT FILING REQUIRE A**
13 **SURCHARGE, MR. BOURASSA?**

14 A. Because if the Commission allows Staff or RUCO to “normalize” rate case
15 expense, the Company will never recover all of its rate case expense. When the
16 new rate case is decided, there would be a new, normalized amount of rate case
17 expense and the amount the Company still had not recovered would essentially be
18 forfeited. Given that this complex, contentious, and costly case was brought at the
19 behest of the customers and the Commission, such a result is simply inequitable.
20 This is why the Company continues to recommend total rate case expense of
21 \$450,000 to be recovered over a 3-year period.

22 **Q. WHAT ARE THE SPECIFIC RECOMMENDATIONS OF STAFF AND**
23 **RUCO REGARDING RATE CASE EXPENSE?**

24 A. Staff recommends total rate case expense of \$250,000 amortized over 5 years or
25 \$50,000 annually.⁵⁹ RUCO recommends total rate case expense of \$100,000

26 ⁵⁹ Brown Dt. at 34.

1 amortized over 3 years or \$33,333 annually.⁶⁰ These recommendations are both
2 entirely inadequate.

3 **Q. WHY?**

4 A. First, both of the parties' respective recommendations of total rate case expense are
5 wholly inadequate given the unique circumstances of this rate case. As Mr.
6 Sorensen discusses in detail, Staff and RUCO have missed the point of this case,
7 and therefore do not seem to understand why the rate case expense is higher than
8 one might expect a simple rate case for a Class C utility to be.⁶¹ The Company
9 incurred more than RUCO would allow just getting this complex filing made. We
10 had to design a new commercial rate design, which was a significant effort, and the
11 Company had to explain its ongoing plant closure efforts and its need for recovery.
12 And now, with RUCO and Staff trying to lower the Company's rates as much as
13 possible, it will be close to incurring the amount of Staff's recommended rate case
14 expense by the time the Company completes rebuttal. In this light, the Company's
15 requested rate case expense, and the use of a surcharge to address the unusual and
16 difficult issues that underlie this case, are both extremely reasonable.

17 **Q. DON'T STAFF'S AND RUCO'S WITNESSES SAY THEIR**
18 **RECOMMENDATIONS ARE BASED ON PAST RATE CASES,**
19 **INCLUDING THE COMPANY'S PRIOR RATE CASE?**

20 A. Yes, further proving the Company's point that Staff and RUCO have missed the
21 whole point. First of all, the only utility RUCO specifically identifies other than
22 the Company is the EPCOR Water Arizona case (Decision No. 75268 (September
23 8, 2015)),⁶² wherein the utility received total rate case expense of \$325,000 spread

24 ⁶⁰ Coley Dt. at 49.

25 ⁶¹ See Sorensen Rb. at 14 – 15.

26 ⁶² Coley Dt. at 49:22 – 50:3.

1 out over 5 districts, or \$80,000 per district on average.

2 **Q. IS THE EPCOR CASE A REASONABLE COMPARISON?**

3 A. No, which may be why Mr. Coley doesn't do a very good job comparing the
4 specifics of the two cases or pointing out the obvious and material differences.
5 This makes his comparison suspect. First, EPCOR has its own fully staffed
6 regulatory department and only uses outside consultants for very specialized areas.
7 There are also economies of scale gained by filing several districts together helping
8 to reduce rate case expense. Further, I am not aware that the EPCOR case had the
9 same legal and ratemaking complexities of getting several opposing intervenors to
10 resolve major issues. I also do not know whether EPCOR incurred more than the
11 authorized expense and, if so, what reasons existed for it recovering less than it
12 actually incurred. I can think of no good reason for Liberty Black Mountain to
13 incur more rate case expense than it recovers in this rate case. Put bluntly,
14 RUCO's recommendation on rate case expense is one of the most ridiculous
15 positions in a rate case I can recall any party taking.

16 **Q. WHAT COMPARABLES DOES STAFF OFFER?**

17 A. Staff does not identify any comparable utility rate cases. So I really cannot
18 consider Staff's other so-called "comparables." Second, and more importantly, this
19 case is not comparable to any other rate case, and because Ms. Brown and Ms.
20 Coley clearly missed that fact, their entire effort to do comparisons was flawed
21 from the start. The simple fact is that the best indication of rate case expense in
22 this rate case is to look at this case itself. The way things are going, the Company
23 will incur at least as much as it has requested in rate case expense. Probably more.
24 This is why the Commission should totally ignore Staff and RUCO when it comes
25 to determining rate case expense in this case.

26

1 **Q. OKAY, PLEASE CONTINUE WITH YOUR DISCUSSION OF REVENUES**
2 **AND EXPENSES.**

3 A. Rebuttal adjustment number 4 reclassifies Salaries and Wages expense to
4 Contractual Services – Professional expense. The net impact on operating expense
5 is zero. Staff proposes a similar adjustment except that Staff reduces expense by
6 \$21,615, which is the sum of the 2015/16 expected share of wages increases for the
7 Liberty Utilities employees that work for the Company.⁶³

8 **Q. WHAT WAS THE ACTUAL AVERAGE WAGE INCREASE FOR 2015?**

9 A. 2.93 percent.

10 **Q. SO THE 2015 WAGE INCREASE IS KNOWN AND MEASURABLE?**

11 A. Yes.

12 **Q. WILL THE 2016 WAGE INCREASE BE KNOWN AND MEASURABLE BY**
13 **THE TIME THE COMPANY FILES ITS REJOINDER TESTIMONY IN**
14 **LATE JANUARY 2016?**

15 A. Yes. And based on the fact that the average rate increase over the past five years
16 has been around 3 percent, I suspect the actual 2016 wage increase to be at least the
17 same as originally estimated (3 percent). At this stage of the proceeding, I see no
18 reason to change or reject the \$21,615 total 2015 and 2016 projected wage increase
19 embedded in the Company's proposed operating expenses.

20 **Q. HAS STAFF APPROVED POST TEST YEAR WAGES INCREASES IN**
21 **THE PAST?**

22 A. Yes.⁶⁴

23

24 ⁶³ Brown Dt. at 29.

25 ⁶⁴ See, e.g., *Community Water Company of Green Valley*, Docket No. W-02304A-08-
26 0590. Community Water Company of Green Valley proposed to annualize test year
wages including wage increases. Staff did not oppose.

1 **Q. PLEASE CONTINUE.**

2 A. Rebuttal adjustment number 5 reduces Contractual Services – Professional expense
3 by \$31,921, which reflects an updated cost allocation. Staff reduces the corporate
4 cost allocation by \$30,103,⁶⁵ and RUCO reduces the corporate cost allocation by
5 \$27,147.⁶⁶ While the reductions to the corporate costs allocations are relatively
6 similar, each of the parties determines its adjustment in very different ways.

7 **Q. BUT IT DOESN'T SEEM LIKE THERE IS A LOT OF MONEY AT ISSUE**
8 **HERE, MR. BOURASSA?**

9 A. Well, to begin with, utilities like Liberty Black Mountain are forced to fight for
10 every dollar in rate cases before the Commission, as can be seen here. So, sadly, if
11 the Company starts to give in on issues that appear “small,” before they know it
12 they will have a much lower revenue requirement. But more specific to this rate
13 case, this issue is not primarily about the amount of expense allowed; it is about
14 the cost allocation methodology itself. Staff and RUCO have ignored the most
15 recent Liberty rate cases in an attempt to create a new precedent denying most of
16 the corporate cost allocation by the ultimate parent, APUC.

17 As the Company’s witnesses explain, the positions being advanced by Staff
18 and RUCO ignore the facts and evidence, ignore the progress that has been made
19 since the last Liberty Black Mountain rate case, and deprive the Company of the
20 recovery of necessary expenses, including the costs of obtaining capital for
21 investment.⁶⁷ It does strike me as inconsistent for Staff and RUCO to agree that
22 Liberty’s access to capital through APUC and the Toronto Stock exchange benefits
23 customers, including claiming to support the Company's multi-million dollar plant

24 _____
⁶⁵ Brown Dt. at 30.

25 ⁶⁶ Coley Dt. at 48.

26 ⁶⁷ See Rebuttal Testimony of William R. Killeen at 12 – 17; Sorensen Rb. at 9 – 10.

1 closure, and then to deny the costs APUC is required to pay to be on the stock
2 exchange. Staff and RUCO are trying to get the ratepayers a windfall with their
3 corporate cost allocation adjustments and that effort should be rejected.

4 **Q. OKAY, WHAT IS THE NEXT REBUTTAL ADJUSTMENT IN THE**
5 **INCOME STATEMENT, MR. BOURASSA?**

6 A. Rebuttal adjustment number 6 increases Contractual Services – Testing by \$3,334,
7 which reflects the adoption of Staff’s proposed increase in testing expense.⁶⁸
8 RUCO does not propose a similar adjustment.

9 **Q. RUCO PROPOSES TO INCREASE CHEMICALS EXPENSE BY \$4,773**
10 **FOR RECLASSIFIED CAPITAL COSTS. PLEASE COMMENT.**

11 A. The Company disagrees with the RUCO adjustment because the two plant costs
12 removed from PIS were not test year costs.⁶⁹ Typically, unless the cost was
13 incurred in the test year, it is not added to test year expenses.

14 **Q. RUCO ALSO PROPOSES TO INCREASE REVENUES BY \$954 FOR A**
15 **“REVENUE ACCRUAL FIX.” PLEASE COMMENT.**

16 A. The Company’s disagrees with the RUCO adjustment⁷⁰ because the \$952 was a
17 reconciling amount to the recorded general ledger revenues.⁷¹ In every case, the
18 revenues from the bill count are never exactly the same as the recorded revenues.
19 There are various reasons for this, including using ranges of usage and mid-point.
20 That said, in my experience, as long as the difference meets a tolerance level of +/-
21 ½ percent of recorded revenues, the amount is immaterial and it is ignored on the

22 ⁶⁸ Brown Dt. at 30.

23 ⁶⁹ RUCO’s increase to Chemicals expense includes ½ of the \$7,143 invoice from 2011
24 that was removed from PIS in its plant reclassification adjustment and a \$1,202 invoice
from 2010 that was removed from PIS in its reclassification adjustment. See Coley Dt. at
45 – 46.

25 ⁷⁰ Coley Dt. at 43.

26 ⁷¹ See Rebuttal Schedule H-1, line 24.

1 income statement (C-1), but accounted for on the revenue summary (H-1). This
2 practice has been used in every case I have been involved in until this one.
3 Mr. Coley's adjustment is unnecessary and should be rejected.

4 **Q. WHAT ABOUT RUCO'S PROPOSAL TO REDUCE THE SCOTTSDALE**
5 **OPERATING LEASE BY \$2,702 TO "TRUE-UP" THE CAPITAL LEASE**
6 **EXPENSE?**

7 A. The Company disagrees with the RUCO adjustment⁷² because the lease expense
8 proposed by the Company utilizes the same Commission-ordered methodology that
9 has been used in the past to set the level of lease expense. I discussed this issue
10 previously on pages 29 and 30.

11 **Q. RUCO ALSO PROPOSES TO REDUCE THE MISCELLANEOUS**
12 **EXPENSE BY \$268 TO ELIMINATE SO-CALLED CORPORATE**
13 **EXPENSE THAT WOULD NOT BE RECOVERED FROM RATEPAYERS.**
14 **PLEASE COMMENT.**

15 A. The Company disagrees with the RUCO adjustment⁷³ because the \$268 cost was
16 for an annual fee for statutory representation for Liberty Black Mountain, which is
17 required for licensing and is a necessary expense.

18 **V. COST OF SERVICE STUDY (COSS).**

19 **Q. HAVE YOU UPDATED THE COMPANY'S COST OF SERVICE STUDY?**

20 A. Yes. I have updated the Company's COSS to reflect the Company's rebuttal
21 recommendations for rate base and revenues and expenses.

22 **Q. HAVE YOU MADE ANY CHANGES TO THE ALLOCATIONS?**

23 A. Yes. I have increased the equivalent residential units ("ERUs") and number of
24 customers attributed to the commercial class to reflect updated information about

25 ⁷² Coley Dt. at 44 – 45.

26 ⁷³ Coley Dt. at 44.

1 the commercial class based upon the Company's most recent physical audit. This
2 has resulted in a greater proportion of the cost of service being attributed to the
3 commercial class.⁷⁴ However, because the commercial billing determinants have
4 also changed, the Company's proposed rates for the Commercial class have
5 changed very little from its direct filing. The residential class rates have decreased
6 from the initial filing because more revenues are being recovered from the
7 commercial class. I will further discuss the change in the commercial billing
8 determinants in the Rate Design section of my testimony.

9 **Q. HAVE THE OTHER PARTIES PREPARED COST OF SERVICE**
10 **STUDIES?**

11 A. No. Staff has reviewed the Company's COSS and states that it considered the
12 COSS as well as other factors when it determined its rate design.⁷⁵ RUCO ignored
13 it entirely.

14 **Q. PLEASE DISCUSS THE RESULTS OF THE COMPANY'S UPDATED**
15 **COSS?**

16 A. As shown on Rebuttal Schedule G-2, the returns at the rebuttal proposed rates for
17 the residential class and the commercial class are similar. The return at proposed
18 rates for the residential class is 8.58 percent and the return for the commercial class
19 is 8.71 percent.⁷⁶ It should be noted that these are overall returns, not just equity
20 returns.

21
22
23
24

⁷⁴ Compare Direct Schedule G-7, page 3 with Rebuttal Schedule G-7, page 3.

25 ⁷⁵ See Direct Testimony of Crystal S. Brown (Rate Design) ("Brown RD Dt.").

26 ⁷⁶ See Rebuttal Schedule G-2, page 1.

1 **VI. RATE DESIGN.**

2 **Q. WHAT ARE THE COMPANY'S PROPOSED RATES FOR**
3 **WASTEWATER SERVICE?**

4 A. The proposed rates are:

5 Residential Service – Per Month	\$73.10
6 Commercial – per Month	\$85.00
7 Commodity Charge (per 1,000 gallons) ⁷⁷	\$ 5.12
8 Effluent Sales	
9 Per thousand gallons	\$0.460510
10 Additional Charge to Boulders Resort per Thousand Gallons to Recover Plant Closure Costs ⁷⁸	\$1.488410

11

12 **Q. IS THE COMPANY PROPOSING CHANGES TO THE RATE DESIGN**
13 **FROM ITS DIRECT FILING?**

14 A. No. The Company continues to propose a flat or fixed monthly charge for the
15 residential customers and a fixed plus commodity charge for the commercial
16 customers. The actual proposed rates are less for the residential customers and
17 roughly the same for the commercial customers as compared to the Company direct
18 filing proposed rates. In the Company's direct filing, the proposed residential fixed
19 monthly charge was \$79.20, and the commercial fixed monthly charge was \$85,
20 and the commodity charge was \$5.13 per 1,000 gallons of water usage.

21

22

23

24

25

26

⁷⁷ For commercial customers the commodity charge is based upon monthly water usage.

⁷⁸ Per the Settlement Agreement with the Resort, the Company will collect \$108,000 of costs removed from the Plant Closure Surcharge base amount. This charge assumes new rates will go into effect in June 2016 and will be in effect until November 20, 2018. See Garlick Rb. at 3.

1 **Q. WHAT IS THE IMPACT OF THE COMPANY'S PROPOSED BASE**
2 **CHARGES?**

3 A. The residential monthly bill will increase by \$7.86, from \$65.24 to \$73.10, or a
4 12.05 percent increase.⁷⁹ At the average, the commercial monthly bill will
5 decrease by \$149.02, from \$401.00 to \$251.98, or a 37.16 percent decrease.⁸⁰
6 These impacts do not reflect the proposed plant closure surcharge.

7 **Q. WHAT IS THE IMPACT OF THE COMPANY'S REBUTTAL PROPOSED**
8 **PLANT CLOSURE SURCHARGE?**

9 A. I will discuss the changes to the proposed plant closure surcharge a bit later, but the
10 Company is proposing the plant closure surcharge be computed and implemented
11 in three stages. The proposed Stage 1 surcharge is \$6.31 in year one and will be
12 effective with the authorization for new base rates in the instant case. With the
13 Stage 1 surcharge, the residential monthly bill will increase by \$14.17 (\$7.86 +
14 \$6.31), from \$65.24 to \$79.41, or a 21.72 percent increase.⁸¹ At the average, the
15 commercial monthly bill will decrease by \$149.02 (\$149.02) + \$6.31), from
16 \$401.00 to \$225.29, or a 35.59 percent decrease.⁸²

17 The proposed Stage 2 surcharge is \$7.96 in year one and will be effective
18 approximately March 2018. Assuming the rates are approved in the instant case by
19 June 2016, the Stage 1 surcharge will be reduced to \$5.96 (on average) for 2018.
20 With the Stage 1 and Stage 2 surcharge, the residential monthly bill will increase
21 by \$21.78 (\$7.86 + \$5.96 + \$7.96), from \$65.24 to \$87.02, or a 33.38 percent
22 increase.⁸³ At the average, the commercial monthly bill will decrease by \$135.10

23 ⁷⁹ See Rebuttal Schedule H-2, page 1.

24 ⁸⁰ See Rebuttal Schedule H-2, page 1.

25 ⁸¹ See Rebuttal Schedule H-2, page 1.

26 ⁸² See Rebuttal Schedule H-2, page 1.

⁸³ See Rebuttal Schedule H-2, page 1.

1 (\$149.02) + \$5.96 + 7.96), from \$401.00 to \$265.90, or a 33.69 percent decrease.⁸⁴

2 The proposed Stage 3 surcharge is \$16.70 in year one and will be effective
3 approximately February 2019. Assuming the rates are approved in the instant case
4 by June 2016, the Stage 1 surcharge will be reduced to \$5.50 (on average) for 2019
5 and the Stage 2 surcharge will increase to \$9.01. With the Stage 1, Stage 2, and
6 Stage 3 surcharge, the residential monthly bill will increase by \$39.07 (\$7.86 +
7 \$5.50 + \$9.01 + \$16.70), from \$65.24 to \$104.31, or a 15.89 percent increase.⁸⁵

8 At the average, the commercial monthly bill will decrease by \$117.81 (\$149.02) +
9 \$5.50 + 9.01 + 16.70), from \$401.00 to \$283.19, or a 29.37 percent decrease.⁸⁶

10 **Q. PLEASE EXPLAIN WHY THE PROPOSED RESIDENTIAL RATE HAS**
11 **BEEN REDUCED AND WHY THE PROPOSED COMMERCIAL RATES**
12 **ARE ABOUT THE SAME.**

13 A. The rebuttal COSS indicated that less revenues need be recovered from the
14 residential class and more revenues from the commercial class. Thus, the
15 residential rates were reduced accordingly. With respect to the commercial class,
16 and based on Liberty Black Mountain's most recent physical audit, the Company
17 determined that there will be more commercial customers (increase from 87 to 128)
18 and more water usage (increase from approximately 36.62 million gallons to
19 approximately 50.09 million gallons). So, while the COSS indicated that more
20 revenues should be recovered from the commercial class, there are a greater
21 number of billing determinants to recover those revenues.

22
23
24 ⁸⁴ See Rebuttal Schedule H-2, page 1.

25 ⁸⁵ See Rebuttal Schedule H-2, page 1.

26 ⁸⁶ See Rebuttal Schedule H-2, page 1.

1 **Q. WHY DID THE MOST RECENT PHYSICAL AUDIT RESULT IN MORE**
2 **BILLING DETERMINANTS?**

3 A. The Company had to change its approach because it was impossible to fit the water
4 usage data into the existing billing system locations. Remember, this is an entirely
5 new billing methodology, and the Company did as much of the integration as it
6 could before it filed. However, that effort has been ongoing. The problem
7 discovered was that billing system locations were not tied to metered water
8 locations. So, in order to insure that all metered locations were accounted for, the
9 better approach was to treat each metered commercial location as one billed
10 location, which resulted in an increased number of billable customers (or
11 locations). Additionally, by linking to the metered locations, a greater number of
12 billable gallons resulted.

13 **Q. HOW DO THE STAFF AND RUCO RATE DESIGNS COMPARE?**

14 A. Both Staff and RUCO propose basic rate designs similar to the Company—a fixed
15 monthly charge for the residential customers and a fixed month charge plus
16 commodity charge for the commercial customers. Although each party recovers
17 different proportions of the revenue requirement from the commercial class, there
18 do not appear to be any material disputes over rate design, and I think some of the
19 difference between the Company and RUCO will be eliminated by the application
20 of the updated COSS because we have moved some revenue collection away from
21 the residential customers.

22 **Q. ARE THERE ANY CHANGES TO THE COMPANY'S MISCELLANEOUS**
23 **SERVICE CHARGES PROPOSED IN THE DIRECT FILING?**

24 A. No, and there does not appear to be a disagreement between the Company and
25 Staff regarding the miscellaneous charges.⁸⁷

26 ⁸⁷ Brown RD Dt. at 5 – 7.

1 Q. DO YOU HAVE ANY COMMENTS AT THIS TIME ON THE STAFF
2 TESTIMONY REGARDING THE COMPANY'S PROPOSED PURCHASED
3 POWER ADJUSTMENT MECHANISM (PTAM) AND THE PROPERTY
4 TAX ADJUSTMENT MECHANISM (PTAM)?

5 A. Mr. Garlick provides a thorough response to Staff and RUCO regarding the
6 Company's proposed PPAM and PTAM in his rebuttal testimony.⁸⁸ But I do want
7 to make just a few comments regarding the PTAM. Staff's support for the PTAM
8 if property taxes are based upon actual property taxes to determine the revenue
9 requirement, but not if property taxes are adjusted to reflect proposed revenues in
10 the revenue requirement is puzzling.⁸⁹ No matter what the established base is for
11 property taxes in the PTAM, the mechanism ensures that the property taxes
12 embedded in rates be adjusted up or down based on the actual property taxes
13 incurred each year.

14 We know that increased revenues will result in an increase in property taxes,
15 all else remaining equal. And, despite reductions in the assessment ratio for
16 utilities over the past several years, property taxes have generally not gone down as
17 tax rates have generally increased. Therefore, in my view, the level of property
18 taxes included in operating expenses should be established using proposed
19 revenues, as is normally done, and this amount becomes the base amount of
20 property taxes for the PTAM. Ms. Brown's optional support is confusing and
21 should be rejected as a basis to reject the PTAM.

22 Q. HAS THE COMPANY MADE ANY CHANGES IN THE PROPOSED
23 SURCHARGE FOR PLANT CLOSURE COSTS?

24 A. Yes. As I have stated above, and as Mr. Garlick explains in detail in his rebuttal,

25 ⁸⁸ Garlick Rb. at 23 – 24.

26 ⁸⁹ Brown RD Dt. at 10.

1 the Company has entered into a proposed Settlement Agreement with the Town,
2 the Resort and the BHOA.⁹⁰ Specifically, per this settlement, the Company, Town
3 and Resort are now proposing a surcharge in this rate case that will have three
4 stages. The Stage 1 surcharge is designed to recover engineering and legal costs
5 already incurred, basically the same as was sought in the Company's initial filing.
6 However, as a result of settlement efforts by the Company with the public parties
7 to this case, the amount to be recovered has been reduced to \$825,080.
8 The Stage 1 surcharge is estimated to be \$6.31 per customer per month and will
9 become effective with the new rates approved in this rate case.

10 **Q. HOW WAS THE \$825,080 DETERMINED?**

11 A. This was a negotiated amount that basically reflects the removal of approximately
12 \$308,000 of costs from a revised actual engineering and legal costs incurred to date
13 of \$1,133,080.⁹¹ Approximately \$108,000 of the \$308,000 will be recovered
14 through an increase in the effluent charge to be paid by the Resort before the plant
15 is closed per the Settlement Agreement.

16 **Q. HOW ABOUT THE SECOND STAGE OF THE SURCHARGE PROPOSAL**
17 **BY THE COMPANY, TOWN AND RESORT?**

18 A. The Stage 2 surcharge is designed to recover additional wastewater treatment
19 replacement capacity costs of \$1.2 million. The Stage 2 surcharge is estimated to
20 be \$7.96 per customer per month and will become effective within 90 days of the
21 Company's payment to Scottsdale. The Stage 2 surcharge will be added to the
22 Stage 1 surcharge for a total surcharge of \$14.27.

23 **Q. HOW WAS THE \$1.2 MILLION DETERMINED?**

24 A. This the actual amount that must be paid to Scottsdale for replacement capacity.

25 ⁹⁰ Garlick Rb. at 2 – 9.

26 ⁹¹ See Garlick Rb. at 3.

1 The Company expects that this payment must be made before January 1, 2018.⁹²

2 **Q. SO THE STAGE 2 SURCHARGE WILL ALLOW FOR RECOVERY OF**
3 **ACTUAL, KNOWN COSTS OF COMPLYING WITH THE**
4 **COMMISSION'S ORDER TO CLOSE THE PLANT?**

5 A. Yes, that is correct.

6 **Q. THANK YOU. WHAT ABOUT THE THIRD STAGE OF THE PROPOSED**
7 **SURCHARGE UNDER THE SETTLEMENT AGREEMENT?**

8 A. The Stage 3 surcharge is designed to recover the remaining cost of the plant closure
9 (not including the post-closure removal costs), which costs are estimated to be
10 approximately \$2.699 million. The Stage 3 surcharge is estimated to be \$16.70 per
11 customer per month and will become effective within 90 days of completing the
12 plant closure. The Stage 3 surcharge will be added to the Stage 1 and Stage 2
13 surcharges for a total surcharge of \$30.97.

14 **Q. WHY IS THIS AMOUNT AN ESTIMATE MR. BOURASSA?**

15 A. Because the upgrading of the Company's collection and transmission system to
16 accommodate the closure of the plant will not be done until November 30, 2018
17 per the Settlement Agreement, and until a major construction project is complete
18 the costs can only be estimated. I would note, though, the Settlement Agreement
19 provides the Town, Resort and BHOA's agreement that the estimated cost is
20 reasonable.⁹³ Moreover, the third stage of the surcharge would not be calculated
21 and go into effect until the final costs are incurred and verified.

22 **Q. HOW WILL EACH OF THE SURCHARGES BE COMPUTED?**

23 A. Each of the surcharge computations follow the basic methodology as set forth in
24

25 ⁹² Garlick Rb. at 4.

26 ⁹³ *Id.*

1 Decision No. 71865 and which I described in my direct testimony.⁹⁴ Again, the
2 reasons for changes to the surcharge recovery mechanism since Decision No.
3 71865 are detailed in the testimonies of Mr. Garlick and Mr. Sorensen.⁹⁵ The first
4 year computation of each stage of the surcharge is set forth in **Exhibit TJB-RB2**,
5 pages 1, 2, and 3.

6 **Q. WHAT COST OF CAPITAL IS EMBEDDED IN THE COMPUTATIONS?**

7 A. 8.62 percent. This is the same cost of capital the Company seeks in the instant
8 case.

9 **Q. PLEASE EXPLAIN THE INCREASED EFFLUENT RATE TO THE**
10 **RESORT.**

11 A. Per the settlement, the Resort has agreed to reimburse the Company for \$108,000
12 of the costs removed from the Stage 1 surcharge base costs through a higher
13 effluent rate. The estimated effluent rate contemplated in the Settlement
14 Agreement is \$635 per acre-foot.⁹⁶ The surcharge is based upon an approximately
15 30-month recovery period (June 1, 2016 to November 20, 2018). At the end of the
16 recovery period, the plant will be closed and there won't be any more effluent sales
17 by Liberty Black Mountain.

18 **Q. HOW DO STAFF AND RUCO PROPOSE TO TREAT THESE PLANT**
19 **CLOSURE COSTS?**

20 A. Neither accepts the settlement terms as proposed. Staff recommends a reduction in
21 the Stage 1 costs to be recovered because it reduces the \$825,080 of Stage 1 costs
22 by another \$56,836 to \$768,244.⁹⁷ Staff's recommendation to reduce the costs

23 ⁹⁴ Direct Testimony of Thomas J. Bourassa (Rate Base, Income Statement and Rate
24 Design) at 12.

25 ⁹⁵ *E.g.*, Direct Testimony of Greg Sorensen at 26 – 32; Garlick Rb. at 4 – 6.

26 ⁹⁶ Notice of Filing Settlement Agreement, Exhibit A at 5.

⁹⁷ Direct Testimony of James R. Armstrong "Armstrong Dt.") at 6 – 7.

1 rests on the argument that the Company should have taken out AFUDC related to
2 the negotiated \$308,000 reduction to the total costs of \$1,133,080. However,
3 Staff's proposed reduction is misguided. In the Settlement Agreement, the
4 Company agreed to not seek recovery of \$308,000, no more and no less. The
5 parties to the agreement agreed that the remaining costs of \$825,080 are reasonable
6 and would be recovered via the surcharge, and now Staff is trying to take this
7 reduced amount of closure costs down even further. Staff should not be allowed to
8 pick and choose which parts of the settlement it likes and which parts it doesn't.
9 The Company has not and will not agree to remove any more costs than it agreed to
10 in the settlement. So, while there may be some AFUDC in the \$825,080 related to
11 the \$308,000, it is the \$825,080 the parties agreed would be recovered.

12 RUCO recommends the Stage 1 costs be put in rate base and amortized over
13 25 years, and that the Stage 2 costs be put in rate base and amortized over the life
14 of the Scottsdale Capacity agreement in a manner similar to the previously
15 purchased Scottsdale Capacity costs there were not treated as lease expense.⁹⁸
16 Candidly, RUCO's response to the proposed plant closure costs surcharges is
17 incomplete and it is unclear when and how the Company would actually recover its
18 cost of complying with a Commission and customer mandate. As a result of
19 RUCO's haphazard response, all I can really say is that RUCO's proposed
20 treatment of the Company's closure costs is inconsistent with the settlement
21 between the Company and the representatives of the people paying for the plant
22 closure, and it should also be rejected.

23
24
25
26

⁹⁸ Coley Dt. at 52.

1 **Q. DIDN'T STAFF ACTUALLY DO ITS OWN COMPUTATION OF A**
2 **SURCHARGE?**

3 A. Yes, but again, Staff takes the part of the settlement it likes – the reduced Stage 1
4 closure costs, and then proposes its own modifications. In fact, Staff has come up
5 with a new surcharge methodology, inconsistent with the one approved in Decision
6 No. 71865. Specifically, Staff computed the Stage 1 surcharge as if it were a loan
7 and used a 4-year recovery period.⁹⁹ As such, Staff determined what the monthly
8 payments would be if a loan of \$768,044 with an interest rate of 7.08 percent
9 (Staff's cost of capital) and a term of 4 years existed, which it does not. Staff then
10 determined the monthly surcharge per customer of \$9.74. The surcharge would
11 remain the same over the 4-year recovery period.

12 **Q. WHAT'S WRONG WITH THE STAFF APPROACH?**

13 A. Besides the lower base cost recovery of \$768,244, the Settlement Agreement
14 utilizes a 20-year recovery period.

15 **Q. WAS A 20-YEAR RECOVERY PERIOD CONTEMPLATED FOR THE**
16 **SURCHARGE IN DECISION 71865?**

17 A. Yes.

18 **Q. WHAT ABOUT THE STAGE 2 AND STAGE 3 SURCHARGES?**

19 A. Staff believes that the Commission can approve a second, separate plant closure
20 surcharge, but not allow recovery to begin until the Plant has actually been
21 closed.¹⁰⁰ Again, this is not the deal the other parties have worked out and Staff's
22 incomplete (they reserve right to make recommendations regarding Stage 3 costs)
23 recommendations to delay recovery are not acceptable to Liberty Black Mountain.
24

25 ⁹⁹ Armstrong Dt. at 8.

26 ¹⁰⁰ Armstrong Dt. at 9.

1 **Q. DO STAFF OR RUCO HAVE ANY RECOMMENDATIONS REGARDING**
2 **THE INCREASE IN THE EFFLUENT RATE TO THE RESORT?**

3 A. No, neither Staff nor RUCO have provided any testimony on this subject, nor did
4 either include the higher proposed effluent rate.¹⁰¹ By ignoring this issue, Staff and
5 RUCO would further deprive the Company of recovery of \$108,000 of closure
6 costs.

7 **Q. DO YOU HAVE ANY COMMENTS AT THIS TIME ON THE STAFF**
8 **TESTIMONY REGARDING THE COMPANY'S PROPOSED**
9 **MODIFICATION OF THE HOOK-UP FEE?**

10 A. No. Mr. Garlick responds to the Staff testimony regarding the Company's
11 proposed modification to the Hook-up Fee in his rebuttal testimony.¹⁰²

12 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY ON RATE**
13 **BASE, INCOME STATEMENT AND RATE DESIGN?**

14 A. Yes.

15
16
17
18
19
20
21
22
23
24

25 ¹⁰¹ See Staff Rate Design Schedule CSB-1; RUCO Rate Design Schedule TJC-RD3.

26 ¹⁰² Garlick Rb. at 24 – 26.

EXHIBIT TJB-RB1

**LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO RUCO'S THIRD SET OF DATA REQUESTS**

September 10, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School Rd., Suite D-101
Avondale, AZ 85392

Company Response Number: 3.11

Q. Allocable Corporate Plant on Schedule B-2, Page 4 – Please provide a narrative explanation why there is no accumulated depreciation associated with plant Account 940.1 – Computers and Software. The Company's depreciation expense schedule clearly delineates the account has a 20% annual depreciation rate. The account is also still being depreciated on the depreciation expense schedule, which indicates that it is not fully depreciated in the Test Year as filed. If this is an oversight, please provide the correct accumulated depreciation balance for the Test Year and supporting accounting documentation.

RESPONSE: The Company agrees that this is an oversight. For Account 940.1 – Computers and Software, the Company proposes a correct balance of \$ 264.00 in accumulated depreciation. The Company will supplement as appropriate.

EXHIBIT TJB-RB2

Liberty Utilities (Black Mountain Sewer) Corp.
 Modified Plant Closure Surcharge Computation - Stage 1
 Year 1

Exhibit
 Page 1

Total Costs Incurred		\$ 1,133,081	
Negotiated Reduction		(308,000)	
Plant Close Cost to be Recovered		\$ 825,081	
Step 1 Compute the Annual Amortization			
Net Plant Closure Costs (from Step 1)		\$ 825,081	
(*) Amortization rate (assuming 20 years)		5%	
(=) Equals Annual Amortization		\$ 41,254	
Step 2 Compute the Annual Return on Investment			
Net Plant Closure Costs (from Step 1)		\$ 825,081	
Less: Prior Years Amortization		-	
Total Cost		\$ 825,081	
(*) Cost of Capital		8.62%	
(=) Equals Annual Return on Investment		\$ 71,114	
Step 3 Compute the Gross Revenue Conversion Factor (GRCF)			
GRCF (from most recent rate case)	=	$\frac{1}{1 - 0.37697}$	= 1.6050
Step 4 Find the Incremental Income Tax Factor			
Incremental Income Tax Factor	=	GRCF - 1	
	=	1.6050 - 1	
	=	0.6050	
Step 5 Find the Annual Income Tax Component of the Cost Recovery Surcharge Revenue			
Incremental Income Tax Conversion Factor		0.6050	
(*) Times Annual Return on Investment		\$ 71,114	
(=) Equals Annual Income Tax Component of Annual Cost Recovery Surcharge		\$ 43,024	
Step 6 Find the Amortization and Return on Investment of the Annual Surcharge Revenue (before Income Taxes)			
Annual Return on Investment (from Step 2)		\$ 71,114	
(+) Plus Annual Amortization (from Step 1)		\$ 41,254	
(=) Equals Annual Cost Recovery Surcharge Revenue before income taxes		\$ 112,368	
Step 7 Find the Total Annual Cost Recovery Surcharge Revenue Requirement (with Income Taxes)			
Annual Income Tax Component of the Surcharge Revenue (from Step 5)		\$ 43,024	
(+) Plus Annual Amortization and Return on Investment Component of the Surcharge Revenue (from Step 6)		\$ 112,368	
(=) Equals the Total Annual Surcharge Revenue Requirement		\$ 155,391	
Step 8 Find the Monthly Surcharge per Customer			
Total Annual Cost Recovery Surcharge Revenue Requirement (from Step 7)		\$ 155,391	
(/) Divided by 12		12	
(=) Equals Total Monthly Surcharge Revenue Requirement		\$ 12,949	
(/) Divided by Number of Customers at time of filing (assumes test year end number of customers)		2,052	
(=) Equals the Monthly Surcharge per Customer		\$ 6.31	

Step 1 Compute the Annual Depreciation /Amortization Expense	<u>Description</u>	<u>Plant Category</u>	<u>Cost</u>	<u>Depr/Amort Rate</u>	<u>Annual Depr. Exp¹</u>
	Capital Costs for New Capacity	Treatment Plant	1,200,000	5.00%	30,000
	Estimated Total Additional Plant Closure Costs		\$ 1,200,000		\$ 30,000
	¹ Half-year Convention				
Step 2 Compute the Annual Return on Investment					
	Estimated Total Additional Plant Closure Costs (from Step 1)				\$ 1,200,000
	Less: Prior Years Depreciation/Amortization				-
	Total Cost				\$ 1,200,000
	(*) Cost of Capital				8.62%
	(=) Equals Annual Return on Investment				\$ 103,428
Step 3 Compute the Gross Revenue Conversion Factor (GRCF)					
	GRCF (from most recent rate case)		=	$\frac{1}{1 - 0.37697}$	= 1.6050
Step 4 Find the Incremental Income Tax Factor					
	Incremental Income Tax Factor		=	GRCF - 1	
			=	1.6050 - 1	
			=	0.6050	
Step 5 Find the Annual Income Tax Component of the Cost Recovery Surcharge Revenue					
	Incremental Income Tax Conversion				0.6050
	(*) Times Annual Return on Investment				\$ 103,428
	(=) Equals Annual Income Tax Component of Annual Cost Recovery Surcharge				\$ 62,574
Step 6 Find the Amortization and Return on Investment of the Annual Surcharge Revenue (before Income Taxes)					
	Annual Return on Investment (from Step 2)				\$ 103,428
	(+) Plus Annual Depreciation/Amortization (from Step 1)				\$ 30,000
	(=) Equals Annual Cost Recovery Surcharge Revenue before income taxes				\$ 133,428
Step 7 Find the Total Annual Cost Recovery Surcharge Revenue Requirement (with Income Taxes)					
	Annual Income Tax Component of the Surcharge Revenue (from Step 5)				\$ 62,574
	(+) Plus Annual Amortization and Return on Investment Component of the Surcharge Revenue (from Step 6)				\$ 133,428
	(=) Equals the Total Annual Surcharge Revenue Requirement				\$ 196,002
Step 8 Find the Monthly Surcharge per Customer					
	Total Annual Cost Recovery Surcharge Revenue Requirement (from Step 7)				\$ 196,002
	(/) Divided by 12				12
	(=) Equals Total Monthly Surcharge Revenue Requirement				\$ 16,333
	(/) Divided by Number of Customers at time of filing (assumes test year end number of customers)				2,052
	(=) Equals the Monthly Surcharge per Customer				\$ 7.96

Step 1 Compute the Annual Depreciation /Amortization Expense

Description	Plant Category	Cost	Depr/Amort Rate	Annual Depr Exp ¹
Bypass sewers at WRF	Collection Mains	\$ 240,800	2.00%	\$ 2,408
Decommission and Remove WRF	Treatment Plant	439,300	5.00%	10,983
Commercial LS Upgrading	Special Collecting Structures	411,700	2.00%	4,117
New Force Mains	Collection Mains	990,900	2.00%	9,909
Pavement Replacement	Structures & Improvements	617,000	3.33%	10,273
Estimated Total Additional Plant Closure Costs		<u>\$ 2,699,700</u>		<u>\$ 37,690</u>

¹ Half-year Convention

Step 2 Compute the Annual Return on Investment

Estimated Total Additional Plant Closure Costs (from Step 1)	\$ 2,699,700
Less: Prior Years Depreciation/Amortization	-
Total Cost	<u>\$ 2,699,700</u>
(*) Cost of Capital	8.62%
(=) Equals Annual Return on Investment	\$ 232,687

Step 3 Compute the Gross Revenue Conversion Factor (GRCF)

GRCF (from most recent rate case) = $\frac{1}{1 - 0.37697} = 1.6050$

Step 4 Find the Incremental Income Tax Factor

Incremental Income Tax Factor = GRCF - 1
 = 1.6050 - 1
 = 0.6050

Step 5 Find the Annual Income Tax Component of the Cost Recovery Surcharge Revenue

Incremental Income Tax Conversion	0.6050
(*) Times Annual Return on Investment	\$ 232,687
(=) Equals Annual Income Tax Component of Annual Cost Recovery Surcharge	\$ 140,776

Step 6 Find the Amortization and Return on Investment of the Annual Surcharge Revenue (before Income Taxes)

Annual Return on Investment (from Step 2)	\$ 232,687
(+) Plus Annual Depreciation/Amortization (from Step 1)	\$ 37,690
(=) Equals Annual Cost Recovery Surcharge Revenue before income taxes	\$ 270,377

Step 7 Find the Total Annual Cost Recovery Surcharge Revenue Requirement (with Income Taxes)

Annual Income Tax Component of the Surcharge Revenue (from Step 5)	\$ 140,776
(+) Plus Annual Amortization and Return on Investment Component of the Surcharge Revenue (from Step 6)	\$ 270,377
(=) Equals the Total Annual Surcharge Revenue Requirement	\$ 411,152

Step 8 Find the Monthly Surcharge per Customer

Total Annual Cost Recovery Surcharge Revenue Requirement (from Step 7)	\$ 411,152
(/) Divided by 12	12
(=) Equals Total Monthly Surcharge Revenue Requirement	\$ 34,263
(/) Divided by Number of Customers at time of filing (assumes test year end number of customers)	2,052
(=) Equals the Monthly Surcharge per Customer	\$ 16.70

**RATE BASE
SCHEDULES**

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Exhibit
 Rebuttal Schedule A-1
 Page 1
 Witness: Bourassa

Line
No.

1	Fair Value Rate Base	\$ 3,419,410
2		
3	Adjusted Operating Income	285,676
4		
5	Current Rate of Return	8.35%
6		
7	Required Operating Income	\$ 294,719
8		
9	Required Rate of Return on Fair Value Rate Base	8.62%
10		
11	Operating Income Deficiency	\$ 9,043
12		
13	Gross Revenue Conversion Factor	1.6050
14		
15	Increase in Gross Revenue	
16	Requirement	\$ 14,515
17		
18	Adjusted Test Year Revenues	\$ 2,239,848
19	Increase in Gross Revenue Requirement	\$ 14,515
20	Proposed Revenue Requirement	\$ 2,254,363
21	% Increase	0.65%
22		

Customer	Present	Proposed	Dollar	Percent
Classification	Rates	Rates	Increase	Increase
25 Residential	\$ 1,522,310	\$ 1,705,715	\$ 183,405	12.05%
26 Residential HOA (11 units)	8,612	9,649	1,038	12.05%
27 Residential HOA (12 units)	9,395	10,526	1,132	12.05%
28 Residential HOA (25 units)	19,572	21,930	2,358	12.05%
29 Residential Apartment (gpd rate)	63,950	-	(63,950)	-100.00%
30 Residential Apartment (8 units)	-	7,018	7,018	0.00%
31 Residential Apartment (10 units)	-	8,772	8,772	0.00%
32 Residential Apartment (74 units)	-	64,913	64,913	0.00%
33 Commercial	578,108	387,042	(191,066)	-33.05%
34				
35 Effluent	16,067	16,067	-	0.00%
36				
37 Revenue Annualization	9,786	10,965	1,179	12.05%
38 Subtotal	\$ 2,227,798	\$ 2,242,597	\$ 14,799	0.66%
39				
40 Miscellaneous Revenues	11,098	11,098	-	0.00%
41 Reconciling Amount	952	668	(284)	-29.83%
42 Rounding			-	0.00%
43 Total of Water Revenues	\$ 2,239,848	\$ 2,254,363	\$ 14,515	0.65%
44				

SUPPORTING SCHEDULES:

- 47 B-1
- 48 C-1
- 49 C-3
- 50 H-1

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Summary of Rate Base

Exhibit
 Rebuttal Schedule B-1
 Page 1
 Witness: Bourassa

<u>Line No.</u>	<u>Original Cost Rate base</u>	<u>Fair Value Rate Base</u>
1		
2	Gross Utility Plant in Service	\$ 14,204,095
3	Less: Accumulated Depreciation	8,785,220
4		
5	Net Utility Plant in Service	\$ 5,418,874
6		
7	<u>Less:</u>	
8	Advances in Aid of Construction	520,749
9		520,749
10	Contributions in Aid of Construction	6,445,253
11		6,445,253
12	Accumulated Amortization of CIAC	(5,333,859)
13		(5,333,859)
14	Customer Meter Deposits	8,570
15	Customer Security Deposits	-
16	Accumulated Deferred Income Tax	258,059
17		
18		
19	<u>Plus:</u>	
20	Unamortized Finance	
21	Charges	-
22	Prepayments	9,493
23	Materials and Sup[plies	-
24	Cash Working Capital	(110,186)
25		
26		
27	Total Rate Base	\$ 3,419,410
28		
29		
30		
31		
32		
33		
34		
35		
36		
37		
38		
39		
40		
41		
42	<u>SUPPORTING SCHEDULES:</u>	
43	B-2	
44	B-3	
45	B-5	
46		
47		
48		
49		
50		
51		

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Rebuttal Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Adjusted at End of <u>Test Year</u>	Proforma <u>Adjustment</u>	Rebuttal Adjusted at end of <u>Test Year</u>
1	Gross Utility			
2	Plant in Service	\$ 14,166,434	37,661	\$ 14,204,095
3				
4	Less:			
5	Accumulated			
6	Depreciation	8,654,682	130,539	8,785,220
7				
8				
9	Net Utility Plant			
10	in Service	\$ 5,511,752		\$ 5,418,874
11				
12	Less:			
13	Advances in Aid of			
14	Construction	1,743,922	(1,223,173)	520,749
15				
16	Contributions in Aid of			
17	Construction - Gross	5,461,736	983,517	6,445,253
18				
19	Accumulated Amortization of CIAC	(5,240,717)	(93,143)	(5,333,859)
20				
21	Customer Meter Deposits	8,570		8,570
22	Customer Security Deposits	-	-	-
23	Accumulated Deferred Income Tax	75,116	182,942	258,059
24				-
25				-
26				
27	Plus:			
28	Unamortized Finance			
29	Charges	-	-	-
30	Prepayments	9,493	-	9,493
31	Materials and Supplies	-	-	-
32	Cash Working capital	(60,594)	(49,592)	(110,186)
33				-
34				
35	Total	<u>\$ 3,412,024</u>		<u>\$ 3,419,410</u>

46 SUPPORTING SCHEDULES:
 47 B-2, pages 2
 48 E-1
 49
 50
 51

RECAP SCHEDULES:
 B-1

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Rebuttal Schedule B-2
 Page 2
 Witness: Bourassa

Line No.	Adjusted at end of Test Year	1	Plant-in-Service	2	Accumulated Depreciation	3	CIAC	4	AIAC	5	ADIT	6	Working Capital	Rebuttal Adjusted at end of Test Year
1	\$ 14,166,434		37,661											\$ 14,204,095
2														
3														
4														
5					130,539									
6	8,654,682													8,785,220
7														
8														
9														
10	\$ 5,511,752		37,661		(130,539)									\$ 5,418,874
11														
12														
13														
14	1,743,922							(1,223,173)						520,749
15														
16														
17	5,461,736						983,517							6,445,253
18														
19	(5,240,717)						(93,143)							(5,333,859)
20														
21	8,570													8,570
22														
23										182,942				258,059
24	75,116													
25														
26														
27														
28														
29														
30	9,493													9,493
31														
32	(60,594)											(49,592)		(110,186)
33														
34	\$ 3,412,024		37,661		(130,539)		(890,374)		1,223,173		(182,942)		(49,592)	\$ 3,419,410
35														
36														
37														
38														
39														
40														
41														

SUPPORTING SCHEDULES:
 B-1

SUPPORTING SCHEDULES:
 B-2, pages 3-5

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 1 - A

Exhibit
 Rebuttal Schedule B-2
 Page 3.1
 Witness: Bourassa

Line
 No.

<u>Plant Reclassification</u>		<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
1							
2							
3	<u>Acct No. Description</u>						
4	351 Organization						-
5	352 Franchises						-
6	353 Land and Land Rights	1,500					1,500
7	354 Structures and Improvements	(29,825)	(50,642)	(41,192)	(21,589)	(9,299)	(152,549)
8	355 Power Generation Equipment			3,839			3,839
9	360 Collection Sewers - Force					568	568
10	361 Collection Sewers - Gravity						-
11	362 Special Collecting Structures						-
12	363 Services to Customers						-
13	364 Flow Measuring Devices						-
14	365 Flow Measuring Installations						-
15	366 Reuse Services						-
16	367 Reuse Meters And Installation						-
17	370 Receiving Wells						-
18	371 Effluent Pumping Equipment	27,135	31,563	7,480	15,589	4,230	85,996
19	374 Reuse Distribution Reservoirs						-
20	375 Reuse Trans. and Dist. System						-
21	380 Treatment and Disposal Equipment		(7,143)	2,100	1,519	(2,258)	(5,782)
22	381 Plant Sewers						-
23	382 Outfall Sewer Lines						-
24	389 Other Plant and Misc. Equipment		(3,150)				(3,150)
25	390 Office Furniture and Equipment				(62,224)		(62,224)
26	390.1 Computers and Software				62,224		62,224
27	391 Transportation Equipment						-
28	392 Stores Equipment						-
29	393 Tools, Shop and Garage Equipment.						-
30	394 Laboratory Equipment						-
31	395 Power Operated Equipment						-
32	396 Communication Equipment		20,308	27,773	4,482	6,760	59,323
33	397 Miscellaneous Equip.						-
34	398 Other Tangible Plant - Scottsdale Capacity						-
35							
36	Totals	\$ (1,190)	\$ (9,065)	\$ -	\$ 0	\$ -	\$ (10,255)

37
 38
 39
 40
 41
 42
 43 SUPPORTING SCHEDULE
 44 Testimony
 45 Response to RUCO DR 6.03

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 1 - B

Exhibit
 Rebuttal Schedule B-2
 Page 3.2
 Witness: Bourassa

Line

No.

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
1	<u>AFUDC</u>					
2						
3	<u>Acct.No.</u>	<u>Description</u>				
4	351	Organization				-
5	352	Franchises				-
6	353	Land and Land Rights				-
7	354	Structures and Improvements			(8)	(8)
8	355	Power Generation Equipment			-	-
9	360	Collection Sewers - Force			(228)	(228)
10	361	Collection Sewers - Gravity			(51)	(51)
11	362	Special Collecting Structures			-	-
12	363	Services to Customers			(7)	(7)
13	364	Flow Measuring Devices			-	-
14	365	Flow Measuring Installations			-	-
15	366	Reuse Services			-	-
16	367	Reuse Meters And Installation			-	-
17	370	Receiving Wells			-	-
18	371	Effluent Pumping Equipment			(3)	(3)
19	374	Reuse Distribution Reservoirs			-	-
20	375	Reuse Trans. and Dist. System			-	-
21	380	Treatment and Disposal Equipment			-	-
22	381	Plant Sewers			-	-
23	382	Outfall Sewer Lines			-	-
24	389	Other Plant and Misc. Equipment			-	-
25	390	Office Furniture and Equipment			(21)	(21)
26	390.1	Computers and Software			-	-
27	391	Transportation Equipment			-	-
28	392	Stores Equipment			-	-
29	393	Tools, Shop and Garage Equipment.			(0)	(0)
30	394	Laboratory Equipment			-	-
31	395	Power Operated Equipment			-	-
32	396	Communication Equipment			-	-
33	397	Miscellaneous Equip.			-	-
34	398	Other Tangible Plant - Scottsdale Capacity			-	-
35						
36	Totals		\$ -	\$ -	\$ -	\$ -
37						
38						
39						
40						
41						
42						
43	<u>SUPPORTING SCHEDULE</u>					
44	Testimony					
45	RUCO PIS Adjustment No. 4.					

\$ - \$ - \$ - \$ - \$ (317) \$ (317)

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 1 - C

Exhibit
 Rebuttal Schedule B-2
 Page 3.3
 Witness: Bourassa

Line

No.

<u>Plant Addition Correction</u>		<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
3	<u>Acct No. Description</u>						
4	351 Organization						-
5	352 Franchises						-
6	353 Land and Land Rights						-
7	354 Structures and Improvements						-
8	355 Power Generation Equipment						-
9	360 Collection Sewers - Force						-
10	361 Collection Sewers - Gravity						-
11	362 Special Collecting Structures						-
12	363 Services to Customers						-
13	364 Flow Measuring Devices						-
14	365 Flow Measuring Installations						-
15	366 Reuse Services						-
16	367 Reuse Meters And Installation						-
17	370 Receiving Wells						-
18	371 Effluent Pumping Equipment						-
19	374 Reuse Distribution Reservoirs						-
20	375 Reuse Trans. and Dist. System						-
21	380 Treatment and Disposal Equipment						-
22	381 Plant Sewers						-
23	382 Outfall Sewer Lines						-
24	389 Other Plant and Misc. Equipment		(29,760)				(29,760)
25	390 Office Furniture and Equipment						-
26	390.1 Computers and Software						-
27	391 Transportation Equipment						-
28	392 Stores Equipment						-
29	393 Tools, Shop and Garage Equipment.						-
30	394 Laboratory Equipment						-
31	395 Power Operated Equipment						-
32	396 Communication Equipment						-
33	397 Miscellaneous Equip.						-
34	398 Other Tangible Plant - Scottsdale Capacity						-
35							
36	Totals	\$ -	\$ (29,760)	\$ -	\$ -	\$ -	\$ (29,760)

43 SUPPORTING SCHEDULE

44 Testimony

45

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 1 - D

Exhibit
 Rebuttal Schedule B-2
 Page 3.4
 Witness: Bourassa

Line

<u>No.</u>		[1]	[2]	[3]	[4] = [1]x[2]x[3]	[5]	[6] = [4] - [5]
	Acct.	Original	Liberty	BMSC	Allocated	Allocated	Increase/
	<u>No.</u> <u>Description</u>	<u>Cost</u>	<u>Utilities</u>	<u>Water</u>	<u>Original</u>	<u>Original</u>	<u>Decrease</u>
			<u>Factor</u>	<u>Factor</u>	<u>Cost</u>	<u>Cost per Direct</u>	<u>in Corp. Plant</u>
1	<u>Corporate Plant</u>						
2							
3							
4							
5	903	1,396,196	15.64%	3.86%	\$ 8,420	\$ 8,429	\$ (9)
6	904	12,560,664	15.64%	3.86%	75,769	75,829	(61)
7	940.1	2,187,630	15.64%	3.86%	13,196	13,207	(11)
8							
9							
10							
11	<u>LU Sub-Corp. Plant</u>						
12							
13	903	-		3.86%	\$ -	\$ -	\$ -
14	904	405,370		3.86%	15,635	-	15,635
15	940	257,704		3.86%	9,939	-	9,939
16	940.1	1,359,281		3.86%	52,426	-	52,426
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28	Total				\$ 175,386	\$ 97,465	\$ 77,921
29							
30							
31							
32							
33							
34							
35							
36							
37							
38							
39							
40							
41							
42							
43	<u>SUPPORTING SCHEDULE</u>						
44	Testimony						
45	Work papers						

Line No.	MARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Per Decision No. 71865, September 1, 2010				Current Books						
					[1] Book Plant at 6/30/2008	[2] Direct Adjust	[3] RC Adjust-ments	[4] Adjusted Plant at 6/30/2008 (1)+(2)+(3)	[5] Accum Depr 6/30/2008	[6] Net Plant 6/30/2008 (4)-(5)	[7] Book Plant at 6/30/2008	[8] Accum Depr 6/30/2008	[9] Net Plant 6/30/2008 (7)-(8)		
1	351	Organization		0.00%	-	-	-	-	-	-	-	-	-	-	-
2	352	Franchises		0.00%	461,446	-	-	461,300	-	-	461,300	-	-	461,300	-
3	353	Land and Land Rights		0.00%	2,597,197	(39,277)	2,300	2,560,220	1,089,269	1,470,950	2,560,220	1,089,269	1,470,950	-	-
4	354	Structures and Improvements		3.33%	-	-	-	-	-	-	-	-	-	-	-
5	355	Power Generation Equipment		5.00%	-	-	-	-	-	-	-	-	-	-	-
6	356	Water Treatment Equipment		2.00%	371,470	334,822	1,600	707,892	237,047	470,845	707,892	237,047	470,845	-	-
7	357	Collection Sewers - Force		2.00%	4,353,824	(68,876)	-	4,284,948	2,986,891	1,298,057	4,284,948	2,986,891	1,298,057	-	-
8	358	Collection Sewers - Gravity		2.00%	200,306	(1,583)	-	198,723	151,259	47,464	198,723	151,259	47,464	-	-
9	359	Special Collecting Structures		2.00%	39,878	(846)	-	39,032	31,230	7,802	31,512	31,230	7,802	-	-
10	364	Services to Customers		10.00%	181,502	(1,886)	-	179,616	46,777	130,845	179,616	46,777	130,845	-	-
11	365	Flow Measuring Devices		10.00%	-	-	-	-	-	-	-	-	-	-	-
12	366	Flow Measuring Installations		2.00%	695,191	(8,563)	242,243	932,871	285,616	647,255	932,871	285,616	647,255	-	-
13	367	Reuse Meters And Installation		8.33%	661,125	(6,281)	2,803	657,647	401,703	255,944	657,647	401,703	255,944	-	-
14	370	Receiving Wells		3.33%	-	-	-	-	-	-	-	-	-	-	-
15	371	Effluent Pumping Equipment		12.50%	152,796	(9,218)	38,250	181,828	14,930	166,898	181,828	14,930	166,898	-	-
16	374	Reuse Distribution Reservoirs		2.50%	121,651	1,638	1,238	124,527	105,608	18,919	124,527	105,608	18,919	-	-
17	375	Reuse Trans. and Dist. System		2.50%	-	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	970,499	(31,067)	-	939,432	249,600	689,832	939,432	249,600	689,832	-	-
19	381	Outfall Sewer Lines		6.67%	369,739	(145,152)	-	224,587	71,997	152,590	224,587	71,997	152,590	-	-
20	382	Other Plant and Misc. Equipment		6.67%	107,368	(1)	-	107,367	47,775	59,592	107,367	47,775	59,592	-	-
21	385	Office Furniture and Equipment		20.00%	6,276	(522)	-	5,754	203	5,552	5,754	203	5,552	-	-
22	389	Construction Equipment		4.00%	7,468	0	-	7,468	2,250	5,239	7,468	2,250	5,239	-	-
23	390.1	Transportation Equipment		20.00%	-	-	-	-	-	-	-	-	-	-	-
24	391	Stores Equipment		20.00%	-	-	-	-	-	-	-	-	-	-	-
25	392	Tools, Shop and Garage Equipment		4.00%	-	-	-	-	-	-	-	-	-	-	-
26	393	Laboratory Equipment		5.00%	-	-	-	-	-	-	-	-	-	-	-
27	394	Power Operated Equipment		10.00%	-	-	-	-	-	-	-	-	-	-	-
28	395	Power Operated Equipment		5.00%	-	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	40,451	0	-	40,451	1,011	39,440	40,451	1,011	39,440	-	-
30	397	Miscellaneous Equip.		10.00%	466,294	-	-	466,294	97,259	369,035	466,294	97,259	369,035	-	-
31	398	Other Tangible Plant - Scottsdale Capacity		10.00%	-	-	-	-	-	-	-	-	-	-	-
TOTAL					11,828,501	15,528	288,434	12,132,463	5,822,426	6,310,037	12,132,463	5,822,426	6,310,037		

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	July-December 2008										Accum. Deprec.	
						Plant Additions	Plant Adjustments ¹	Plant Reclass	Adjusted Plant Additions	Plant Retirements ²	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance		
1	351	Organization		0.00%	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
2	352	Franchises		0.00%	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
3	353	Land and Land Rights		0.00%	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
4	354	Structures and Improvements		3.33%	3.33%	(12,085)	-	-	(12,085)	-	-	-	-	-	461,300	-	
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	2,548,135	1,131,797	
6	356	Collection Sewers - Force		2.00%	2.00%	(37)	-	-	(37)	-	-	-	-	-	707,855	244,126	
7	357	Collection Sewers - Gravity		2.00%	2.00%	(49)	-	-	(49)	-	-	-	-	-	4,284,899	3,029,740	
8	358	Small Collection Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-	-
9	359	Flow Measuring Devices		10.00%	10.00%	156	-	-	156	-	-	-	-	-	1,987	153,246	
10	364	Flow Measuring Installations		10.00%	10.00%	-	-	-	-	-	-	-	-	-	438	31,668	
11	365	Reuse Meters And Installation		2.00%	2.00%	-	-	-	-	-	-	-	-	-	8,981	57,758	
12	366	Reuse Meters		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	933,182	301,151	
14	370	Receiving Wells		3.33%	3.33%	311	-	-	311	-	-	-	-	-	654,827	438,257	
15	371	Effluent Pumping Equipment		12.50%	12.50%	1,641	-	-	1,641	4,461	-	-	-	-	-	-	-
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	(33,499)	-	-	(33,499)	-	-	-	-	-	-	-	-
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	3,138	-	-	3,138	-	-	-	-	-	148,329	19,057	
22	390	Office Furniture and Equipment		6.67%	6.67%	-	-	-	-	-	-	-	-	-	124,527	108,721	
23	391.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-	-	-	-
24	392	Transmission Equipment		4.00%	4.00%	203	-	-	203	-	-	-	-	-	942,570	280,983	
25	392	Storage Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	224,587	79,487	
26	393	Tools, Shop and Garage Equipment		10.00%	10.00%	3,420	-	-	3,420	-	-	-	-	-	107,570	58,522	
27	394	Laboratory Equipment		10.00%	10.00%	-	-	-	-	-	-	-	-	-	187	9,174	
28	395	Power Operated Equipment		5.00%	5.00%	275	-	-	275	-	-	-	-	-	7,488	2,624	
29	396	Communication Equipment		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	40,726	3,041	
31	398	Other Tangible Plant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	-	-	486,284	121,574	
TOTAL						(36,526)	4,461	(36,526)	4,461	4,461	-	-	-	244,175	12,091,476	6,062,140	

¹ True-up
² Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Exhibit
 Schedule B.2
 Page 3.8
 Witness: Bourassa

Line No.	MARUC No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	Plant Additions	Plant Adjustments ¹	Plant Reclass	Adjusted Plant Additions	Plant Retirements ²	2009		Plant Balance	Accum. Deprec.			
											Adjusted Plant Retirements	Adjusted Plant Retirements					
1	351	Organization		0.00%	0.00%												
2	352	Franchises		0.00%	0.00%												
3	353	Land and Land Rights		0.00%	0.00%												
4	354	Buildings and Improvements		3.33%	3.33%	36,874	(311)		36,563			461,300					
5	355	Power Gas Equipment		3.00%	3.00%	49,900			44,903	2,504		2,582,194		1,214,712			
6	360	Collection Sewers - Gravity		2.00%	2.00%	127,153	(5,397)		127,133			752,358		288,728			
7	361	Special Collecting Structures		2.00%	2.00%	3,400			3,400			4,412,032		3,116,710			
8	362	Services to Customers		2.00%	2.00%							202,123		157,255			
9	363	Flow Measuring Devices		10.00%	10.00%							31,668		31,668			
10	364	Flow Measuring Installations		10.00%	10.00%							179,622		75,720			
11	365	Reuse Services		2.00%	2.00%												
12	366	Reuse Meters And Installation		8.33%	8.33%												
13	367	Receiving Wells		3.33%	3.33%	95,000			95,000			1,028,182		333,807			
14	370	Effluent Pumping Equipment		12.50%	12.50%	10,132			10,132	4,841		660,116		319,600			
15	371	Reuse Distribution Reservoirs		2.50%	2.50%												
16	374	Reuse Trans. and Dist. System		2.50%	2.50%												
17	375	Treatment and Disposal Equipment		5.00%	5.00%	503			503			148,832		26,486			
18	380	Plant Sewers		5.00%	5.00%							124,527		114,847			
19	381	Other Sewer Lines		3.33%	3.33%												
20	382	Office Plant and Misc. Equipment		6.67%	6.67%	967			967			943,557		343,885			
21	385	Office Furniture and Software		20.00%	20.00%							224,587		94,467			
22	389	Computers and Software		20.00%	20.00%												
23	380.1	Transportation Equipment		4.00%	4.00%							107,570		80,036			
24	391	Stores Equipment		5.00%	5.00%	351			351			9,525		857			
25	392	Tools, Shop and Garage Equipment.		10.00%	10.00%							749		3,373			
26	393	Laboratory Equipment		5.00%	5.00%							4,073		7,113			
27	394	Power Operated Equipment		10.00%	10.00%							48,629		170,203			
28	395	Communication Equipment		10.00%	10.00%												
29	396	Miscellaneous Equip.		10.00%	10.00%												
30	397	Other Tangible Plant - Scottsdale Capacity		10.00%	10.00%												
31	398																
TOTAL											324,280	(5,709)	318,572	7,346	480,773	12,402,703	6,545,667

¹ Affiliate Profit
² Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Line No.	MARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Plant Additions	Plant Adjustments ¹	Plant Re-class	Adjusted Plant Additions	Plant Retirements ²	2010		Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.								
										Plant Retirement Adjustments	Adjusted Plant Retirements												
1	351	Organization		0.00%																			
2	352	Franchises		0.00%																			
3	353	Land and Land Rights		0.00%																			
4	354	Structures and Improvements		3.33%	105,916	(1,282)	1,500 (29,825)	1,500					87,233	462,800									
5	355	Power Generation Equipment		5.00%				74,809						2,657,003	1,301,945								
6	360	Power Generation Equipment		2.00%	94,113	(211)		93,901					15,986	846,259	274,714								
7	361	Collection Sowers - Gravity		2.00%	190,760	(189)		190,571					85,746	4,562,602	3,206,456								
8	362	Special Collecting Structures		2.00%									4,042	202,123	161,297								
9	363	Services to Customers		10.00%									17,962	179,622	93,662								
10	364	Flow Measuring Devices		10.00%									34,238	1,028,162	368,046								
11	365	Flow Measuring Installations		2.00%									90,942	794,956	606,542								
12	366	Reuse Services		2.00%																			
13	367	Reuse Meters And Installation		8.33%																			
14	370	Receiving Wells		3.33%																			
15	371	Effluent Pumping Equipment		12.50%	107,891	(188)	27,135	134,837															
16	374	Reuse Distribution Reservoirs		2.50%																			
17	375	Reuse Trans. and Dist. System		2.50%																			
18	380	Treatment and Disposal Equipment		5.00%	186,041	(24)		186,017					12,092	334,849	38,578								
19	381	Plant Sowers		5.00%									6,226	124,527	121,174								
20	382	Outfall Sewer Lines		3.33%																			
21	383	Other Plant and Misc. Equipment		6.67%	500			500															
22	389	Office Furniture and Equipment		6.67%																			
23	390	Computers and Software		20.00%																			
24	391	Transportation Equipment		20.00%																			
25	392	Stores Equipment		5.00%																			
26	393	Tools, Shop and Garage Equipment.		5.00%	1,759	(6)		1,753					21,514	107,570	101,550								
27	394	Laboratory Equipment		10.00%									520	11,278	1,377								
28	395	Power Operated Equipment		5.00%									749	7,488	4,122								
29	396	Communication Equipment		10.00%									4,073	40,726	11,186								
30	397	Miscellaneous Equip.		10.00%									48,629	486,294	218,833								
31	398	Other Tangible Plant - Scottsdale Capacity		10.00%																			
TOTAL														646,579	(1,302)	(1,190)	643,888				511,886	13,046,591	7,657,453

¹ Affiliate Profit
² Retirements Not Recorded

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	Plant Additions	Plant Adjustments ¹	Plant Re-class	Adjusted Plant Additions	Plant Retirements ²	2011		Accum. Deprec.						
											Plant Retirement Adjustments	Adjusted Plant Retirements							
1	351	Organization		0.00%	0.00%														
2	352	Franchises		0.00%	0.00%														
3	353	Land and Land Rights		0.00%	0.00%														
4	354	Leases and Licenses		3.33%	3.33%														
5	355	Power Gas and Fuel		3.00%	3.00%	109,394	(1,491)	(50,642)	57,260	8,614		462,800	1,382,619						
6	360	Power Generation		2.00%	2.00%	99,047	(612)		98,435	8,381		2,705,649	284,159						
7	361	Collection Sewers - Force		2.00%	2.00%	89,030	(699)		88,331	5,072		936,313	3,293,269						
8	362	Special Collecting Structures		2.00%	2.00%				66,331			4,625,861							
9	363	Services to Customers		2.00%	2.00%														
10	364	Flow Measuring Devices		10.00%	10.00%							202,123	165,339						
11	365	Flow Measuring Installations		10.00%	10.00%							31,668	31,668						
12	366	Reuse Services		2.00%	2.00%							179,622	111,644						
13	367	Reuse Meters And Installation		8.33%	8.33%														
14	370	Receiving Wells		3.33%	3.33%														
15	371	Effluent Pumping Equipment		12.50%	12.50%	76,164	(653)	31,563	107,174	6,482		34,238	402,284						
16	374	Reuse Distribution Reservoirs		2.50%	2.50%							78,391	678,850						
17	375	Reuse Trans. and Dist. System		2.50%	2.50%														
18	380	Treatment and Disposal Equipment		5.00%	5.00%	33,223	(267)	(7,143)	25,813										
19	381	Plant Sewers		3.33%	3.33%														
20	382	Outfall Sewer Lines		5.00%	5.00%														
21	386	Other Plant and Misc. Equipment		6.87%	6.87%														
22	390	Office Furniture and Equipment		6.87%	6.87%	3,463	(11)	(3,150)	302			17,388	55,966						
23	390.1	Computers and Software		20.00%	20.00%							3,353	124,527						
24	391	Transportation Equipment		4.00%	4.00%														
25	392	Stores Equipment		5.00%	5.00%														
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	3,386	(30)		3,356			648	2,025						
27	394	Laboratory Equipment		5.00%	5.00%							749	4,871						
28	395	Power Operated Equipment		10.00%	10.00%														
29	396	Communication Equipment		10.00%	10.00%			20,308	20,308			5,088	16,274						
30	397	Miscellaneous Equip.		10.00%	10.00%														
31	398	Other TanglePlant - Scottsdale Capacity		10.00%	10.00%							48,629	287,462						
TOTAL											393,707	(3,654)	(9,065)	380,978	28,549	28,549	493,666	13,395,021	7,522,970

¹ Affiliate Profit
² Retirements Not Recorded

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Plant Additions	Plant Adjustments ¹	Plant Re-class	Adjusted Plant Additions	Plant Retirements ²	2012		Depreciation (Calculated)	Plant Balance	Accum. Deprec.
										Plant Retirement Adjustments	Adjusted Plant Retirements			
1	351	Organization		0.00%										
2	352	Franchises		0.00%										
3	353	Land and Land Rights		0.00%	9,740	(16)		9,724					472,524	
4	354	Structures and Improvements		3.33%	237,042	(1,140)	(41,192)	194,710	11,217				2,889,143	1,464,556
5	355	Power Generation Equipment		5.00%			3,839	3,839					96	96
6	356	Collection Sewers - Force		2.00%	60,446	(407)		60,039	671				995,682	302,808
7	357	Collection Sewers - Gravity		2.00%	30,677	(141)		30,536	842				4,655,556	3,385,241
8	358	Sanitary Sewers		2.00%										
9	359	Sanitary Sewers - Structures		2.00%										
10	360	Sanitary Sewers - Pipes		10.00%										
11	361	Flow Measuring Devices		10.00%										
12	362	Flow Measuring Installations		10.00%	430			430					202,123	169,382
13	363	Reuse Meters And Installation		2.00%									31,669	31,669
14	364	Reuse Meters		8.33%									180,051	129,628
15	365	Receiving Wells		3.33%									1,028,182	436,523
16	366	Effluent Pumping Equipment		12.50%	59,529	(432)	7,480	66,577		13,118			946,107	701,212
17	367	Reuse Distribution Reservoirs		2.50%										
18	368	Reuse Trans. and Dist. System		2.50%										
19	369	Treatment and Disposal Equipment		5.00%	2,231	(19)	2,100	4,312					364,974	74,107
20	370	Plant Sewers		5.00%									124,527	124,527
21	371	Outfall Sewer Lines		3.33%										
22	372	Other Plant and Misc. Equipment		6.67%	683			683					945,042	532,827
23	373	Office Furniture and Equipment		6.67%									224,587	139,407
24	374	Computers and Software		20.00%										
25	375	Transmission Equipment		4.00%	5,228	(7)		5,221		33,699			79,092	74,393
26	376	Stocks, Bonds and Garage Equipment		4.00%										
27	377	Tools, Shop and Garage Equipment		4.00%										
28	378	Laboratory Equipment		10.00%		(24)	(24)						14,610	2,756
29	379	Power Operated Equipment		5.00%		(2)	(2)						7,486	5,619
30	380	Miscellaneous Equip.		10.00%			27,773	27,773					88,807	23,766
31	381	Other Tangible Plant - Scottsdale Capacity		10.00%									466,294	316,091
TOTAL														
					406,006	(2,187)	0	403,819	25,847	33,699	59,548	451,583	13,743,293	7,914,807

¹ Affiliate Profit
² Retirements Not Recorded

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Plant Additions	Plant Adjustments ¹	Plant Reclass	Adjusted Plant Additions	Plant Retirements ²	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.							
																2013						
1	351	Organization		0.00%																		
2	352	Franchises		0.00%																		
3	353	Land and Land Rights		0.00%																		
4	334	Structures and Improvements		3.33%	62,428		(21,589)	40,839	3,676	4,128			96,820	472,524	1,557,247							
5	335	Power Generation Equipment		5.00%									192	2,925,854	1,557,247							
6	380	Collection Sewers - Force		2.00%	60,461			60,461					20,518	1,056,143	323,326							
7	381	Collection Sewers - Gravity		2.00%	15,123			15,123		1,705			93,245	4,688,974	3,476,792							
8	382	Special Collecting Structures		2.00%																		
9	383	Special Collecting Structures		2.00%	15,611			15,611					4,199	217,733	173,560							
10	384	Flow Measuring Devices		10.00%																		
11	365	Flow Measuring Installations		10.00%									18,005	180,051	147,633							
12	366	Reuse Services		2.00%																		
13	367	Reuse Meters And Installation		8.33%																		
14	370	Receiving Wells		3.33%																		
15	371	Effluent Pumping Equipment		12.50%	84,467		15,589	100,056	31,863	5,096			34,238	1,028,182	470,761							
16	374	Reuse Distribution Reservoirs		2.50%									46,094	1,012,203	710,346							
17	375	Reuse Trans. and Dist. System		2.50%																		
18	380	Treatment and Disposal Equipment		5.00%	7,270		1,519	8,789					18,468	373,763	82,575							
19	381	Plant Sewers		5.00%																		
20	382	Outfall Sewer Lines		3.33%																		
21	389	Other Plant and Misc. Equipment		6.67%																		
22	390	Office Furniture and Equipment		6.67%																		
23	391	Computers and Software		20.00%	62,224		(62,224)						63,034	945,042	595,861							
24	391.1	Computers and Software		20.00%									14,980	224,587	154,367							
25	392	Transmission Equipment		20.00%				62,224					6,222	62,224	6,222							
26	393	Tools, Shop and Garage Equipment		4.00%									1,044	79,092	75,438							
27	394	Laboratory Equipment		5.00%	1,573								770	16,184	3,526							
28	395	Power Operated Equipment		10.00%									749	7,486	6,368							
29	396	Communication Equipment		5.00%																		
30	397	Miscellaneous Equip.		10.00%			4,482	4,482					9,105	93,289	32,871							
31	398	Other Tangible Plant - Scottsdale Capacity		10.00%									48,629	486,294	364,721							
TOTAL														309,159	(0)	309,159	35,540	1,263	42,793	476,313	14,009,660	6,348,127

¹ Affiliate Profit
² Retirements Not Recorded

Line No.	MARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	Plant Additions	Plant Adjustments ¹	Plant Re-class and AFUDC	Adjusted Plant Additions	Plant Retirements ²	2014		Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	
											Plant Retirement Adjustments	Adjusted Plant Retirements					
1	351	Organization		0.00%	0.00%	-	-	-	-	-	-	-	-	-	-	-	
2	352	Franchises		0.00%	0.00%	-	-	-	-	-	-	-	-	-	-	-	
3	353	Land and Land Rights		0.00%	0.00%	-	-	-	-	-	-	-	-	-	-	-	
4	354	Structures and Improvements		3.33%	3.33%	49,837	(13,255)	(9,307)	27,375	13,970	-	-	97,654	2,939,259	472,524	1,640,932	
5	355	Power Generation Equipment		5.00%	5.00%	-	-	340	74,847	559	-	-	192	3,839	480	344,633	
6	356	Collection Sewers - Force		2.00%	2.00%	81,757	(241,801)	(51)	(106,551)	7,241	-	-	92,242	4,555,191	3,561,782	172,651	
7	357	Collection Sewers - Gravity		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-	
8	358	Sanitary Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-	
9	359	Services to Customers		10.00%	10.00%	48,419	-	(7)	48,413	5,711	-	-	4,782	280,435	31,668	165,638	
10	364	Flow Measuring Devices		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-	
11	365	Flow Measuring Installations		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-	
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-	
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-	-	
14	370	Receiving Wells		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-	-	
15	371	Effluent Pumping Equipment		12.50%	12.50%	38,455	9,634	4,227	52,316	41,033	-	-	34,238	1,028,182	505,000	724,929	
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-	
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-	
18	380	Treatment and Disposal Equipment		5.00%	5.00%	20,759	(71,979)	(2,256)	(63,478)	-	-	-	17,351	320,285	109,926	124,527	
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-	
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-	-	
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	20,888	(6,198)	-	14,790	-	-	-	63,528	959,832	659,389	169,457	
22	390	Office Furniture and Equipment		6.67%	6.67%	2,724	-	(21)	2,703	-	-	-	12,445	62,224	18,667	56,967	
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-	-	-	
24	391	Transportation Equipment		20.00%	20.00%	22,930	-	-	22,930	21,808	-	-	3,337	80,215	-	-	
25	392	Construction Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-	-	
26	393	Tools, Shop and Garage Equipment		5.00%	5.00%	12,768	-	(0)	12,758	-	-	-	1,128	28,942	4,654	7,277	
27	394	Laboratory Equipment		10.00%	10.00%	3,196	-	-	3,196	-	-	-	908	10,663	-	-	
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-	
29	396	Communication Equipment		10.00%	10.00%	3,242	-	6,760	10,002	-	-	-	9,829	103,290	42,700	413,350	
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-	
31	398	Other Tangible Plant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-	
TOTAL										440,465	(330,849)	(317)	109,300	90,322	496,821	14,028,638	8,754,626

¹ Affiliate Profit
² Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 2

Exhibit
 Rebuttal Schedule B-2
 Page 4
 Witness: Bourassa

Accumulated Depreciation

Line No.	Acct. No.	Description	A	B	C	D	E	F	Rebuttal Adjusted Accum. Depr.
			Adjusted Accum. Depr.	Depreciation Calc. Correction	Plant Reclassification	AFUDC	Plant Addition Correction	Allocated Corporate Plant	Adjustments to Reconcile A/D to Recon.
1									
2									
3									
4									
5	351	Organization							
6	352	Franchise							
7	353	Land							
8	354	Structures & Improvements	1,641,790	14,176	(15,034)				1,640,932
9	355	Power Generation		0	480				480
10	360	Collection Sewer Forced	342,270	2,360	6				344,633
11	361	Collection Sewers Gravity	3,547,500	14,283					3,561,782
12	362	Special Collecting Structures							
13	363	Customer Services		662					
14	364	Flow Measuring Devices	171,989						172,651
15	365	Flow Measuring Installations	31,668						31,668
16	366	Reuse Services	162,645	2,994					165,638
17	367	Reuse Meters And Installation							
18	370	Receiving Wells							
19	371	Pumping Equipment	489,821	5,178					505,000
20	374	Reuse Distribution Reservoirs	690,332	0	34,597				724,929
21	375	Reuse Trans. and Dist. System							
22	380	Treatment & Disposal Equipment		1,376	(930)				
23	381	Plant Sewers	124,527						109,926
24	382	Outfall Sewer Lines							124,527
25	389	Other Sewer Plant & Equipment	656,611	10,461	(735)				659,389
26	390	Office Furniture & Equipment	173,186	2,497	(6,226)		(6,947)		169,457
27	390.1	Computers and Software		0	18,667				18,667
28	391	Transportation Equipment	56,967	0					56,967
29	392	Stores Equipment							
30	393	Tools, Shop And Garage Equip	4,592	62					4,654
31	394	Laboratory Equip	7,152	125					7,277
32	395	Power Operated Equipment							
33	396	Communication Equip	26,962	676	15,061				42,700
34	397	Miscellaneous Equip.							
35	398	Other Tangible Plant - Sottdale Capacity	405,245	8,105					413,350
36		Accumulated Depreciation							
37	108	SUBTOTAL	8,652,737	62,954	45,886	(4)	(6,947)	0	8,754,626
38									
39									
40									
41	903	Land and Land Rights							
42	904	Structures and Improvements	1,944					2,890	4,834
43	940	Office Furniture & Equipment						831	831
44	940.1	Computers and Software						24,929	24,929
45		Plant Held for Future Use							
46		TOTALS	\$ 8,654,682	\$ 62,954	\$ 45,886	\$ (4)	\$ (6,947)	\$ 28,650	\$ 8,785,220
47									
48		Accumulated Depreciation per Direct							\$ 8,654,682
49									
50		Increase (decrease) in Accumulated Depreciation							\$ 130,539
51									
52		Adjustment to Accumulated Depreciation							\$ 130,539
53									
54		SUPPORTING SCHEDULES							
55		B-2, pages 4.1 through 4.6							

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 2 - A

Exhibit
 Rebuttal Schedule B-2
 Page 4.1
 Witness: Bourassa

Line No.	Acct. No.	Description	2008	2009	2010	2011	2012	2013	2014	Total Cost
1										
2										
3										
4										
5										
6	351	Organization	-	-	-	-	-	-	-	-
7	352	Franchises	-	-	-	-	-	-	-	-
8	353	Land and Land Rights	-	-	-	-	-	-	-	-
9	354	Structures and Improvements	14,176	-	(0)	0	(0)	(0)	(0)	14,176
10	355	Power Generation Equipment	-	-	-	-	(0)	0	0	0
11	360	Collection Sewers - Force	2,360	-	-	-	(0)	0	(0)	2,360
12	361	Collection Sewers - Gravity	14,283	-	-	-	-	-	0	14,283
13	362	Special Collecting Structures	-	-	-	-	-	-	-	-
14	363	Services to Customers	662	-	-	-	-	-	0	662
15	364	Flow Measuring Devices	219	(219)	-	-	-	-	-	-
16	365	Flow Measuring Installations	2,994	-	-	-	-	-	-	2,994
17	366	Reuse Services	-	-	-	-	-	-	-	-
18	367	Reuse Meters And Installation	-	-	-	-	-	-	-	-
19	370	Receiving Wells	5,178	-	-	-	-	-	-	5,178
20	371	Effluent Pumping Equipment	13,672	-	0	(13,672)	0	0	0	0
21	374	Reuse Distribution Reservoirs	-	-	-	-	-	-	-	-
22	375	Reuse Trans. and Dist. System	-	-	-	-	-	-	-	-
23	380	Treatment and Disposal Equipment	1,376	-	-	(0)	(0)	(0)	(0)	1,376
24	381	Plant Sewers	1,038	-	-	(1,038)	-	-	-	-
25	382	Outfall Sewer Lines	-	-	-	-	-	-	-	-
26	389	Other Plant and Misc. Equipment	10,461	-	-	0	0	0	0	10,461
27	390	Office Furniture and Equipment	2,497	-	-	-	-	(0)	0	2,497
28	390.1	Computers and Software	-	-	-	-	-	0	0	0
29	391	Transportation Equipment	3,582	-	-	(3,582)	-	-	-	0
30	392	Stores Equipment	-	-	-	-	-	-	-	-
31	393	Tools, Shop and Garage Equipment.	62	-	-	-	-	-	(0)	62
32	394	Laboratory Equipment	125	-	-	-	-	-	-	125
33	395	Power Operated Equipment	-	-	-	-	-	-	-	-
34	396	Communication Equipment	676	-	-	0	0	(0)	0	676
35	397	Miscellaneous Equip.	-	-	-	-	-	-	-	-
36	398	Other TangiblePlant - Scottsdale Capacity	8,105	-	-	-	-	-	-	8,105
37										
38										
39										
40										
41										
42										
43										
44										
45										
46										
47										
48										
49										
50										
51										
			81,465	(219)	(0)	(18,292)	0	0	(0)	62,954

SUPPORTING SCHEDULE
 Testimony
 Work papers

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 2 - B

Exhibit
 Rebuttal Schedule B-2
 Page 4.2
 Witness: Bourassa

Line No.	A/D from Plant Reclassification	Depr. Rate	2010	2011	2012	2013	2014	Total
1								
2								
3	Acct No. Description							
4	351 Organization	0.00%	-	-	-	-	-	-
5	352 Franchise	0.00%	-	-	-	-	-	-
6	353 Land	0.00%	-	-	-	-	-	-
7	354 Structures & Improvements	3.33%	(497)	(1,836)	(3,365)	(4,411)	(4,925)	(15,034)
8	355 Power Generation	5.00%	-	-	96	192	192	480
9	360 Collection Sewer Forced	2.00%	-	-	-	6	6	-
10	361 Collection Sewers Gravity	2.00%	-	-	-	-	-	-
11	362 Special Collecting Structures	2.00%	-	-	-	-	-	-
12	363 Customer Services	2.00%	-	-	-	-	-	-
13	364 Flow Measuring Devices	10.00%	-	-	-	-	-	-
14	365 Flow Measuring Installations	10.00%	-	-	-	-	-	-
15	366 Reuse Services	2.00%	-	-	-	-	-	-
16	367 Reuse Meters And Installation	8.33%	-	-	-	-	-	-
17	370 Receiving Wells	3.33%	-	-	-	-	-	-
18	371 Pumping Equipment	12.50%	1,696	5,365	7,805	9,246	10,485	34,597
19	374 Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-
20	375 Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-
21	380 Treatment & Disposal Equipment	5.00%	-	(179)	(305)	(214)	(233)	(930)
22	381 Plant Sewers	5.00%	-	-	-	-	-	-
23	382 Outfall Sewer Lines	3.33%	-	-	-	-	-	-
24	389 Other Sewer Plant & Equipment	6.67%	-	(105)	(210)	(210)	(210)	(735)
25	390 Office Furniture & Equipment	6.67%	-	-	-	(2,075)	(4,150)	(6,226)
26	390.1 Computers and Software	20.00%	-	-	-	6,222	12,445	18,667
27	391 Transportation Equipment	20.00%	-	-	-	-	-	-
28	392 Stores Equipment	4.00%	-	-	-	-	-	-
29	393 Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-
30	394 Laboratory Equip	10.00%	-	-	-	-	-	-
31	395 Power Operated Equip	5.00%	-	-	-	-	-	-
32	396 Communication Equip	10.00%	-	1,015	3,419	5,032	5,594	15,061
33	397 Miscellaneous Equip.	10.00%	-	-	-	-	-	-
34	398 Other Tangible Plant - Scottsdale Capacity	10.00%	-	-	-	-	-	-
35								
36	Totals		\$ 1,199	\$ 4,260	\$ 7,440	\$ 13,783	\$ 19,204	\$ 45,886
37								
38								
39								
40								
41								
42								
43								
44								
45								

SUPPORTING SCHEDULE
 B-2, pages 3.1
 Work papers

Line No.	A/D from AFUDC removal	Depr. Rate	2010	2011	2012	2013	2014	Total
1								
2								
3	Acct No. Description							
4	351 Organization	0.00%	-	-	-	-	-	-
5	352 Franchise	0.00%	-	-	-	-	-	-
6	353 Land	0.00%	-	-	-	-	-	-
7	354 Structures & Improvements	3.33%	-	-	-	(0)	(0)	(0)
8	355 Power Generation	5.00%	-	-	-	-	-	-
9	360 Collection Sewer Forced	2.00%	-	-	-	(2)	(2)	(2)
10	361 Collection Sewers Gravity	2.00%	-	-	-	(1)	(1)	(1)
11	362 Special Collecting Structures	2.00%	-	-	-	-	-	-
12	363 Customer Services	2.00%	-	-	-	(0)	(0)	(0)
13	364 Flow Measuring Devices	10.00%	-	-	-	-	-	-
14	365 Flow Measuring Installations	10.00%	-	-	-	-	-	-
15	366 Reuse Services	2.00%	-	-	-	-	-	-
16	367 Reuse Meters And Installation	8.33%	-	-	-	-	-	-
17	370 Receiving Wells	3.33%	-	-	-	-	-	-
18	371 Pumping Equipment	12.50%	-	-	-	-	(0)	(0)
19	374 Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-
20	375 Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-
21	380 Treatment & Disposal Equipment	5.00%	-	-	-	-	-	-
22	381 Plant Sewers	5.00%	-	-	-	-	-	-
23	382 Outfall Sewer Lines	3.33%	-	-	-	-	-	-
24	389 Other Sewer Plant & Equipment	6.67%	-	-	-	-	-	-
25	390 Office Furniture & Equipment	6.67%	-	-	-	-	-	-
26	390.1 Computers and Software	20.00%	-	-	-	(1)	(1)	(1)
27	391 Transportation Equipment	20.00%	-	-	-	-	-	-
28	392 Stores Equipment	4.00%	-	-	-	-	-	-
29	393 Tools, Shop And Garage Equip	5.00%	-	-	-	-	(0)	(0)
30	394 Laboratory Equip	10.00%	-	-	-	-	-	-
31	395 Power Operated Equip	5.00%	-	-	-	-	-	-
32	396 Communication Equip	10.00%	-	-	-	-	-	-
33	397 Miscellaneous Equip.	10.00%	-	-	-	-	-	-
34	398 Other Tangible Plant - Scottsdale Capacity	10.00%	-	-	-	-	-	-
35								
36	Totals		\$ -	\$ -	\$ -	\$ -	\$ (4)	\$ (4)
37								
38								
39								
40								
41								
42								
43								
44								
45								

SUPPORTING SCHEDULE
 B-2, pages 3.2
 Work papers

Line No.	A/D from Plant Addition Correction	Depr. Rate	2010	2011	2012	2013	2014	Total
1								
2								
3								
4	Acct No. Description							
5	351 Organization	0.00%	-	-	-	-	-	-
6	352 Franchise	0.00%	-	-	-	-	-	-
7	353 Land	0.00%	-	-	-	-	-	-
8	354 Structures & Improvements	3.33%	-	-	-	-	-	-
9	355 Power Generation	5.00%	-	-	-	-	-	-
10	360 Collection Sewer Forced	2.00%	-	-	-	-	-	-
11	361 Collection Sewers Gravity	2.00%	-	-	-	-	-	-
12	362 Special Collecting Structures	2.00%	-	-	-	-	-	-
13	363 Customer Services	2.00%	-	-	-	-	-	-
14	364 Flow Measuring Devices	10.00%	-	-	-	-	-	-
15	365 Flow Measuring Installations	10.00%	-	-	-	-	-	-
16	366 Reuse Services	2.00%	-	-	-	-	-	-
17	370 Reuse Meters And Installation	8.33%	-	-	-	-	-	-
18	370 Receiving Wells	3.33%	-	-	-	-	-	-
19	371 Pumping Equipment	12.50%	-	-	-	-	-	-
20	374 Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-
21	375 Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-
22	380 Treatment & Disposal Equipment	5.00%	-	-	-	-	-	-
23	381 Plant Sewers	5.00%	-	-	-	-	-	-
24	382 Outfall Sewer Lines	3.33%	-	-	-	-	-	-
25	389 Other Sewer Plant & Equipment	6.67%	-	(992)	(1,985)	(1,985)	(1,985)	(6,947)
26	390 Office Furniture & Equipment	6.67%	-	-	-	-	-	-
27	390.1 Computers and Software	20.00%	-	-	-	-	-	-
28	391 Transportation Equipment	20.00%	-	-	-	-	-	-
29	392 Stores Equipment	4.00%	-	-	-	-	-	-
30	393 Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-
31	394 Laboratory Equip	10.00%	-	-	-	-	-	-
32	395 Power Operated Equip	5.00%	-	-	-	-	-	-
33	396 Communication Equip	10.00%	-	-	-	-	-	-
34	397 Miscellaneous Equip.	10.00%	-	-	-	-	-	-
35	398 Other Tangible Plant - Scottsdale Capacity	10.00%	-	-	-	-	-	-
36	Totals		\$ -	\$ (992)	\$ (1,985)	\$ (1,985)	\$ (1,985)	\$ (6,947)
37								
38								
39								
40								
41								
42								
43								
44								
45								

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 2 - F

Exhibit
 Rebuttal Schedule B-2
 Page 4.6
 Witness: Bourassa

Line No.	Acct. No. Description	A/D Original Cost	B-2 Adjustments	Adjusted A/D Original Cost	A/D Per Reconstruction	Difference
1	<u>Reconciliation of A/D to A/D Reconstruction</u>					
2						
3						
4	Acct. No. Description	A/D Original Cost	B-2 Adjustments	Adjusted A/D Original Cost	A/D Per Reconstruction	Difference
5						
6	351 Organization	\$ -	\$ -	\$ -	\$ -	\$ -
7	352 Franchise	-	-	-	-	-
8	353 Land	-	-	-	-	-
9	354 Structures & Improvements	1,641,790	(859)	1,640,931	1,640,932	0
10	355 Power Generation	-	480	480	480	-
11	360 Collection Sewer Forced	342,270	2,363	344,633	344,633	-
12	361 Collection Sewers Gravity	3,547,500	14,283	3,561,782	3,561,782	-
13	362 Special Collecting Structures	-	-	-	-	-
14	363 Customer Services	171,989	662	172,651	172,651	-
15	364 Flow Measuring Devices	31,668	-	31,668	31,668	-
16	365 Flow Measuring Installations	162,645	2,994	165,638	165,638	-
17	366 Reuse Services	-	-	-	-	-
18	367 Reuse Meters And Installation	-	-	-	-	-
19	370 Receiving Wells	499,821	5,178	505,000	505,000	-
20	371 Pumping Equipment	690,332	34,597	724,929	724,929	-
21	374 Reuse Distribution Reservoirs	-	-	-	-	-
22	375 Reuse Trans. and Dist. System	-	-	-	-	-
23	380 Treatment & Disposal Equipment	109,481	446	109,926	109,926	-
24	381 Plant Sewers	124,527	-	124,527	124,527	-
25	382 Outfall Sewer Lines	-	-	-	-	-
26	389 Other Sewer Plant & Equipment	656,611	2,778	659,389	659,389	-
27	390 Office Furniture & Equipment	173,186	(3,730)	169,457	169,457	-
28	390.1 Computers and Software	-	18,667	18,667	18,667	-
29	391 Transportation Equipment	56,967	0	56,967	56,967	-
30	392 Stores Equipment	-	-	-	-	-
31	393 Tools, Shop And Garage Equip	4,592	62	4,654	4,654	-
32	394 Laboratory Equip	7,152	125	7,277	7,277	-
33	395 Power Operated Equipment	-	-	-	-	-
34	396 Communication Equip	26,962	15,738	42,700	42,700	-
35	397 Miscellaneous Equipment	-	-	-	-	-
36	398 Other Tangible Plant - Scottsdale Capacity	405,245	8,105	413,350	413,350	-
37	108 Accumulated Depreciation	-	-	-	-	-
38						
39						
40						
41						
42	Plant Held for Future Use					-
43	TOTALS	\$ 8,652,737	\$ 101,889	\$ 8,754,626	\$ 8,754,626	\$ 0
44						
45						
46	<u>SUPPORTING SCHEDULE</u>					
47	B-2, pages 4.1 through 4.5					
48	B-2, pages 3.6 through 3.13					

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Original Cost Rate Base Proforma Adjustments
 Adjustment 3

Exhibit
 Rebuttal Schedule B-2
 Page 5
 Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

Line <u>No.</u> 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40	Computed balance at end of Test Year Adjusted balance at end of Test Year Increase (decrease) Adjustment to CIAC/AA CIAC Label	<table border="0" style="width: 100%;"> <tr> <td style="text-align: center; width: 10%;"></td> <td style="text-align: center; width: 10%;"><u>Gross</u></td> <td style="width: 80%;"></td> <td style="text-align: center; width: 10%;"><u>Accumulated</u></td> </tr> <tr> <td></td> <td style="text-align: center;"><u>CIAC</u></td> <td></td> <td style="text-align: center;"><u>Amortization</u></td> </tr> <tr> <td style="text-align: right;">\$</td> <td style="text-align: right;">6,445,253</td> <td></td> <td style="text-align: right;">\$ 5,333,859</td> </tr> <tr> <td style="text-align: right;">\$</td> <td style="text-align: right;"><u>5,461,736</u></td> <td></td> <td style="text-align: right;"><u>\$ 5,240,717</u></td> </tr> <tr> <td style="text-align: right;">\$</td> <td style="text-align: right;">983,517</td> <td></td> <td style="text-align: right;">\$ 93,143</td> </tr> <tr> <td style="text-align: right;">\$</td> <td style="text-align: right;"><u>983,517</u></td> <td></td> <td style="text-align: right;"><u>\$ (93,143)</u></td> </tr> <tr> <td></td> <td style="text-align: center;"><u>3a</u></td> <td></td> <td style="text-align: center;"><u>3b</u></td> </tr> </table>		<u>Gross</u>		<u>Accumulated</u>		<u>CIAC</u>		<u>Amortization</u>	\$	6,445,253		\$ 5,333,859	\$	<u>5,461,736</u>		<u>\$ 5,240,717</u>	\$	983,517		\$ 93,143	\$	<u>983,517</u>		<u>\$ (93,143)</u>		<u>3a</u>		<u>3b</u>
	<u>Gross</u>		<u>Accumulated</u>																											
	<u>CIAC</u>		<u>Amortization</u>																											
\$	6,445,253		\$ 5,333,859																											
\$	<u>5,461,736</u>		<u>\$ 5,240,717</u>																											
\$	983,517		\$ 93,143																											
\$	<u>983,517</u>		<u>\$ (93,143)</u>																											
	<u>3a</u>		<u>3b</u>																											
	<u>SUPPORTING SCHEDULES</u> B-2, page 5.1 - 5.3																													

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment 4
Advances-in-Aid of Construction (AIAC)

Exhibit
Rebuttal Schedule B-2
Page 6
Witness: Bourassa

Line
No.

1			
2	<u>Contract</u>		
3	Studios at Carefree	\$	244,639
4	Lowe's		160,442
5	Carefree Ironwood Estates		115,668
6			
7	Total	\$	<u>520,749</u>
8			
9	Adjusted balance at End of Test Year	\$	<u>1,743,922</u>
10			
11	Increase (decrease)	\$	<u>(1,223,173)</u>
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22	<u>SUPPORTING SCHEDULES</u>		
23	Work papers		
24			
25			
26			
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Original Cost Rate Base Proforma Adjustments
 Adjustment 5

Line No.	Deferred Income Tax as of December 31, 2014	Water & Sewer Adjusted Book Value	Water & Sewer Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Effective Tax Rate	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
1										
2										
3										
4										
5										
6		Plant-in-Service \$ 13,731,570 ¹								
7		Accum. Deprec. (8,756,571) ¹								
8		CIAC (1,475,918) ³								
9	Fed.	Fixed Assets \$ 3,499,082	\$ 2,433,867 ²	100.0%	\$ (1,065,215)	32.33%				(344,427)
10										
11	State	Fixed Assets \$ 3,499,082	\$ 4,015,340 ²	100.0%	\$ 516,258	4.900%		25,297		
12										
13	Fed & State	AIAC	164,795 ⁴	100.0%	\$ 164,795 ⁴	37.234%		61,360		
14										
15										
16										
17		Net Asset (Liability)								
18		Allocated Corporate ADIT ⁵								
19										
20		Net Asset (Liability)								
21										
22		Net Asset (Liability)								
23		Allocation Factor								
24										
25		Net Asset (Liability)								
26										
27		DIT Asset (Liability) per Direct								
28										
29		Adjustment to DIT								
30										
31										
32										
33										
34										
35										
36										
37										
38										
39										
40										
41										
42										
43										
44										

Footnotes - See page 7.1

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Cash Working Capital

Exhibit
 Rebuttal Schedule B-5
 Page 1
 Witness: Bourassa

Line No.	Description	Proforma Test Year Amount ¹	Revenue Lag (Lead) Days	Expense Lag (Lead) Days	Net Lag (Lead) Days	Col. C - Col. D	Lead/Lag Factor	Col. E/365	Cash Working Capital Required	Col. B * Col. F
	(A)	(B)	(C)	(D)	(E)	(F)	(G)			
7	OPERATING EXPENSES									
8	Salaries and Wages	\$ -	2.13	20.00	(17.87)	(0.04895272)	\$ -			
9	Purchased Water	5,647	2.13	28.22	(26.09)	(0.07147327)	(404)			
10	Sludge Removal	-	2.13	-	2.13	0.00584180	-			
11	Purchased Power	65,112	2.13	34.37	(32.24)	(0.08832258)	(5,751)			
12	Fuel for Power Production	-	2.13	-	2.13	0.00584180	-			
13	Chemicals	19,215	2.13	4.94	(2.81)	(0.00769245)	(148)			
14	Materials and Supplies	23,875	2.13	(20.42)	22.55	0.06178701	1,475			
15	Contractual Services - Professional	523,803	2.13	20.05	(17.92)	(0.04908971)	(25,713)			
16	Contractual Services - Testing	11,451	2.13	27.61	(25.48)	(0.06980204)	(799)			
17	Contractual Services - Other	361,855	2.13	46.68	(44.55)	(0.12204861)	(44,164)			
18	Rents	23,807	2.13	27.28	(25.15)	(0.06889793)	(1,640)			
19	Transportation	15,371	2.13	24.75	(22.62)	(0.06196642)	(952)			
20	Insurance	11,720	2.13	(182.50)	184.63	0.50584180	5,928			
21	Scottsdale Capacity (Operating Lease)	164,522	2.13	(15.00)	17.13	0.04693769	7,722			
22	Miscellaneous	60,542	2.13	8.56	(6.43)	(0.01761026)	(1,066)			
23	Interest Expense	36,212	2.13	14.71	(12.58)	(0.03445957)	(1,248)			
24										
26	TAXES									
27	General Taxes-Property ¹	\$ 49,586	2.13	213.96	(211.83)	(0.58034542)	(28,777)			
28	General Taxes-Other	-	2.13	-	2.13	0.00584180	-			
29	Income Tax ¹	153,352	2.13	37.00	(34.87)	(0.09552806)	(14,649)			
30										
31	OTHER									
32	Regulatory Commission Expense	-	2.13	(136.54)	138.67	0.37992856	-			
33										
34	TOTAL	\$ 1,526,069								
35										
36										
37										
38										
39										
40										

¹At proposed rates.

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

Exhibit
 Rebuttal Schedule C-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Book Results	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 2,212,684	\$ -	\$ 2,212,684	\$ 14,515	\$ 2,227,199
3	Unmetered Water Revenues	16,067	-	16,067		16,067
4	Other Water Revenues	11,098	-	11,098		11,098
5		<u>\$ 2,239,848</u>	<u>\$ -</u>	<u>\$ 2,239,848</u>	<u>\$ 14,515</u>	<u>\$ 2,254,363</u>
6	Operating Expenses					
7	Salaries and Wages	\$ 242,213	(242,213)	\$ -		\$ -
8	Purchased WasteWater Treatment	5,647	-	5,647		5,647
9	Sludge Removal	-	-	-		-
10	Purchased Power	65,112	-	65,112		65,112
11	Fuel for Power Production	-	-	-		-
12	Chemicals	19,215	-	19,215		19,215
13	Materials and Supplies	23,875	-	23,875		23,875
14	Contractual Services - Professional	313,511	210,292	523,803		523,803
15	Contractual Services - Testing	8,117	3,334	11,451		11,451
16	Contractual Services - Other	361,855	-	361,855		361,855
17	Rents	23,807	-	23,807		23,807
18	Transportation	15,371	-	15,371		15,371
19	Insurance	11,720	-	11,720		11,720
20	Regulatory Commission	-	-	-		-
21	Scottsdale Capacity (Operating Lease)	164,522	-	164,522		164,522
22	Miscellaneous	60,542	-	60,542		60,542
23	Depreciation and Amortization	484,271	(14,484)	469,787		469,787
24	Taxes Other Than Income	-	-	-		-
25	Property Taxes	49,478	1	49,479	107	49,586
26	Income Taxes	131,980	16,007	147,987	5,365	153,352
27	Total Operating Expenses	<u>\$ 1,981,235</u>	<u>\$ (27,062)</u>	<u>\$ 1,954,172</u>	<u>\$ 5,472</u>	<u>\$ 1,959,644</u>
28	Operating Income	<u>\$ 258,613</u>	<u>\$ 27,062</u>	<u>\$ 285,676</u>	<u>\$ 9,043</u>	<u>\$ 294,719</u>
29	Other Income (Expense)					
30	Interest and Dividend Income	-	-	-		-
31	AFUDC Income	8,893	-	8,893		8,893
32	Miscellaneous Non-Utility Expenses	-	-	-		-
33	Interest Expense	(36,133)	(78)	(36,212)		(36,212)
34						
35	Total Other Income (Expense)	<u>\$ (27,240)</u>	<u>\$ (78)</u>	<u>\$ (27,319)</u>	<u>\$ -</u>	<u>\$ (27,319)</u>
36	Net Profit (Loss)	<u>\$ 231,373</u>	<u>\$ 26,984</u>	<u>\$ 258,357</u>	<u>\$ 9,043</u>	<u>\$ 267,400</u>

37
 38 SUPPORTING SCHEDULES:
 39 C-1, page 2
 40 E-2
 41

RECAP SCHEDULES:
 A-1

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Adjustments to Revenues and Expenses

Exhibit
 Rebuttal Schedule C-2
 Page 1
 Witness: Bourassa

Line No.	<u>Adjustments to Revenues and Expenses</u>						<u>Subtotal</u>	
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>		
		Property	Intentionally	Reclassify	Corporate	Testing		
	<u>Depreciation</u>	Taxes	Left	Expenses	Costs	Expense		
			Blank		Adjustment			
1								
2								
3								
4	Revenues	-	-	-	-	-	-	
5								
6	Expenses	(14,484)	1	-	(31,921)	3,334	(43,070)	
7								
8	Operating							
9	Income	14,484	(1)	-	31,921	(3,334)	43,070	
10								
11	Interest							
12	Expense						-	
13	Other							
14	Income /						-	
15	Expense							
16								
17	Net Income	14,484	(1)	-	31,921	(3,334)	43,070	
18								
19								
20		<u>Adjustments to Revenues and Expenses</u>						
21		<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>Subtotal</u>
22		Intentionally	Intentionally	Intentionally	Intentionally	Intentionally	Intentionally	
23		Capitalized	Left	Left	Left	Left	Left	
24		<u>Expense</u>	<u>Blank</u>	<u>Blank</u>	<u>Blank</u>	<u>Blank</u>	<u>Blank</u>	
25	Revenues	-	-	-	-	-	-	-
26								
27	Expenses	-	16,007	-	-	-	-	(27,062)
28								
29	Operating							
30	Income	-	(16,007)	-	-	-	-	27,062
31								
32	Interest							
33	Expense	-						-
34	Other							
35	Income /							-
36	Expense							
37								
38	Net Income	-	(16,007)	-	-	-	-	27,062
39								
40								
41		<u>Adjustments to Revenues and Expenses</u>						
42		<u>13</u>	<u>14</u>	<u>15</u>	<u>16</u>	<u>17</u>	<u>18</u>	<u>Total</u>
43		Interest	Income	Intentionally	Intentionally	Intentionally	Intentionally	
44		<u>Synch.</u>	<u>Taxes</u>	left	left	left	left	
45				<u>Blank</u>	<u>Blank</u>	<u>Blank</u>	<u>Blank</u>	
46	Revenues	-	-	-	-	-	-	-
47								
48	Expenses	-	-	-	-	-	-	(27,062)
49								
50	Operating							
51	Income	-	-	-	-	-	-	27,062
52								
53	Interest							
54	Expense	(78)						(78)
55	Other							
56	Income /							-
57	Expense							
58								
59	Net Income	(78)	-	-	-	-	-	26,984

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Adjustments to Revenues and Expenses
 Adjustment Number 1

Exhibit
 Rebuttal Schedule C-2
 Page 2
 Witness: Bourassa

Depreciation Expense

Line No.	Acct. No.	Description	Adjusted Original Cost	Non-Depr. or Fully Depr. Plant	Depr Original Cost	Proposed Rates	Depreciation Expense
1	351	Organization	-		-	0.00%	-
2	352	Franchise	-		-	0.00%	-
3	353	Land	472,524	(472,524)	-	0.00%	-
4	354	Structures & Improvements	2,939,259		2,939,259	3.33%	97,877
5	355	Power Generation	3,839		3,839	5.00%	192
6	360	Collection Sewer Forced	1,130,430		1,130,430	2.00%	22,609
7	361	Collection Sewers Gravity	4,555,181		4,555,181	2.00%	91,104
8	362	Special Collecting Structures	-		-	2.00%	-
9	363	Customer Services	260,435		260,435	2.00%	5,209
10	364	Flow Measuring Devices	31,668	(31,668)	-	10.00%	-
11	365	Flow Measuring Installations	180,051		180,051	10.00%	18,005
12	366	Reuse Services	-		-	2.00%	-
13	367	Reuse Meters And Installation	-		-	8.33%	-
14	370	Receiving Wells	1,028,182		1,028,182	3.33%	34,238
15	371	Pumping Equipment	1,023,485	(552,393)	471,092	12.50%	58,887
16	374	Reuse Distribution Reservoirs	-		-	2.50%	-
17	375	Reuse Trans. and Dist. System	-		-	2.50%	-
18	380	Treatment & Disposal Equipment	320,285		320,285	5.00%	16,014
19	381	Plant Sewers	124,527	(124,527)	-	5.00%	-
20	382	Outfall Sewer Lines	-		-	3.33%	-
21	389	Other Sewer Plant & Equipment	959,832		959,832	6.67%	64,021
22	390	Office Furniture & Equipment	227,290		227,290	6.67%	15,160
23	390.1	Computers and Software	62,224		62,224	20.00%	12,445
24	391	Transportation Equipment	80,215	(52,063)	28,151	20.00%	5,630
25	392	Stores Equipment	-		-	4.00%	-
26	393	Tools, Shop And Garage Equip	28,942		28,942	5.00%	1,447
27	394	Laboratory Equip	10,683		10,683	10.00%	1,068
28	395	Power Operated Equipment	-		-	5.00%	-
29	396	Communication Equip	103,290		103,290	10.00%	10,329
30	397	Miscellaneous Equip.	-		-	10.00%	-
31	398	Other Tangible Plant - Scottsdale Capacity	486,294		486,294	10.00%	48,629
32	903	Land and Land Rights	8,420	(8,420)	-	0.00%	-
33	904	Structures and Improvments	91,464		91,464	2.56%	2,341
34	940.1	Computers and Software	65,633		65,633	20.00%	13,127
35							
36		TOTALS	\$ 14,194,155	\$ (1,241,595)	\$ 12,952,560		\$ 518,333
37							
38		Less: Amortization of Contributions					
39							
40				Fully Amortized	Net		
41			Gross CIAC	CIAC	CIAC	Amort. Rate	
42			\$ 6,445,253	\$ (5,232,139)	\$ 1,213,114	4.0018%	\$ (48,546)
43							
44		Total Depreciation Expense	\$ 6,445,253	\$ (5,232,139)	\$ 1,213,114		\$ 469,787
45							
46		Adjusted Test Year Depreciation Expense					\$ 484,271
47							
48		Increase (decrease) in Depreciation Expense					\$ (14,484)
49							
50		Adjustment to Revenues and/or Expenses					\$ (14,484)
51							
52		<u>SUPPORTING SCHEDULE</u>					
53		B-2, page 3					
54		Work papers					

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Adjustment to Revenues and Expenses
 Adjustment Number 2

Exhibit
 Rebuttal Schedule C-2
 Page 3
 Witness: Bourassa

Property Taxes

Line No.	<u>DESCRIPTION</u>	Test Year <u>as adjusted</u>	Company <u>Recommended</u>
1	Company Adjusted Test Year Revenues	\$ 2,239,848	\$ 2,239,848
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	<u>4,479,696</u>	<u>4,479,696</u>
4	Company Recommended Revenue	2,239,848	2,254,363
5	Subtotal (Line 4 + Line 5)	6,719,544	6,734,059
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	2,239,848	2,244,686
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	4,479,696	4,489,373
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	3,406	3,406
12	Full Cash Value (Line 9 + Line 10 - Line 11)	4,476,290	4,485,967
13	Assessment Ratio	18.0%	18.0%
14	Assessment Value (Line 12 * Line 13)	805,732	807,474
15	Composite Property Tax Rate - Obtained from ADOR	6.1409%	6.1409%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 49,479	\$ 49,586
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	<u>\$ 49,479</u>	
19	Test Year Property Taxes	<u>\$ 49,478</u>	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	<u>\$ 1</u>	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		<u>\$ 49,586</u>
23	Company Test Year Adjusted Property Tax Expense (Line 18)		<u>\$ 49,479</u>
24	Increase in Property Tax Due to Increase in Revenue Requirement		<u>\$ 107</u>
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 107
27	Increase in Revenue Requirement		\$ 14,515
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		0.73691%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rebuttal Schedule C-2
Page 4
Witness: Bourassa

INTENTIONALLY LEFT BLANK

Line
No.
1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Rebuttal Schedule C-2
Page 5
Witness: Bourassa

Reclassify Expenses

Line No.		
1	Reduce Salaries and Wages	\$ (242,213)
2		
3	Increase Contractual Services - Professional	242,213
4		<hr/>
5	Increase (decrease) in Expenses	\$ -
6		<hr/> <hr/>
7		
8		
9		
10	Adjustment to Revenue and/or Expense	-
11		<hr/>
12	<u>Reference</u>	
13	Testimony	
14		
15		
16		
17		
18		
19		
20		

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Rebuttal Schedule C-2
Page 6
Witness: Bourassa

Corporate Cost Allocation (Non-Labor) Adjustment

Line
No.

1	Revised Corporate Cost Allocation		\$	122,606
2	Allocated Corporate Costs Recorded in Test Year	\$	165,389	
3	Direct Filing Adjustment		(10,863)	
4	Adjusted Allocated Corporate Costs			<u>\$ 154,526</u>
5				
6	Increase (decrease) in Corporate Allocation		\$	<u>(31,921)</u>
7				
8				
9	Adjustment to Contractual Services - Professional		\$	<u>(31,921)</u>
10				
11				
12	Adjustment to Revenue and/or Expense			<u>(31,921)</u>
13				
14	<u>Reference</u>			
15	Testimony			
16	Work Papers			
17				
18				
19				
20				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Rebuttal Schedule C-2
Page 7
Witness: Bourassa

Testing Expense

Line
No.

1			
2	Staff recommended Increase to Testing Expense	\$	3,334
3			
4			
5	Increase(decrease) to Contractual Services - Testing	\$	3,334
6			
7			
8	Adjustment to Revenue and/or Expense	\$	<u>3,334</u>
9			
10	<u>Reference</u>		
11	Testimony		
12			
13			
14			
15			
16			
17			
18			
19			
20			

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Adjustment to Revenues and Expenses
 Adjustment Number 7

Exhibit
 Rebuttal Schedule C-2
 Page 8
 Witness: Bourassa

Interest Synchronization

Line
No.

1				
2				
3				
4	Fair Value Rate Base	\$	3,419,410	
5	Weighted Cost of Debt		1.06%	
6	Interest Expense			\$ 36,212
7				
8	Test Year Interest Expense			<u>\$ 36,133</u>
9				
10	Increase (decrease) in Interest Expense			78
11				
12				
13				
14	Adjustment to Revenue and/or Expense			<u><u>\$ (78)</u></u>
15				
16				

17 Weighted Cost of Debt Computation

18	<u>Pro forma Capital Structure</u>				
19		<u>Percent</u>	<u>Cost</u>	<u>Weighted</u>	
20	Debt	30.00%	3.53%	1.06%	
21	Equity	70.00%	10.80%	7.56%	
22	Total	<u>100.00%</u>		<u>8.62%</u>	
23					
24					
25					
26					
27					
28					
29					
30					

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and/or Expenses
Adjustment Number 8

Exhibit
Rebuttal Schedule C-2
Page 9
Witness: Bourassa

Line
No.

1 Income Taxes

2

3

4 Computed Income Tax

5 Test Year Income tax Expense

6 Adjustment to Income Tax Expense

7

8

9

10

11

12

13 SUPPORTING SCHEDULE

14 C-3, page 2

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

	<u>Test Year</u> <u>at Present Rates</u>	<u>Test Year</u> <u>at Proposed Rates</u>
	\$ 147,987	\$ 153,352
	-	147,987
	<u>\$ 147,987</u>	<u>\$ 5,365</u>

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Computation of Gross Revenue Conversion Factor

Exhibit
 Rebuttal Schedule C-3
 Page 1
 Witness: Bourassa

Line No.	<u>Description</u>	Percentage of Incremental Gross <u>Revenues</u>
1	Federal Effective Income Tax Rate	32.334%
2		
3	State Effective Income Tax Rate	4.900%
4		
5	Property Taxes	0.463%
6		
7		
8	Total Tax Percentage	37.697%
9		
10	Operating Income % = 100% - Tax Percentage	62.303%
11		
12		
13		
14		
15	1	= Gross Revenue Conversion Factor
16	Operating Income %	1.6050
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
28	C-3, page 2	A-1
29		
30		
31		
32		
33		
34		
35		
36		
37		
38		
39		
40		
41		
42		

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	37.6965%					
5	Subtotal (L3 - L4)	62.3035%					
6	Revenue Conversion Factor (L1 / L5)	1.605047					
<u>Calculation of Uncollectible Factor:</u>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	37.2340%					
9	One Minus Combined Income Tax Rate (L7 - L8)	62.7660%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	4.9000%					
14	Federal Taxable Income (L12 - L13)	95.1000%					
15	Applicable Federal Income Tax Rate (L55, Col E)	34.0000%					
16	Effective Federal Income Tax Rate (L14 x L15)	32.3340%					
17	Combined Federal and State Income Tax Rate (L13 + L16)		37.2340%				
<u>Calculation of Effective Property Tax Factor</u>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	37.2340%					
20	One Minus Combined Income Tax Rate (L18-L19)	62.7660%					
21	Property Tax Factor	0.7369%					
22	Effective Property Tax Factor (L20*L21)		0.4625%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)				37.6965%		
24	Required Operating Income	\$ 294,719					
25	Adjusted Test Year Operating Income (Loss)	\$ 285,676					
26	Required Increase in Operating Income (L24 - L25)		\$ 9,043				
27	Income Taxes on Recommended Revenue (Col. (E), L52)	\$ 153,352					
28	Income Taxes on Test Year Revenue (Col. (B), L54)	\$ 147,987					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 5,365				
30	Recommended Revenue Requirement	\$ 2,254,363					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue	\$ 49,586					
36	Property Tax on Test Year Revenue	\$ 49,479					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 107				
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ 14,515				

	(A) (B) (C)			(D) (E) (F)		
	Total	Sewer		Total	Sewer	
<u>Calculation of Income Tax:</u>						
39	Revenue	\$ 2,239,848	\$ 2,239,848	\$ 2,254,363	\$ 2,254,363	
40	Operating Expenses Excluding Income Taxes	\$ 1,806,186	\$ 1,806,186	\$ 1,806,293	\$ 1,806,293	
41	Synchronized Interest (L47)	\$ 36,212	\$ 36,212	\$ 36,212	\$ 36,212	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 397,451	\$ 397,451	\$ 411,860	\$ 411,860	
43	Arizona State Effective Income Tax Rate (see work papers)	4.9000%	4.9000%	4.9000%	4.9000%	
44	Arizona Income Tax (L42 x L43)	\$ 19,475	\$ 19,475	\$ 20,181	\$ 20,181	
45	Federal Taxable Income (L42- L44)	\$ 377,976	\$ 377,976	\$ 391,679	\$ 391,679	
46						
47	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	
48	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250	
49	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	
50	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650	
51	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ 14,612	\$ 14,612	\$ 19,271	\$ 19,271	
52						
53	Total Federal Income Tax	\$ 128,512	\$ 128,512	\$ 133,171	\$ 133,171	
54	Combined Federal and State Income Tax (L35 + L42)	\$ 147,987	\$ 147,987	\$ 153,352	\$ 153,352	
55	COMBINED Applicable Federal Income Tax Rate [Col. (D), L53 - Col. (A), L53 / [Col. (D), L45 - Col. (A), L45]			34.0000%		
56	WASTEWATER Applicable Federal Income Tax Rate [Col. (E), L53 - Col. (B), L53] / [Col. (E), L45 - Col. (B), L45]				34.0000%	
57	WATER Applicable Federal Income Tax Rate [Col. (F), L53 - Col. (C), L53] / [Col. (F), L45 - Col. (C), L45]					0.0000%

Calculation of Interest Synchronization:

58	Rate Base	\$ 3,419,410	
59	Weighted Average Cost of Debt	1.0590%	
60	Synchronized Interest (L45 X L46)	\$ 36,212	

Liberty Utilities (Black Mountain Sewer) Corp.

Test Year Ended December 31, 2014

Cost of Service Study, Using Commodity-Demand Method

Returns at Present Rates by Class

Exhibit
Rebuttal Schedule G-1
Page 1
Witness: Bourassa

Line No.	Totals	Residential	Commercial
1	\$ 2,201,945	\$ 1,623,838	\$ 578,108
2	16,067	12,878	3,189
3	9,786	9,786	-
4	11,098	10,418	679
5	952	894	58
6	<u>\$ 2,239,848</u>	<u>\$ 1,657,814</u>	<u>\$ 582,034</u>
7			
8	\$ 1,286,920	\$ 1,072,642	\$ 214,278
9			
10	469,787	384,280	85,507
11	49,479	36,622	12,857
12	147,987	50,052	97,935
13	<u>\$ 1,954,172</u>	<u>\$ 1,543,595</u>	<u>\$ 410,577</u>
14	\$ 285,676	\$ 114,219	\$ 171,457
15	36,212	29,846	6,366
16	<u>\$ 249,464</u>	<u>\$ 84,373</u>	<u>\$ 165,091</u>
17	<u>\$ 3,419,410</u>	<u>\$ 2,818,295</u>	<u>\$ 601,116</u>
18	8.35%	4.05%	28.52%
19			
20	Percent of Total Customers	93.88%	6.12%
21			
22			
23	Revenue Requirement Based Upon COSS		
24			
25			
26			

¹ Allocated based on customer counts.

² Operating Expenses and Depreciation computations are shown on Rebuttal Schedule G-4, Page 1.

³ Property Taxes allocation based on Revenues.

⁴ Income Tax from Rebuttal Schedule C-1, at present rates. Income Taxes allocated based on taxable income.

⁵ Interest Synchronized Interest Expense. Allocation based on Rate Base

⁶ Rate Base computations are shown on Rebuttal Schedule G-3, Page 1

⁷ Operating Income Divided by Rate Base

Line No.	Totals	Residential	Commercial
1	\$ 2,215,565	\$ 1,828,523	\$ 387,042
2	16,067	15,083	984
3	10,965	10,965	-
4	11,098	10,418	679
5	668	627	41
6	\$ 2,254,363	\$ 1,865,617	\$ 388,746
7			
8	\$ 1,286,920	\$ 1,072,642	\$ 214,278
9			
10	469,787	384,280	85,507
11	49,586	41,035	8,551
12	153,352	125,782	27,570
13	\$ 1,959,644	\$ 1,623,739	\$ 335,905
14	\$ 294,719	\$ 241,878	\$ 52,840
15	36,212	29,846	6,366
16	\$ 258,507	\$ 212,032	\$ 46,475
17	\$ 3,419,410	\$ 2,818,295	\$ 601,116
18	8.62%	8.58%	8.79%
19			
20	Percent of Total Customers		
21		93.88%	6.12%
22			
23			
24			
25			
26			
27			
28			

¹ Allocated based on customer counts.
² Operating Expenses and Depreciation computations are shown on Rebuttal Schedule G-4, Page 2.
³ Property Taxes allocation based on Revenues
⁴ Income Tax from Rebuttal Schedule C-1, at proposed rates. Income Taxes allocated based on taxable income
⁵ Interest Synchronized Interest Expense. Allocation based on Rate Base
⁶ Rate Base computations are shown on Rebuttal Schedule G-3, Page 1
⁷ Operating Income Divided by Rate Base

Liberty Utilities (Black Mountain Sewer) Corp.

Test Year Ended December 31, 2014

Cost of Service Study Using Commodity / Demand Method

Allocation of Assets to Customer Classes

Exhibit
Rebuttal Schedule G-3
Page 1
Witness: Bourassa

Line No.	Totals	Residential	Commercial
4	<u>Plant, Minus Accumulated Depreciation, Advances and Contributions in Aid, Meter Deposits, and Deferred Income Tax (from Rebuttal Schedule G-5, Page 1)</u>		
5	\$ 709,274	\$ 568,485	\$ 140,790
6	2,402,410	1,960,921	441,489
7	307,726	288,889	18,837
8	-	-	-
9	-	-	-
10	<u>\$ 3,419,410</u>	<u>\$ 2,818,295</u>	<u>\$ 601,116</u>
11			
12			
13			
14	Summary		
15	\$ 3,419,410	\$ 2,818,295	\$ 601,116
16	100.00%	82.42%	17.58%
17			
18			
19			
20			

Line No.	Operation and Maintenance Expense (from Rebuttal Schedule G-6, Page 1)	Adjusted Per C-1	Residential	Commercial	Effluent	Totals
1	Commodity	\$ 465,628	\$ 373,202	\$ 92,426	\$ -	\$ 465,628
2	Demand	584,036	476,708	107,328	-	584,036
3	Customer	237,255	222,732	14,524	-	237,255
4	Service	-	-	-	-	-
5	Meter	-	-	-	-	-
6	Totals	\$ 1,286,920	\$ 1,072,642	\$ 214,278	\$ -	\$ 1,286,920
7						
8	Depreciation Expense on Plant (from Rebuttal Schedule G-6, Page 2)					
9	Commodity	102,604	82,237	20,367	-	102,604
10	Demand	348,118	284,145	63,973	-	348,118
11	Customer	19,065	17,898	1,167	-	19,065
12	Service	-	-	-	-	-
13	Meter	-	-	-	-	-
14	Totals	\$ 469,787	\$ 384,280	\$ 85,507	\$ -	\$ 469,787
15						
16	Operation and Maintenance Expense and Depreciation Expense					
17	Commodity	\$ 568,232	\$ 455,439	\$ 112,793	\$ -	\$ 568,232
18	Demand	932,154	760,853	171,301	-	932,154
19	Customer	256,320	240,630	15,691	-	256,320
20	Service	-	-	-	-	-
21	Meter	-	-	-	-	-
22	Total	\$ 1,756,706	\$ 1,456,922	\$ 299,785	\$ -	\$ 1,756,706
23						
24	Total Expenses (excluding Income Tax and					
25	Property Taxes)	\$ 1,756,706	\$ 1,456,922	\$ 299,785	\$ -	\$ 1,756,706
26						
27	Property Taxes, Allocated on Schedules G-1 & G-2	\$ 49,479				
28	Income Tax, Allocated on Schedules G-1 & G-2	147,987				
29	Total Expenses	\$ 1,954,172				
30						

Liberty Utilities (Black Mountain Sewer) Corp.

Test Year Ended December 31, 2014

Cost of Service Study, Using Commodity Demand Method

Allocation of Expenses to Customer Classes - Proposed Rates

Exhibit
Rebuttal Schedule G-4
Page 2
Witness: Bourassa

Line No.		At Proposed C-1			Totals
		Operation and Maintenance Expense (from Rebuttal Schedule G-6, Page 1)	Residential	Commercial	Effluent
1					
2					
3	Commodity	\$ 465,628	\$ 373,202	\$ 92,426	\$ -
4	Demand	584,036	476,708	107,328	-
5	Customer	237,255	222,732	14,524	-
6	Service	-	-	-	-
7	Meter	-	-	-	-
8	Totals	\$ 1,286,920	\$ 1,072,642	\$ 214,278	\$ -
9					\$ 1,286,920
10					
11	Commodity	\$ 102,604	\$ 82,237	\$ 20,367	\$ -
12	Demand	348,118	284,145	63,973	-
13	Customer	19,065	17,898	1,167	-
14	Service	-	-	-	-
15	Meter	-	-	-	-
16	Totals	\$ 469,787	\$ 384,280	\$ 85,507	\$ -
17					\$ 469,787
18					
19	Commodity	\$ 568,232	\$ 455,439	\$ 112,793	\$ -
20	Demand	932,154	760,853	171,301	-
21	Customer	256,320	240,630	15,691	-
22	Service	-	-	-	-
23	Meter	-	-	-	-
24	Total	\$ 1,756,706	\$ 1,456,922	\$ 299,785	\$ -
25					\$ 1,756,706
26	Total Expenses (excluding Income Tax and Property Taxes)	\$ 1,756,706	\$ 1,456,922	\$ 299,785	\$ -
27					\$ 1,756,706
28					
29	Property Taxes, Allocated on Schedules G-1 & G-2	\$ 49,586			
30	Income Tax, Allocated on Schedules G-1 & G-2	153,352			
31	Total Expenses	\$ 1,959,644			
32					
33					
34					

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Cost of Service Study, Using Commodity Demand Method
 Allocation of Rate Base by Function

Line No.	Rate Base	Adjusted Per B-2	Demand	Commodity	Customer
1					
2	Plant minus (Accumulated Depreciation	\$ 3,419,410	\$ 2,402,410	\$ 709,274	\$ 307,726
3	Contributions in Aid of Construction				
4	Advances in Aid of Construction,				
5	Meter Deposits and Deferred Income Tax)				
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Cost of Service Study, Using Commodity-Demand Method
 Allocation of Expenses to Functions
 At Present Rates

Line No.	Description	Adjusted per C-1	Demand	Commodity	Customer
		\$	\$	\$	\$
1	Salaries and Wages	-	-	-	-
2	Purchased Water	5,647	-	5,647	-
3	Sludge Removal	-	-	-	-
4	Purchased Power	65,112	-	65,112	-
5	Fuel for Power Production	-	-	-	-
6	Chemicals	19,215	-	19,215	-
7	Materials and Supplies	23,875	-	23,875	-
8	Contractual Services - Professional	523,803	419,042	104,761	-
9	Contractual Services - Testing	11,451	4,580	2,290	4,580
10	Contractual Services - Other	361,855	144,742	72,371	144,742
11	Rents	23,807	9,523	4,761	9,523
12	Transportation	15,371	6,148	3,074	6,148
13	Insurance	11,720	-	-	11,720
14	Regulatory Commission Expense	-	-	-	-
15	Scottsdale Capacity (Operating Lease)	164,522	-	164,522	-
16	Miscellaneous	60,542	-	-	60,542
17	Depreciation and Amortization ¹	469,787	348,118	102,604	19,065
18	Taxes Other Than Income	-	-	-	-
19					
20					
21					
22	Property Taxes, Allocated on Schedules G-1 & G-2				
23	Income Tax, Allocated on Schedules G-1 & G-2				
24					
25	Total	\$ 1,756,706	\$ 932,154	\$ 568,232	\$ 256,320
26					
27	By Class²				
28	Residential				
29	Commercial				
30	Irrigation				
31	Hydrant				
32	Totals				
33					

34 See Rebuttal Schedule G-7, page 2.2 for allocation factors.
 35 1 Depreciation allocation computed on Rebuttal Schedule G-6, Page 3.1 and 3.2
 36 2 See Rebuttal Schedule G-5, page 1 for allocations by class.
 37
 38

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Cost of Service Study, Using Commodity-Demand Method
 Allocation of Expenses to Functions
 At Proposed Rates

Line No.	Description	At Proposed Per C-1	Demand	Commodity	Customer
		\$	\$	\$	\$
1	Salaries and Wages	-	-	-	-
2	Purchased Water	5,647	-	5,647	-
3	Sludge Removal	-	-	-	-
4	Purchased Power	65,112	-	65,112	-
5	Fuel for Power Production	-	-	-	-
6	Chemicals	19,215	-	19,215	-
7	Materials and Supplies	23,875	-	23,875	-
8	Contractual Services - Professional	523,803	419,042	104,761	-
9	Contractual Services - Testing	11,451	4,580	2,290	4,580
10	Contractual Services - Other	361,855	144,742	72,371	144,742
11	Rents	23,807	9,523	4,761	9,523
12	Transportation	15,371	6,148	3,074	6,148
13	Insurance	11,720	-	-	11,720
14	Regulatory Commission Expense	-	-	-	-
15	Regulatory Capacity (Operating Lease)	164,522	-	164,522	-
16	Miscellaneous	60,542	-	-	60,542
17	Depreciation and Amortization ¹	469,787	348,118	102,604	19,065
18	Taxes Other Than Income	-	-	-	-
19					
20					
21					
22	Property Taxes, Allocated on Schedules G-1 & G-2				
23	Income Tax, Allocated on Schedules G-1 & G-2				
24					
25	Total	\$ 1,756,706	\$ 932,154	\$ 568,232	\$ 256,320
26					
27	By Class²				
28	Residential				
29	Commercial				
30	Irrigation				
31	Hydrant				
32	Totals				
33					

34 See Rebuttal Schedule G-7, page 2.2 for allocation factors.
 35 1 Depreciation allocation computed on Rebuttal Schedule G-6, Page 3.1 and 3.2
 36 2 See Rebuttal Schedule G-4, page 2 for allocations by class.
 37
 38

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Summary of Commodity - Demand Method Functions Factors

Exhibit
Rebuttal Schedule G-7
Page 1
Witness: Bourassa

Line
No.

	<u>Class</u>	<u>Demand</u>	<u>Commodity</u>	<u>Customer</u>
1				
2				
3	Residential	0.8162	0.8015	0.9388
4	Commercial	0.1838	0.1985	0.0612
5				
6				
7				
8	Total	<u>1.0000</u>	<u>1.0000</u>	<u>1.0000</u>
9				

10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35

SUPPORTING SCHEDULES
G-7, page 3

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
COMMODITY - DEMAND METHOD FUNCTION FACTORS
 Plant-in-Service. Accumulated Depreciation and Depreciation Expense Allocations Functions

Exhibit
 Rebuttal Schedule G-7
 Page 2.1
 Witness: Bourassa

Line

No.

1				
2	<u>Factor</u>		<u>Demand</u>	<u>Commodity</u> <u>Customer</u>
3	F-1		0.77	0.23
4	F-2		1.00	
5	F-3			1.00
6	F-4		0.25	0.75
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				

25 Development of F-1 Allocation Factor

26		<u>MG</u>		<u>RATIO</u>		<u>DEMAND FACTOR</u>
27		(a)		(b)		(c)
28	(1) Avg day	0.370644	G-7, page 3	1.00		1.00 1/(b)
29	(2) Max day	0.480422	G-7, page 3	1.30	Max day/Avg day	0.77 1/(b)
30						
31						

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Cost of Service Study, Using Commodity-Demand Method
 Expense Allocation Factors

Exhibit
 Rebuttal Schedule G-7
 Page 2.2
 Witness: Bourassa

Line No.	<u>Expense Type</u>	<u>Demand</u>	<u>Commodity</u>	<u>Customer</u>
1	Salaries and Wages	0.40	0.20	0.40
2	Purchased Water	-	1.00	-
3	Sludge Removal	-	1.00	-
4	Purchased Power	-	1.00	-
5	Fuel for Power Production	-	1.00	-
6	Chemicals	-	1.00	-
7	Materials and Supplies	-	1.00	-
8	Contractual Services - Professional	0.80	0.20	-
9	Contractual Services - Testing	0.40	0.20	0.40
10	Contractual Services - Other	0.40	0.20	0.40
11	Rents	0.40	0.20	0.40
12	Transportation	0.40	0.20	0.40
13	Insurance	-	-	1.00
14	Regulatory Commission Expense	-	-	1.00
15	Scottsdale Capacity (Operating Lease)	-	1.00	-
16	Miscellaneous	-	-	1.00
17	Depreciation	See Rebuttal Schedule G-7, page 2.1		
18	Taxes Other Than Income	0.40	0.20	0.40
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Cost of Service Study, Using Commodity-Demand Method
 Development of Class Allocation Factors

Exhibit
 Rebuttal Schedule G-7
 Page 3
 Witness: Bourassa

COMMODITY ALLOCATION FACTOR

(a)

<u>Class</u>	<u>Total Flow (MG)</u> <u>In Test Year</u>	<u>Percent</u> <u>Total</u>
Residential	108.8295	80.15%
Commercial	26.9525	19.85%

Totals 135.7820 100.00%

DEMAND ALLOCATION FACTOR

<u>Class</u>	<u>Average Daily</u> <u>Gallons (MG)</u>	<u>Demand</u> <u>Factor</u>	<u>Avg. Peak Day</u> <u>Demand (MG)</u>	<u>Percent</u> <u>of</u> <u>Total</u>
Residential	0.29707	1.32	0.39214	81.62%
Commercial	0.07357	1.20	0.08829	18.38%

Totals 0.37064 0.48042 100.00%

CUSTOMER ALLOCATION FACTOR

<u>Class</u>	<u>Number</u> <u>of Customers</u>	<u>Percent</u> <u>of</u> <u>Total</u>
Residential	1,963	93.88%
Commercial	128	6.12%

Totals 2,091 100.00%

Liberty Utilities (Black Mountain Sewer) Corp.

Revenue Summary

With Annualized Revenues to Year End Number of Customers
Test Year Ended December 31, 2014

Exhibit
Rebuttal Schedule H-1
Witness: Bourassa

Line No.	Customer Classification	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Sewer Revenues	Percent of Proposed Sewer Revenues
1	Residential	1,522,310	1,705,715	183,405	12.05%	67.96%	75.66%
2	Residential HOA (11 units)	8,612	9,649	1,038	12.05%	0.38%	0.43%
3	Residential HOA (12 units)	9,395	10,526	1,132	12.05%	0.42%	0.47%
4	Residential HOA (25 units)	19,572	21,930	2,358	12.05%	0.87%	0.97%
5	Apartment (gpd rate)	63,950	-	(63,950)	-100.00%	2.86%	0.00%
6	Residential Apartment (8 units)	-	7,018	7,018	0.00%	0.00%	0.31%
7	Residential Apartment (10 units)	-	8,772	8,772	0.00%	0.00%	0.39%
8	Residential Apartment (74 units)	-	64,913	64,913	0.00%	0.00%	2.88%
9	Commercial	578,108	387,042	(191,066)	-33.05%	25.81%	17.17%
10							
11	Effluent	16,067	16,067	-	0.00%	0.72%	0.71%
12							
13							
14							
15							
16							
17	Subtotal	2,218,012	2,231,632	13,620	0.61%	99.03%	98.99%
18							
19	Revenue Annualization						
20	Residential	9,786	10,965	1,179	12.05%	0.44%	0.49%
21							
22	Misc Service Revenues						
23	Misc Revenues	11,098	11,098	-	0.00%	0.50%	0.49%
24	Reconciling Amount to C-1	952	668	(284)	-29.83%	0.04%	0.03%
25	Totals	2,239,848	2,254,363	14,515	0.65%	100.00%	100.00%
26							
27							
28							
29							
30							
31							
32							

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Analysis of Revenue by Detailed Class
Special Rate Commercial Customers Pay Standard Commercial Rate

Line No.	Customer Classification	Average Number of Customers		Average WW Flow (gpd)	Average Gallons (1,000's)	Average Bill		Proposed Increase	
		at 12/31/2014 ¹	at 12/31/2014 ²			Present Rates ¹	Proposed Rates ²	Dollar Amount	Percent Amount
1	Residential	1,957	1,957	N/A	N/A	\$ 65.24	\$ 73.10	\$ 7.86	12.05%
2	Residential HOA (11 units)	1	1	N/A	N/A	717.64	804.10	86	12.05%
3	Residential HOA (12 units)	1	1	N/A	N/A	782.88	877.20	94	12.05%
4	Residential HOA (25 units)	1	1	N/A	N/A	1,631.00	1,827.50	197	12.05%
5	Apartment (gpd rate)	3	NA	6,475	N/A	1,610.55	N/A		
6	Residential Apartment (8 units)	1	1	2,000	N/A	497.47	584.80	87	17.56%
7	Residential Apartment (10 units)	1	1	2,400	N/A	596.96	731.00	134	22.45%
8	Residential Apartment (74 units)	1	1	17,025	N/A	4,234.70	5,409.40	1,175	27.74%
9									
10	Commercial	120	128	1,612	32,613	401.00	251.98	(149.02)	-37.16%
11									
12									
13	Effluent	1	1	N/A	2,907,452	\$ 1,339	\$ 1,339	\$ -	0.00%
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24	Total	2,087	2,092						
25									
26									
27									
28									
29									

¹ Using current gpd ratings

² Residential customer bills (including apartments) reflect a flat rate while commercial customer bills reflect both a flat rate plus water usage. Some commercial locations consolidated into one account because there is only one water meter at the location.

Liberty Utilities (Black Mountain Sewer) Corp.
 Present and Proposed Rates
 Test Year Ended December 31, 2014

Exhibit
 Rebuttal Schedule H-3
 Page 1
 Witness: Bourassa

Line

No.

		<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Change</u>	<u>Percent Change</u>
1					
2	<u>Customer Classification</u>				
3					
4	<u>Monthly Service Charge:</u>				
5	Residential, per single family unit	\$ 65.24	\$ 73.10	\$ 7.86	12.05%
6					
7	Commercial	NT	\$ 85.00		
8					
9	<u>Commodity Rate:</u>				
10					
11	Commercial, per gallon per day[1]	\$ 0.24873	Remove		
12					
13	Commercial, per 1,000 gals[2]	NT	\$ 5.120		
14					
15		per acre foot	per acre foot*		
16	Effluent Charge (per 1,000 gallons)	\$ 150.00	0.460512		
17					
18	Effluent Add-on Charge	\$ 485.00	1.488410		
19					
20	Total Effluent Charge	\$ 635.00	\$ 1.948922	See Settlement Agreement . See Testimony.	
21					
22					
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					
33					
34					
35	NT = no tariff				
36					
37	[1] Commercial wastewater flows are based on the average daily flows set forth in Engineering Bulletin 12, Table 1				
38	published by the Arizona Department of Environmental Quality				
39	[2] Monthly water usage provided by Town of Carfree and City of Scottsdale.				
40					

Liberty Utilities (Black Mountain Sewer) Corp.
 Present and Proposed Rates
 Test Year Ended December 31, 2014

Exhibit
 Rebuttal Schedule H-3
 Page 2
 Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment	\$ 25.00	\$ 25.00
2	Re-establishment	\$ 25.00	[1]
3	Re-connection	No Charge	Remove
4	Re-connection, Delinquent	NT	[2]
5	After hours service [4]	NT	\$ 50.00
6	Min Deposit Requirement (Residential)	[3]	[3]
7	Min Deposit Requirement (Non-Residential)	[3]	[3]
8	Deposit Interest	6%	6%
9	NSF Check	10.00	10.00
10	Deferred Payment finance charge, Per Month	1.50%	1.50%
11	Late Payment Charge, Per Month	1.50%	Greater of \$5.00 or 1.50% per month on unpaid balance.
12			
13	Main Extension Tariff	Cost	Cost
14	Hook-up Fee	per Tariff	per Tariff
15			
16			

17 [1] Per A.A.C. R14-2-603(D), Within 12 months. Residential and non-residential customers shall pay the applicable minimum charge
 18 times the number of months disconnected.

19
 20 [2] Customer shall pay the actual cost of physical disconnection and establishment (if same customer) and
 21 there shall be no charge for disconnection if no physical work is performed.

22
 23 [3] Per A.C.C. R14-2-603B Residential - two times the average bill. Non-residential - two and one-half times the average bill.

24
 25 [4] After Hours Service Charge applies to all services performed after regular business hours and is in addition to the service charge during regular
 26 business hours.

27
 28
 29
 30
 31
 32
 33
 34
 35
 36 IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM
 37 ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE
 38 TAX. PER COMMISSION RULE (14-2-608.D 5).
 39 ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS,
 40 AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES.
 41 COST TO INCLUDE LABOR, MATERIALS AND PARTS, OVERHEADS AND ALL APPLICABLE TAXES.
 42

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Capacity Reservation Charges

Exhibit
Schedule H-3
Page 3
Witness: Bourassa

Line
No.

1

2

Off-site Capacity Reservation Charge (Hook-up Fee)

3

4

5

Lateral Service Size

Present

Proposed

6

4 Inch

\$ 1,734.00

\$ 1,734.00

7

6 Inch and larger

\$ 3,901.00

\$ 3,901.00

8

8 Inch

\$ 6,936.00

\$ 6,936.00

9

10 Inch

\$10,837.00

\$ 10,837.00

10

11

12

13

14

15

16

17

18

N/T = No Tariff

19

20

1 SHAPIRO LAW FIRM, P.C.
Jay L. Shapiro (No. 014650)
2 1819 E. Morten Avenue, Suite 280
Phoenix, Arizona 85020
3 Telephone (602) 559-9575
jay@shapslawaz.com

4 LIBERTY UTILITIES
5 Todd C. Wiley (No. 015358)
12725 W. Indian School Road, Suite D-101
6 Avondale, Arizona 85392
Todd.Wiley@libertyutilities.com

7 Attorneys for Liberty Utilities (Black Mountain Sewer) Corp.
8

9 **BEFORE THE ARIZONA CORPORATION COMMISSION**

10
11 IN THE MATTER OF THE APPLICATION
12 OF LIBERTY UTILITIES (BLACK
13 MOUNTAIN SEWER) CORP., AN
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

15
16 IN THE MATTER OF THE APPLICATION
17 OF LIBERTY UTILITIES (BLACK
MOUNTAIN SEWER) CORP., AN
18 ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE
19 OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN ITS
20 WASTEWATER RATES AND CHARGES
THEREON.

DOCKET NO: SW-02361A-15-0207

21
22 **REBUTTAL TESTIMONY OF**
23 **THOMAS J. BOURASSA**
24 **COST OF CAPITAL**

25 **January 6, 2016**
26

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

TABLE OF CONTENTS

I.	INTRODUCTION.....	1
II.	SUMMARY OF REBUTTAL TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY	1
	A. Summary of the Company’s Rebuttal Recommendation.....	1
	B. Summary of the Staff and RUCO Recommendations.....	7
	C. Comments on the Cost of Equity Recommendations of Staff and RUCO	8
III.	RESPONSES TO THE CRITICISMS OF THE COMPANY’S COST OF CAPITAL ANALYSIS BY STAFF AND/OR RUCO	11

1 **I. INTRODUCTION.**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
4 Phoenix, Arizona 85029.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. I am testifying on behalf of the Applicant Liberty Utilities (Black Mountain Sewer)
7 Corp. (“Liberty Black Mountain or “Company”).

8 **Q. HAVE YOU ALSO PREPARED REBUTTAL TESTIMONY ON RATE BASE**
9 **ISSUES IN THIS DOCKET?**

10 A. Yes, my rebuttal testimony on rate base, income statement, revenue requirement and
11 rate design is being filed in a separate volume concurrently with this testimony.
12 In this volume, I present my cost of capital rebuttal testimony.

13 **Q. WHAT IS THE PURPOSE OF THIS PORTION OF YOUR REBUTTAL**
14 **TESTIMONY?**

15 A. I will provide updates of my cost of capital analysis and recommended rate of return
16 using more recent financial data. I also will provide rebuttal in response to the direct
17 testimony of Staff cost of capital witness, Crystal Brown, and RUCO cost of capital
18 witness, John Cassidy.

19 **II. SUMMARY OF REBUTTAL TESTIMONY AND THE PROPOSED COST**
20 **OF CAPITAL FOR THE COMPANY.**

21 **A. Summary of the Company’s Rebuttal Recommendation.**

22 **Q. WHAT IS YOUR RECOMMENDED COST OF CAPITAL?**

23 A. I recommend a return on equity of 10.8 percent, which is above the mid-point of the
24 range of my DCF, Risk Premium, and CAPM analyses of 10.1 percent for the
25 publicly traded water utilities (“water proxy group”). My recommended 10.8 percent
26 is below the mid-point of the range of estimates for Liberty Black Mountain of

1 11.0 percent, which takes into account a downward financial risk adjustment of
2 40 basis points, and which recognizes the Company's lower financial risk compared
3 to the water proxy group, and an upward risk adjustment for Liberty Black Mountain
4 of 150 basis points to recognize the investment risk of an investment in Liberty Black
5 Mountain compared to the water proxy group.¹ I also recommend a capital structure
6 consisting of 30 percent debt and 70 percent equity and a cost of debt of 3.53 percent.
7 Based on these recommendations, the weighted average cost of capital ("WACC")
8 is 8.62 percent.² Therefore, I recommend a return of at least 8.62 percent be applied
9 to Liberty Black Mountain's fair value rate base ("FVRB").

10 **Q. HAVE YOU UPDATED YOUR COST OF CAPITAL ANALYSIS?**

11 A. Yes, the results of my updated analysis for the water proxy group are somewhat
12 lower than those in my direct testimony. The range of my rebuttal DCF, Risk
13 Premium, and CAPM analyses for the water proxy group is from 9.5 percent to
14 10.3 percent with a mid-point of 9.9 percent.³ This compares to my direct filing
15 where the range was from 9.8 percent to 10.4 percent with midpoint estimate of
16 10.1 percent.⁴

17 The results of my updated analysis for Liberty Black Mountain are somewhat
18 higher than those in my direct testimony. The range of my rebuttal DCF, Risk
19 Premium, and CAPM analyses for Liberty Black Mountain is 10.6 percent to
20 11.4 percent with a mid-point of 11.0 percent.⁵ My direct DCF, Risk Premium, and
21 CAPM analyses for Liberty Black Mountain showed the indicated cost of equity in
22

23 ¹ See Rebuttal Schedule D-4.1.

24 ² See Rebuttal Schedule D-1.

25 ³ See Rebuttal Schedule D-4.1.

26 ⁴ See Direct Schedule D-4.1.

⁵ See Rebuttal Schedule D-4.1.

1 the range of 10.5 percent to 11.1 percent with a midpoint of 10.8 percent.⁶

2 After considering the differences in business and financial risk between
3 Liberty Black Mountain and the publicly traded water utilities, the cost of equity for
4 Liberty Black Mountain falls in the range of 10.6 percent to 11.4 percent with a mid-
5 point of 11.0 percent. However, despite a somewhat higher indicated cost of equity
6 for Liberty Black Mountain, I continue to recommend a return on equity (“ROE”) of
7 no less than 10.8 percent for Liberty Black Mountain.

8 **Q. HAVE YOU CHANGED YOUR METHODS?**

9 A. No. However, besides updating my analysis to reflect more recent market data,
10 I have modified my DCF growth estimate in response to criticisms by RUCO. I have
11 made a change to how I compute one of the inputs to the DCF model. I have also
12 changed my recommendation on the risk premium for Liberty Black Mountain.

13 **Q. LET’S START WITH YOUR CHANGE TO THE DCF GROWTH**
14 **ESTIMATE. WHAT CHANGE DID YOU MAKE?**

15 A. I changed the stock price growth estimates shown on Rebuttal Schedule D-4.4 and
16 D-4.5, which now reflect a geometric mean rather than an arithmetic mean.⁷ While
17 I still maintain that there is no theoretical basis for use of a geometric mean as
18 opposed to an arithmetic mean for the growth estimate, I have made this change in
19 an effort to reduce what is already an unusually large number of issues in dispute
20 between the Company and Staff and RUCO.

21 **Q. WHAT CHANGE HAVE YOU MADE TO YOUR RECOMMEND RISK**
22 **PREMIUM FOR LIBERTY BLACK MOUNTAIN?**

23 A. Instead of recommending a 100 basis point premium to reflect the additional risks of
24 an investment in Liberty Black Mountain compared to the water proxy group, I now

25 ⁶ See Company Direct Schedule D-4.1.

26 ⁷ See Direct Testimony of John A. Cassidy (“Cassidy Dt.”) at 28 – 29.

1 recommend 150 basis points which is at the low end of my risk premium estimates
2 based upon my risk study. My risk study was shown in my direct Exhibit TJB-COC-
3 DT2. I provide an updated risk study for rebuttal in rebuttal **Exhibit TJB-COC-**
4 **RB1.**

5 **Q. WHY HAVE YOU CHANGED YOUR RISK PREMIUM**
6 **RECOMMENDATION?**

7 A. In my direct analysis, I was overly conservative by recommending a risk premium
8 that was 50 basis points below the indicated risk premium from my study, which
9 indicated a 150 to 210 basis point risk premium. I no longer believe that the risk
10 premium should be only 100 basis points given the now indisputably unique nature
11 of regulation in Arizona relative to the other states in which the sample companies
12 operate, and the risks such regulation brings. The latter risk, the inherent uncertainty
13 in which regulated utilities operate, is well illustrated in this rate case in the dispute
14 between the Company and Staff and RUCO over millions of dollars invested and to
15 be invested at the behest of the customers and the Commission. Even when the
16 utility does everything right, and its customers express their willingness to pay the
17 cost, the utility is left fighting for every dollar to which it is entitled.

18 **Q. WHAT DO YOU MEAN BY THE “NOW” INDISPUTABLY UNIQUE**
19 **NATURE OF ARIZONA REGULATION?**

20 A. On or about August 18, 2015, the Arizona court of appeals issued its decision in
21 *RUCO v. Arizona Corporation Commission* (“SIB Decision”). In the SIB Decision,
22 the court declared the recently approved SIB mechanisms to be contrary to Arizona
23 law.⁸ The court further concluded that a fair value finding cannot be made without
24 considering all of the other elements of ratemaking like revenues and expenses.⁹

25 ⁸ SIB Decision at 18 ¶¶ 49-50.

26 ⁹ SIB Decision at 14-15 ¶¶ 40-42.

1 The court's written opinion repeatedly recognizes the unique nature of Arizona's
2 legal framework for utility regulation, and makes it clear that notwithstanding the
3 demands of the public interest, the law trumps all. As the court put it -

4 We recognize the Commission's legitimate desire to "initiate
5 innovative procedures in an attempt to deal promptly and
6 equitably with increasingly complex regulatory matters," and
7 its corresponding goal of avoiding "a constant series of
8 extended rate hearings [that] are not necessary to protect the
9 public interest." (Citation omitted). But the question before us
10 is not whether the SIB mechanism represents prudent public
11 policy. Our focus is on the propriety of that mechanism given
12 the unique and express provisions of our state constitution.¹⁰

13 Even our state courts recognize the unique regulatory risk utilities in Arizona face.

14 **Q. BUT MR. BOURASSA, YOU ARE NOT AN ATTORNEY. HOW CAN YOU**
15 **OFFER YOUR OPINION ON THIS LEGAL DECISION?**

16 A. I do not have to be an attorney to read the opinion. More importantly, I have nearly
17 20 years experience testifying before multiple PUCs as an expert on ratemaking,
18 including cost of capital analysis. In that capacity I believe I am unquestionably
19 qualified to evaluate the court's opinion and assess the impacts on the rate setting
20 process. Indeed, the court's opinion echoes what I have claimed for years, which is
21 that the regulatory risks Arizona utilities face are unique. Unfortunately, the court
22 also limits the tools available to the Commission to address regulatory risks.

23 **Q. DON'T ALL ARIZONA UTILITIES FACE THE SAME REGULATORY**
24 **RISKS?**

25 A. I don't think the *Bluefield* and *Hope* comparable risk standard (discussed below)
26 would allow for such a narrow consideration, but that's not the point. The point is
that we use a group of sample publicly traded utility companies to determine the
returns on equity for water and sewer companies in rates cases before the

¹⁰ SIB Decision at 17 ¶ 48.

1 Commission. Those utilities operate in other states—states that do not face the
2 limitations of Arizona’s “unique” constitution. Regulation, along with other factors
3 (size, limited service territory, smaller customer base, etc.), impact an Arizona
4 utility’s ability to earn its authorized return and cause greater fluctuation in
5 earnings.¹¹ This is risk that investors do not ignore. Therefore, we have to take those
6 differences into account in determining equity returns.

7 Unlike the other parties presenting cost of capital recommendations in this
8 case, I have actually quantified the relative risk differences between the water proxy
9 group and Liberty Black Mountain using commonly accepted metrics that valuation
10 experts would, and regulators should, consider in determining the cost of capital.¹²

11 **Q. HASN’T THE COMMISSION REJECTED SMALL COMPANY RISK**
12 **PREMIUMS IN THE PAST?**

13 A. Yes. Mr. Cassidy has repeatedly made this point in the past and does so again in the
14 instant case.¹³ However, I would point out that my recommended risk premium in
15 the instant case is not a generic small company risk premium. It is based upon
16 specific and quantifiable evidence. It is certainly far different in that respect from
17 the Economic Assessment Adjustment (“EAA”) Mr. Cassidy routinely
18 recommended when he was working for Staff.¹⁴ If Mr. Cassidy was comfortable
19 with the Commission adopting his EAA without any specific or quantifiable
20 evidence, it seems he shouldn’t take issue with my risk premium analysis, which is

21 ¹¹ See Direct Testimony of Thomas J. Bourassa (Cost of Capital) (“Bourassa COC Dt.”) at
22 11:8 – 12:1.

23 ¹² Bourassa COC Dt. at 21 – 22.

24 ¹³ Cassidy Dt. at 59.

25 ¹⁴ See *Liberty Utilities (Rio Rico Water & Sewer) Corp.* (“*Liberty Rio Rico*”), Docket No.
26 WS-02676A-12-0196; *Liberty Utilities (Litchfield Park Water & Sewer) Corp.* (“*Liberty*
Litchfield Park”), Docket Nos. SW-01428A-13-0042 and W-01427A-13-0043
(consolidated); *Lago Del Oro Water Company*, Docket No. W-01944A-13-0215; *Quail*
Creek Water Co., Inc., Docket No. W-02514A-14-0343.

1 based on objective inputs. That said, the risk differences between an investment in
2 Liberty Black Mountain and the water proxy group may be, in part, the result of
3 Liberty Black Mountain being small by comparison, but whatever the reasons,
4 Liberty Black Mountain is demonstrably more risky and that added risk cannot just
5 be magically eliminated by saying “small company risk is not accepted by the
6 Commission.

7 **B. Summary of the Staff and RUCO Recommendations.**

8 **Q. PLEASE SUMMARIZE THE RESPECTIVE RECOMMENDATIONS OF**
9 **STAFF AND RUCO FOR THE RATE OF RETURN ON FAIR VALUE RATE**
10 **BASE.**

11 A. Staff is recommending a capital structure consisting of 30 percent debt and
12 70 percent equity, the same as the Company.¹⁵ Staff determined a cost of equity of
13 8.6 percent based on the average cost of equity produced by its DCF and CAPM
14 models.¹⁶ Staff also determined the cost of debt to be 3.53 percent. Staff used a
15 sample of seven publicly traded water utilities; all of which are the same as those I
16 used in my analysis.¹⁷ Staff did not consider financial risk, firm size, or firm-specific
17 risks in its analysis. Based on its capital structure recommendation, Staff determined
18 the WACC for Liberty Black Mountain to be 7.08 percent.¹⁸

19 RUCO is also recommending a capital structure consisting of 30 percent debt
20 and 70 percent equity.¹⁹ RUCO determined a cost of equity of 8.95 percent based
21 on the average cost of equity produced by its DCF, CAPM and Comparable Earnings
22

23 ¹⁵ Direct Testimony of Crystal S. Brown (“Brown Dt.”) at 43.

24 ¹⁶ *Id.*

25 ¹⁷ Brown Dt. at 53.

26 ¹⁸ Brown Dt. at 80.

¹⁹ Cassidy Dt. at 3.

1 models.²⁰ RUCO also determined the cost of debt to be 3.53 percent. RUCO used
2 a sample of nine publicly traded water utilities; seven of which are the same as those
3 I used in my analysis.²¹ RUCO did not consider financial risk, firm size, or firm-
4 specific risks in its analysis. Based on its capital structure recommendation, RUCO
5 determined the WACC for Liberty Black Mountain to be 7.32 percent.²²

6 **C. Comments on the Cost of Equity Recommendations of Staff and RUCO.**

7 **Q. DO YOU HAVE ANY CRITICISMS OF THE STAFF AND/OR RUCO COST**
8 **OF CAPITAL ANALYSES?**

9 A. Only a few at this time. While I could criticize the Staff and RUCO approaches
10 extensively as I have done in the past, particularly on their respective inputs and
11 failure to recognize the assumptions and limitations of the DCF and CAPM models,
12 I believe the unreasonableness of their cost of equity recommendations speak for
13 themselves. ROEs of 8.6 percent and 8.95 percent are not even within the realm of
14 reasonableness as measured by currently authorized returns and projected equity
15 returns; both of which are available to investors to consider and both of which are
16 considerably higher than either party's recommendation.

17 **Q. HOW DO THE RECOMMENDATIONS OF STAFF AND RUCO COMPARE**
18 **TO ACTUAL AND FORECAST COMMON EQUITY RETURNS AND**
19 **CURRENTLY AUTHORIZED RETURNS?**

20 A. *Value Line*, a reputable publication used by the Company, Staff, and RUCO cost of
21 capital witnesses, publishes forecasts of returns on common equity for larger water
22 publicly traded companies. These water utilities are included in my sample group
23

24 ²⁰ *Id.*

25 ²¹ Cassidy Dt. at 12. RUCO has added American Water (AWK) and Artesian Resources
(ARTNA) to its analysis.

26 ²² Cassidy Dt. at 3.

1 and in both RUCO's and Staff's sample groups. AUS Utility Reports also provides
 2 the currently authorized return on equity for these utilities. The reported currently
 3 authorized returns as the projected returns are as follows:

Company	Symbol	Currently Authorized ¹	Value Line ²			
			2014 Act.	2015 Proj.	2016 Proj.	2018-20 Proj.
American States Water	AWR	9.43%	12.00%	12.50%	13.00%	14.50%
American Water	AWK	9.75%	8.70%	9.00%	9.00%	14.50%
Artesian Resources	ARTNA	10.00%	7.60%			
Aqua America	WTR	9.79%	12.90%	12.00%	13.00%	14.00%
California Water	CWT	9.43%	8.10%	9.50%	9.50%	9.50%
Connecticut Water	CTWS	9.63%	9.10%	8.50%	9.50%	9.50%
Middlesex	MSEX	9.75%	10.20%	10.50%	10.50%	9.50%
SJW Corp.	SJW	9.43%	14.40%	8.00%	8.00%	7.50%
York Water Company	YORW	NM	11.00%	10.50%	11.50%	12.00%
Average		9.65%	10.44%	10.06%	10.50%	11.38%

1 AUS Utility Reports (December 2015)

2 Value Line Rating and Reports (October 16, 2015)

15 The Staff and RUCO recommended returns of 8.6 percent and 8.95 percent,
 16 respectively, are well below all of the returns listed above.²³ Even Mr. Cassidy's
 17 own comparable earnings analysis indicates a 10.44 percent return on equity.²⁴ I
 18 would also note that, but for the inclusion of his 10.44 percent Comparable Earnings
 19 analysis result, Mr. Cassidy's DCF and CAPM results would indicate a cost of equity
 20 of just 8.20 percent.²⁵ Again, the ROEs recommended by Staff and RUCO are too
 21 low to even warrant a serious discussion of how they arrived at their recommended

22 ²³ The Staff and RUCO recommendations are 70 to 105 basis points below the currently
 23 authorized returns, 149 to 184 basis points below the actual equity returns for 2014, 111 to
 24 146 basis points below the 2015 projected equity returns, and 243 to 278 basis points below
 the projected returns for 2018-2010.

25 ²⁴ Cassidy Dt. at 20.

26 ²⁵ Mr. Cassidy's DCF result is 8.85 percent and his CAPM result is 7.56 percent. The
 average of these two is 8.2 percent.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

ROEs

Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THE RETURN DATA YOU JUST PRESENTED, MR. BOURASSA?

A. For one, they are all much higher than the Staff and RUCO returns produced by their models, before any consideration of financial or other risks. For another, since we are applying a return to a book value rate base, book equity returns have relevance. If we are to meet the comparable earnings standards set forth in *Hope* and *Bluefield*, then a comparison to book returns is an essential element. These utilities' rates will be in effect during approximately the same time period as Liberty Black Mountain's new rates. Yet, if the Staff or RUCO recommendation is adopted, Liberty Black Mountain will be allowed to earn much less, failing the *Hope and Bluefield* standard.

Something is very wrong with the Staff and RUCO recommendations. Investors would be better off investing in the publicly traded utility companies than investing Liberty Black Mountain, or in every other utility investment in the APUC/Liberty portfolio.²⁶ Only the Company's cost of capital analysis comes close to reflecting what the public traded companies are expected to earn. At the end of the day, when all the expert and lawyer wrangling over inputs and assumptions is done, the results should still pass the simple, common-sense "smell test" and the Staff and the RUCO recommendations don't come close to passing that test.

I am not surprised by the reaction of the Company to the Staff and RUCO recommendations.²⁷ Liberty Black Mountain has spent several years and over a million dollars already, with millions of dollars more capital to be spent, to address an order of the Commission requested by the customers, with the expectation it would receive a reasonable return on that investment. It came into this rate case with

²⁶ See Rebuttal Testimony of Matthew Garlick ("Garlick Rb.") at 18 – 19.

²⁷ E.g., Rebuttal Testimony of Greg Sorensen at 1 – 3; Garlick Rb. at 2, 19.

1 a 10.2 ROE from the last case, in order to address additional Commission and
2 customer concerns over the commercial rate design. So, the Company has more
3 financial risk, yet Staff and RUCO have dropped the return on investment by 180
4 and 135 basis points, respectively. If either Staff's or RUCO's low recommendation
5 is adopted, Liberty Black Mountain will not be able to attract capital. It is really that
6 simple.

7 **III. RESPONSES TO THE CRITICISMS OF THE COMPANY'S COST OF**
8 **CAPITAL ANALYSIS BY STAFF AND/OR RUCO.**

9 **Q. PLEASE RESPOND TO CASSIDY'S TESTIMONY, ON PAGE 23, THAT**
10 **THE STOCK PRICE GROWTH METRIC SHOULD NOT BE USED IN**
11 **ASSESSING THE DCF GROWTH RATE.**

12 A. I do not agree, particularly under current market conditions. As I noted in my direct
13 testimony, the DCF model is based on a number of assumptions that may not be
14 realistic given the current capital market environment. An underlying assumption of
15 the standard DCF is that the stock price, book value, dividends, and earnings all grow
16 at the same rate.²⁸ This has not been historically true for the sample water utility
17 companies. I also noted that the 1-year, 3-year, and 5-year annualized total returns
18 for the water proxy group are 16.85 percent, 15.83 percent, and 11.98 percent,
19 respectively,²⁹ which are all significantly higher than even the high end of the range
20 of my rebuttal DCF estimate of the cost of equity of 9.8 percent. So even with the
21 inclusion of the stock price growth as one of the metrics, my DCF estimate on the
22 cost of equity is low. Mr. Cassidy's DCF estimate is even lower at 8.85 percent.

23 **Q. ARE YOUR MEASURES OF STOCK PRICE GROWTH REALLY**
24 **MEASURES OF TOTAL RETURN?**

25 ²⁸ Bourassa COC Dt. at 29.

26 ²⁹ Bourassa COC Dt. at 29 – 30.

1 A. No, Mr. Cassidy is confused, or just making things confusing.³⁰ My computation of
2 stock price growth is based upon the adjusted closing price of the stock as reported
3 by Yahoo Finance. Yahoo Finance explains that the adjusted closing price is the
4 stock price adjusted for all stock splits and dividends. In other words, the stock price
5 is reduced pre-dividend to remove any impact of the dividend on the stock price.
6 For example, when a \$0.08 cash dividend is distributed on Feb 19 (ex- date), and the
7 Feb 18 closing price is \$24.96, the pre-dividend price is multiplied by $(1-0.08/24.96)$
8 $= 0.9968$ and the adjusted close price is \$24.53.³¹ The adjusted closing price does
9 not reflect reinvestment of dividends as would be required in measuring total returns.

10 The bottom line is that the adjusted closing price is a way to compare the price
11 of a stock before and after a stock split and/or dividend payment. It is therefore a
12 useful measure of the “real” closing price without being influenced by dividends or
13 splits. Simply put, using adjusted closing prices and comparing them are not
14 measures of total return; rather, they are measures of the real increases in the stock
15 price.

16 **Q. THEN WHY IS THE STOCK PRICE GROWTH SO SIMILAR TO TOTAL**
17 **RETURNS?**

18 A. Because the predominant driver in total returns for the water utilities has been
19 increases in the stock price. My points on the assumptions inherent in the DCF
20 model, and their validity under the current capital market conditions, remain valid.

21 **Q. RUCO ALSO CLAIMS IT COULD NOT INDEPENDENTLY CONFIRM**
22 **THE HISTORICAL TOTAL RETURNS DATA YOU USED FOR YOUR**
23 **RISK PREMIUM ANALYSIS. PLEASE COMMENT.**

24 A. This data was provided by *Value Line* through its Value Line Analyzer software.

25 ³⁰ Cassidy Dt. at 24.

26 ³¹ This example is found on the Yahoo Finance website under the Help section.

1 I have had this subscription for many years and it is still available as a Value Line
2 product. I provided the historical *Value Line* data from 1999 to 2014, including the
3 1999-2004 period, which RUCO complains it never received.³² If RUCO chooses
4 to rely solely on the published quarterly reports from *Value Line* that is RUCO's
5 issue, not mine. But Mr. Cassidy had everything he needed to "confirm" the data I
6 used.

7 **Q. WAS YOUR TOTAL RETURN DATA IN YOUR RISK PREMIUM**
8 **ANALYSIS MISSTATED FOR 1999 AND 2000, AS MR. CASSIDY ASSERTS**
9 **ON PAGE 37 OF HIS DIRECT TESTIMONY?**

10 A. Not unless *Value Line* reported the data incorrectly, and I am not aware of any
11 correction notification. Even Mr. Cassidy admits he has no reason to believe that
12 *Value Line* incorrectly reported the data.³³

13 **Q. BUT, MR. BOURASSA, AREN'T MR. CASSIDY'S TOTAL RETURN**
14 **COMPUTATIONS FOR 1999 AND 2000 BASED UPON THE YAHOOO**
15 **FINANCE ADJUSTED CLOSING PRICE, AND DIDN'T YOU TESTIFY**
16 **THAT COMPARING THE ADJUSTED CLOSING PRICE DOES NOT**
17 **REFLECT TOTAL RETURNS?**

18 A. Yes. In my view Mr. Cassidy's analyses on pages 39-46 of his direct testimony are
19 flawed as a result. Regardless, if Mr. Cassidy is assumed to be correct, then my risk
20 premium analysis understates the cost of equity. Using the total return of
21 30.74 percent for 1999 and 8.99 percent for 2000, as asserted by Mr. Cassidy,³⁴ my
22 indicated cost of equity would increase from 10.5 percent as shown on Rebuttal
23 Schedule D-4.6 to 11.2 percent as shown in **Exhibit TJB-COC-RB2**.

24 ³² See Company response to RUCO Data Request 4.6.

25 ³³ Cassidy Dt. at 39.

26 ³⁴ *Id.*

1 **Q. THEN WHY DOES MR. CASSIDY ASSERT (ON PAGE 41) THAT YOUR**
2 **RISK PREMIUM ANALYSIS SHOULD PRODUCE A LOWER RETURN**
3 **THAN THE 10.5 PERCENT IN YOUR DIRECT SCHEDULE D-4.6?**

4 A. Because Mr. Cassidy is being deceptive. He dismisses his corrected 1999 total return
5 of 30.74 percent and eliminates it from his restated analysis. He then computes a
6 15-year average risk premium (2000-2014) using his own total return data developed
7 from the Yahoo Finance adjusted closing price. I could play the same game. I could
8 just as well argue that it is not a 15- or 16- year period that we should use, but rather
9 a 5-year period (2010 to 2014). The 5-year risk premium would be 10.01 percent.
10 If a 10.01 risk premium is used in my risk premium analysis, the indicated cost of
11 equity would be 14.11 percent.

12 I could also re-compute the market risk premium Mr. Cassidy uses in his
13 CAPM by selectively choosing the time period the market risk premium is computed.
14 I could then criticize Mr. Cassidy's analysis similar to the way he criticizes my risk
15 premium analysis.

16 **Q. PLEASE EXPLAIN.**

17 A. In computing his market risk premium as shown on RUCO Schedule JAC-4, page 2
18 of 2, Mr. Cassidy computes an average market risk premium using the S&P 500
19 index as a benchmark for the period 1977 to 2014 (a 38 year period). As shown on
20 his schedule, the computed average market risk premium is 6.85 percent. If the
21 period 1999 to 2014 were used (the same 16 year period I use for my risk premium
22 analysis), the average market risk premium would be 8.56 percent. If the 8.56
23 percent market risk premium is used in his CAPM analysis, the indicated CAPM
24 cost of equity would increase by over 120 basis points, from 7.56 percent to
25 8.77 percent. If the period 2000 to 2014 were used (the same 15 year period he
26 argues for), the average market risk premium would be 8.35 percent. If the

1 8.35 percent market risk premium is used in his CAPM analysis, the CAPM
2 indicated cost of equity would increase by over 105 basis points, from 7.56 percent
3 to 8.62 percent. If the period 2010 to 2014 were used, the average market risk
4 premium would be 10.9 percent. If the 10.9 percent market risk premium is used in
5 his CAPM analysis, the CAPM indicated cost of equity would increase by 285 basis
6 points, from 7.56 percent to 10.41 percent. So, three significantly higher CAPMs
7 can be obtained simply by changing the time period. I could justify the changes by
8 simply opining that the 5, 15, or 16 year time frame is representative of future
9 expectations. But this sort of selective gamesmanship is inappropriate and the
10 Commission should not be fooled by RUCO.

11 **Q. ON PAGE 47 HIS DIRECT TESTIMONY, MR. CASSIDY ASSERTS THAT**
12 **EXCLUSIVELY USING AN ARITHMETIC MEAN IN YOUR RISK**
13 **PREMIUM ANALYSIS IS INCORRECT BECAUSE IT LEADS TO HIGHER**
14 **AND POTENTIALLY EXCESSIVE RISK PREMIUMS. PLEASE**
15 **COMMENT.**

16 A. I was puzzled by this criticism since Mr. Cassidy exclusively uses an arithmetic
17 mean his market risk premium in his CAPM analysis.³⁵ But, Mr. Cassidy is again,
18 misguided. As various finance experts have explained, an arithmetic mean is the
19 correct approach to use in estimating the cost of capital.³⁶ As Dr. Morin states:

20 Because valuation is forward-looking, the appropriate
21 average is the one that most accurately approximates the
22 expected future rate of return. *The best estimate of the*
23 *expected returns over a future holding period is the*
arithmetic average....

24 ³⁵ See RUCO Direct Schedule JAC-4, page 2 of 2.

25 ³⁶ Zvi Bode, Alex Kane, Alan J. Marcus, Investments (McGraw-Hill 6th ed.,
26 2005)(“Bode”), pp. 864 – 865; Richard A. Brealey, Stewart C. Myers, Franklin Allen,
Principles of Corporate Finance (McGraw-Hill 11th ed.) (“Brealey”), pp. 162 – 163.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

There is no theoretical or empirical justification for the use of geometric mean rates as a measure of the appropriate discount rate or computing present values. In any event, the CAPM is developed on the premise of expected returns being averages and risk being measured with standard deviation. Since the latter is estimated around the arithmetic average, not the geometric average, it is logical to stay with the arithmetic averages to estimate the market risk premium.³⁷

The consensus among these experts makes sense. Only arithmetic mean return rates and yields are appropriate for cost of capital purposes because ex-post (historical) total returns and equity risk premiums differ in size and direction over time, providing insight into the variance and standard deviation of returns. The geometric mean of ex-post equity risk premiums provides no insight into the potential variance of future returns because the geometric mean relates the change over many periods to a constant rate of change, rather than the year-to-year fluctuations, or variance, which are critical to risk analysis. In short, the conclusion of these financial experts is that while the geometric mean is useful in comparing what happened in the past, it should not be used to determine estimates of expected future returns or market risk premiums.

Q. TO REBUT ANY IMPACT OF SIZE FOR UTILITY COMPANIES, MR. CASSIDY REFERENCES A STUDY BY ANNIE WONG (AT PAGE 58). ARE YOU FAMILIAR WITH THIS STUDY?

A. Yes. Ms. Wong's now decades old, one of its kind study has been criticized soundly: "[her] weak evidence provides little support for a small firm effect existing or not existing in either the industrial or the utility sector."³⁸ Dr. Zepp found that

³⁷ Morin, Roger A. (2006). *New Regulatory Finance*. Vienna, VA: Public Utilities Reports, Inc. ("Morin"), pp. 156 – 157 (emphasis added).

³⁸ Thomas M. Zepp, "Utility Stocks and the Size Effect – Revisited," *The Quarterly Review*

1 Ms. Wong's empirical results were not strong enough to conclude that beta risk of
2 utilities is unrelated to size; he found that her use of monthly, weekly, and daily data
3 may be the cause of her inability to find a relationship; and he found other studies
4 that show trading infrequency to be a powerful cause of bias in beta risk when time
5 intervals of a month or less are used to estimate beta's for small stocks.³⁹ The studies
6 relied on in Mr. Zepp's published paper found, "when a stock is thinly traded, its
7 stock price does not reflect the movement of the market, which drives down the
8 covariance with the market and creates an artificially low beta estimate."⁴⁰ Thus,
9 Ms. Wong's weak results were due to a flawed analysis.

10 More importantly, Ms. Wong's study is not relevant. I am not recommending
11 a risk premium based upon size. As I stated earlier, unlike Mr. Cassidy, I have
12 completed a risk study and I have actually examined and quantified the relative risk
13 differences between the water proxy group and Liberty Black Mountain. My risk
14 study results happen to be consistent with other market data regarding size as well
15 as Dr. Zepp's study.⁴¹ However, whether it is Liberty Black Mountain's small size
16 itself, Arizona regulatory risk, or a higher business risk in general for utilities in
17 Arizona, the fact still remains inarguable - Liberty Black Mountain is demonstrably
18 more risky than the publicly traded water companies. So, I am not sure why
19 Mr. Cassidy brings up the Annie Wong study in the first place.

20 **Q. DO YOU HAVE ANY RESPONSES TO MS. BROWN'S TESTIMONY ON**
21 **YOUR COST OF CAPITAL ANALYSIS?**

22 **A.** Just a few comments. Ms. Brown asserts her cost of capital analysis is more

23 _____
24 Economics and Finance, Vol. 43, Issue 3, Autumn 2003, pp. 578 – 582.

25 ³⁹ *Id.* at 579.

26 ⁴⁰ *Id.*

⁴¹ *See* Rebuttal Schedule D-4.15.

1 straightforward, conceptually sound, and simpler to understand.⁴² I disagree. Let's
2 start with Staff's assertion that is models are straightforward. I would not
3 characterize the DCF and CAPM as straightforward or easy to understand, after all,
4 they have many assumptions that do not always hold true and the process of
5 determining reasonable inputs is not easy. That said, apart from the differences in
6 the inputs, I employ the same basic DCF and CAPM models as the other parties.
7 So, the Company's approach is not any less straightforward than Staff's in that
8 respect.

9 I would also disagree that Staff's models are conceptually sound. First, with
10 all due respect, Ms. Brown has never before been a cost of capital witness and,
11 therefore, lacks the expertise and experience to make these sweeping assertions.
12 Second, Staff does not discuss and, therefore, does not recognize, the limitations
13 imposed by the assumptions underlying the DCF and CAPM. For example, that the
14 DCF assumes that earnings, dividends, book value, and market price, all grow at this
15 same rate.⁴³ Or, that Staff gives less weight to the best estimate of growth for the
16 DCF.⁴⁴ Or, that Staff makes no accommodation and/or consideration of current
17 capital market conditions to recognize this.⁴⁵

18 Likewise, Staff also uses spot interest rates for its risk-free rate in its CAPM
19 when the cost of capital estimation in a ratemaking setting is a forward looking
20 process. As such, models to determine the cost of capital, like the CAPM, are
21 prospective in nature, which require expectational inputs such as forecasted interest
22

23
24 ⁴² Brown Dt. at 73.

25 ⁴³ Bourassa COC Dt. at 28.

26 ⁴⁴ Bourassa COC Dt. at 31 – 32.

⁴⁵ See page 11, *supra*.

1 rates.⁴⁶ I can go on, but in the end, the failure to recognize and account for the
2 limitations in the use of these complex models undermines Ms. Brown's bold
3 assertion that Staff's cost of capital analysis is always conceptually sound.

4 Indeed, Staff's approach is only simpler in the sense that Staff ignores the
5 necessary work and analysis required by *Hope* and *Bluefield* to provide Liberty
6 Black Mountain with a return that is commensurate with returns on investments of
7 comparable risk.⁴⁷ Obviously, Liberty Black Mountain is more risky than the large
8 publicly traded water utilities. A great deal of my direct testimony was devoted to
9 this.⁴⁸ Further, I prepared a risk study to quantify this risk difference, which happens
10 to be consistent with the empirical financial data and with published studies.⁴⁹

11 **Q. MS. BROWN TESTIFIES (ON PAGE 75) THAT YOUR FINANCIAL RISK**
12 **ADJUSTMENT AND YOUR RISK PREMIUM FOR THE COMPANY IS**
13 **ARBITRARY. PLEASE COMMENT.**

14 **A.** Again, Ms. Brown's inexperience and lack of expertise on this aspect of ratemaking
15 is impacting her testimony. The financial risk adjustment I recommend is anything
16 but arbitrary. In fact, Staff has used the Hamada method in past cases to adjust for
17 financial risk, the Commission has adopted it many times on Staff's
18 recommendation, and never do I recall Staff referring to the Hamada method as
19 arbitrary.⁵⁰ The Hamada method is an accepted method for quantifying the

20 ⁴⁶ Morin, p. 172.

21 ⁴⁷ Bourassa COC Dt. at 12 – 13.

22 ⁴⁸ Bourassa COC Dt. at 18 – 23; 41 – 43.

23 ⁴⁹ See **Exhibit TJB-COC-RB1** and Rebuttal Schedule D-4.15.

24 ⁵⁰ See *Liberty Utilities (Bella Vista Water) Corp. (formerly Bella Vista Water*
25 *Company), et al.*, W-02465A-09-0411, W-20453A-09-0412, and W-20454A-09-0413;
26 *Liberty Litchfield Park (formerly Litchfield Park Service Company)*, Docket Nos. SW-
01428A-09-0103, W-01427A-09-0104, W-01427A-09-0116, and W-01427A-09-0120
(consolidated); *Liberty Rio Rico (formerly Rio Rico Utilities, Inc.)*, Docket No. WS-
02676A- 09-0257.

1 differences in financial risk between firms with different level of leverage (the
2 amount of debt in capital structure). Professor Hamada developed his methodology
3 from an extension of the CAPM using market values of firms.⁵¹ Dr. Morin describes
4 the same methodology in his textbook, *New Regulatory Finance*.⁵²

5 With regard to my risk premium adjustment, I have not only identified the
6 risk differences between Liberty Black Mountain and the water proxy group, but
7 quantified them as well. I did not pick a number out of thin air. My recommended
8 risk premium adjustment is supported by facts and a detailed analysis. I not only
9 described all the reasons for the risk differences, but quantified the relative risks and
10 computed a specific range of risk adjustments that would be appropriate based upon
11 market data.⁵³ In the end, the results of my detailed risk study are entirely consistent
12 with the numerous reasons why the Liberty Black Mountain is more risky and
13 consistent with the empirical market financial data. My work hardly qualifies as
14 arbitrary.

15 **Q. THANK YOU, MR. BOURASSA. MS. BROWN TESTIFIES (ON PAGE 74)**
16 **THAT ANY RETURN ON EQUITY FALLING IN THE RANGE OF A COST**
17 **OF CAPITAL ANALYSIS COULD BE CONSIDERED A REASONABLE**
18 **RETURN ON EQUITY. DO YOU AGREE?**

19 A. No. I disagree. First of all, whose cost of capital analysis is Staff referring to?
20 Its own? Clearly, there are differences in the indicated costs of equity results
21 produced by the models each party in the instant case uses. Just because Staff's
22 CAPM produces a certain indicated cost of equity doesn't mean that the result is
23

24 ⁵¹ "Effects of the Firm's Capital structure on Systematic Risk of Common Stock," *Journal*
of Finance, Vol. 27 No. 2 (May 1972) 435 – 453.

25 ⁵² Morin, pp. 222 – 223.

26 ⁵³ Bourassa COC Dt. at 18 – 23; 41 – 43.

1 reasonable. Compare Staff's results to the data I previously discussed on page 9.
2 By this comparison, none of the cost of equity in Staff's range of results is even close
3 to being reasonable.

4 Second, each of the methods used by the parties are not perfect proxies for
5 estimating the cost of capital. Each has its own way of estimating the cost of capital
6 and each has its own underlying assumptions. That is why multiple methods should
7 be used and considerable and reasoned judgement must be made on the inputs and
8 their applicability under current market conditions. As Dr. Morin states:

9
10 Each methodology requires the exercise of considerable
11 judgment on the reasonableness of the assumptions underlying
12 the methodology and on the reasonableness of the proxies used
13 to validate a theory. *The inability of the DCF model to account*
14 *for changes in relative market valuation, discussed below, is a*
15 *vivid example of the potential shortcomings of the DCF model*
16 *when applied to a given company.* Similarly, the inability of the
17 CAPM to account for variables that affect security returns other
18 than beta tarnishes its use (emphasis added).

19 No one individual method provides the necessary level of
20 precision for determining a fair return, but each method provides
21 useful evidence to facilitate the exercise of an informed
22 judgment. Reliance on any single method or preset formula is
23 inappropriate when dealing with investor expectations because
24 of possible measurement difficulties and vagaries in individual
25 companies' market data.

26 When measuring equity costs, which essentially deals with the
measurement of investor expectations, no single methodology
provides a foolproof panacea. Each methodology requires the
exercise of considerable judgment on the reasonableness of the
assumptions underlying the methodology and on the
reasonableness of the proxies used to validate the theory.
It follows that more than one methodology should be employed
in arriving at a judgment on the cost of equity and that these
methodologies should be applied across a series of comparable
risk companies.⁵⁴

⁵⁴ Morin, pp. 428-429.

1 In sum, Ms. Brown's self-laudatory blessing of Staff's range of equity returns is of
2 no value in this rate case.

3 **Q. MS. BROWN ALSO TESTIFIES (ON PAGE 76) THAT STAFF'S**
4 **RECOMMENDATION OF THE MID-POINT FALLING IN THE RANGE OF**
5 **AN ANALYSIS MAKES A REASONABLE ACKNOWLEDGEMENT OF OR**
6 **CONCESSION TO THE OTHER RISK FACTORS ATTRIBUTED TO**
7 **LIBERTY BLACK MOUNTAIN. DO YOU AGREE?**

8 A. No. First, because the cost of capital is an estimation process and we don't know
9 whether the low point of a range is correct or the high point of a range is correct, the
10 mid-point (and sometimes the median) is arguably the most "fair" estimate, unless
11 there is a reasonable argument to do otherwise. Mr. Cassidy, for example, does not
12 use the mid-point of its DCF analysis; rather Mr. Cassidy, who was the Staff cost of
13 capital witness before Ms. Brown recently took over, chooses the highest DCF
14 result.⁵⁵ Mr. Cassidy does not thoroughly explain his reasoning for doing so except
15 that he believes his 8.85 percent result represents the current cost of equity.⁵⁶ I would
16 disagree that 8.85 percent represents the current cost of equity, but that is still his
17 conclusion based upon his view.

18 Second, in my experience, Staff typically recommends the mid-point of its
19 analyses of its water proxy group in almost every case. In past cases, Staff did not
20 argue that it chose the mid-point because Staff was recognizing other additional risks
21 associated with an investment in the utility in the rate case. In fact, Staff has argued
22 in the past, using portfolio theory, that investors should not be expected to receive
23 higher returns for Company specific risks (unique risks) and that an investment in
24 the utility therefore has no more risk than the water proxy group. Why is this case

25 ⁵⁵ Cassidy Dt. at 16.

26 ⁵⁶ *Id.*

1 any different for Staff? The answer is, it isn't, or at least shouldn't be.

2 **Q. BUT, MR. BOURASSA, YOU ARE RECOMMENDING A SPECIFIC RISK**
3 **PREMIUM ADJUSTMENT FOR LIBERTY BLACK MOUNTAIN.**
4 **WOULDN'T STAFF'S PORTFOLIO THEORY ARGUMENT BE**
5 **JUSTIFICATION FOR DENYING YOUR RECOMMENDED**
6 **ADJUSTMENT?**

7 A. No. First, the risk of smaller companies is a systematic risk and not a unique risk.⁵⁷
8 Second, in quantifying my risk premium for Liberty Black Mountain in my risk
9 study, I use market portfolio data provided by Duff & Phelps to quantify the
10 additional systematic risk of Liberty Black Mountain.⁵⁸

11 **Q. DO YOU HAVE ANY FURTHER COMMENTS ON MS. BROWN'S**
12 **TESTIMONY?**

13 A. Not at this time. Again, I think the result, an 8.6 return on equity, clearly shows how
14 flawed Staff's cost of capital analysis is in this rate case.

15 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY ON COST OF**
16 **CAPITAL?**

17 A. Yes.

18

19

20

21

22

23

24

25 ⁵⁷ Bourassa COC Dt. at 36.

26 ⁵⁸ Bourassa COC Dt. at 41 – 43.

EXHIBIT TJB-COC-RB1

Liberty Utilities (Black Mountain Sewer) Corp.
Comparative Risk Study

Computations of Operating Margin and Coefficient of Variation of Operating Margin

Line No.	Operating Income EBIT (\$ in millions)		2010-2014					Average	Std Dev.	Co-efficient of variation of Operating Income
	2014	2013	2012	2011	2010	2010				
1	Company									
2	AWR	119	119	111	95	73	103.40	19.62	0.1897	
3	WTR	314	305	322	286	272	289.80	20.52	0.0685	
4	CWT	109	93	93	85	90	94.00	9.00	0.0957	
5	CTWS	25	22	20	16	14	19.40	4.45	0.2294	
6	MSEX	34	31	28	24	27	28.80	3.83	0.1331	
7	SJW Corp.	93	53	55	54	38	58.60	20.45	0.3490	
8	YORW	22	21	21	20	20	20.80	0.84	0.0402	
9	Water Proxy Group									
10	AWR	0.65	0.38	0.31	0.31	0.42	0.41	0.14	0.3355	
11	WTR									
12	CWT									
13	CTWS									
14	MSEX									
15	SJW Corp.									
16	YORW									
17	Risk relative to the average risk of the water utilities sample									
18	Sales (\$ in millions)		2010-2014					Average		2.12
19	AWR	466	472	467	419	399	445			
20	WTR	780	769	758	712	726	749			
21	CWT	598	584	560	502	460	541			
22	CTWS	94	91	84	69	66	81			
23	MSEX	117	115	110	102	103	109			
24	SJW Corp.	320	277	262	239	216	263			
25	YORW	46	42	41	41	39	42			
26	Liberty Utilities (Black Mountain Sewer) Corp. Adjusted ¹									
27	AWR	2.23	2.23	2.19	2.19	2.18	2.20			
28	WTR									
29	CWT									
30	CTWS									
31	MSEX									
32	SJW Corp.									
33	YORW									
34	Liberty Utilities (Black Mountain Sewer) Corp. Adjusted ¹									
35	AWR	25.54%	25.21%	23.77%	22.67%	18.30%	23.10%	0.02	0.1264	
36	WTR	40.26%	39.66%	42.46%	40.17%	37.47%	40.01%	0.03	0.0447	
37	CWT	18.23%	15.92%	16.61%	17.93%	18.48%	17.43%	0.01	0.0637	
38	CTWS	26.60%	24.18%	23.81%	23.19%	21.21%	23.80%	0.02	0.0815	
39	MSEX	29.06%	26.86%	25.45%	23.53%	26.21%	26.24%	0.02	0.0772	
40	SJW Corp.	29.06%	19.13%	20.98%	22.39%	17.59%	21.68%	0.04	0.2029	
41	YORW	47.83%	50.00%	51.22%	48.78%	51.28%	49.82%	0.02	0.0304	
42	Average Water Proxy Group									
43	AWR						28.90%		0.0895	
44	WTR									
45	CWT									
46	CTWS									
47	MSEX									
48	SJW Corp.									
49	YORW									
50	Liberty Utilities (Black Mountain Sewer) Corp. Adjusted ¹									
51	AWR	29.13%	17.08%	14.23%	14.23%	19.29%	18.79%	0.06	0.3276	
52	WTR									
53	CWT									
54	CTWS									
55	MSEX									
56	SJW Corp.									
57	YORW									
58	Average Water Proxy Group									
59	AWR									
60	WTR									
61	CWT									
62	CTWS									
63	MSEX									
64	SJW Corp.									
65	YORW									
66	Return on Equity (ROE)									
67	AWR	12.1%	12.7%	11.9%	10.3%	11.0%	11.6%	0.01	0.0818	
68	WTR	12.9%	13.4%	11.0%	11.6%	10.6%	11.9%	0.01	0.1015	
69	CWT	9.0%	9.0%	9.0%	8.0%	8.6%	8.7%	0.00	0.0502	
70	CTWS	10.2%	9.3%	7.3%	8.3%	8.7%	8.6%	0.01	0.1239	
71	MSEX	9.3%	8.7%	7.8%	7.5%	8.2%	8.3%	0.01	0.0865	
72	SJW Corp.	14.4%	7.0%	8.1%	7.9%	6.2%	8.7%	0.03	0.3744	
73	YORW	11.0%	9.4%	9.3%	9.5%	9.8%	9.8%	0.01	0.0711	
74	Water Proxy Group									
75	AWR	11.3%	9.9%	9.2%	9.0%	9.0%	9.7%		0.1271	
76	WTR									
77	CWT									
78	CTWS									
79	MSEX									
80	SJW Corp.									
81	YORW									
82	Liberty Utilities (Black Mountain Sewer) Corp. Adjusted ¹									
83	AWR	12.48%	9.79%	6.98%	12.69%	0.93%	6.58%	0.05	0.5674	
84	WTR									
85	CWT									
86	CTWS									
87	MSEX									
88	SJW Corp.									
89	YORW									
90	Risk relative to the average risk of the water utilities sample									
91	Adjusted for Scotsdale Capacity Lease Costs									4.47

¹ Adjusted for Scotsdale Capacity Lease Costs

Liberty Utilities (Black Mountain Sewer) Corp.

Comparative Risk Study

Traditional Capital Asset Pricing Model (CAPM) Using Implied Beta

To Find Additional Risk Premium

**Exhibit
Page 2 of 3**

<u>Line No.</u>	<u>R_f¹</u>	+	<u>Implied beta²</u>	x	<u>RP_M</u>	=	<u>k</u>	<u>CAPM Results From</u>	<u>Additional Schedule D-</u>	<u>Indicated Company Risk Premium</u>
1	Historical Market Risk Premium CAPM	4.1%	+	0.93	x	7.00% ³	=	10.6%	9.1%	1.5%
2	Current Market Risk Premium CAPM	4.1%	+	0.93	x	8.97% ⁴	=	12.4%	10.6%	1.8%

Notes:

¹ Forecasts of long-term treasury yields. See Schedule D-4.9.

² Implied Beta computed from Duff and Phelps 2015 Valuation Handbook Risk Study information. See page 1 of exhibit.

³ Historical Market Risk Premium from (Ro) from Morningstar Ibbotson 214 Classic Yearbook, Long-Horizon ERP on S&P 500. See Rebuttal Schedule D-4.11.

⁴ See Rebuttal Schedule D-4.10

EXHIBIT TJB-COC-RB2

**Liberty Utilities (Black Mountain Sewer) Corp.
Risk Premium Analysis Based on Total Returns**

**Exhibit
Restated Schedule D-4.9
Witness: Bourassa**

Line No.	Annual Total Return ¹	Treasury Bond Yields ²	Annual Risk Premiums
1	1999 30.74%	5.87%	24.87%
2	2000 8.99%	5.94%	3.05%
3	2001 16.00%	5.49%	10.51%
4	2002 -4.16%	5.42%	-9.58%
5	2003 23.72%	5.05%	18.67%
6	2004 13.78%	5.12%	8.66%
7	2005 19.02%	4.56%	14.46%
8	2006 15.86%	4.91%	10.95%
9	2007 -2.71%	4.84%	-7.55%
10	2008 -1.87%	4.28%	-6.15%
11	2009 -0.20%	4.08%	-4.28%
12	2010 15.26%	4.25%	11.01%
13	2011 1.52%	3.91%	-2.39%
14	2012 15.08%	2.92%	12.16%
15	2013 20.34%	3.45%	16.89%
16	2014 14.98%	2.59%	12.39%
17	16-Year Average	4.5%	7.1%
18	Expected Long-term Treasury Bond Rate ³		4.1%
19	Projected Returns on Equity for Sample		11.2%

Notes:

¹ Composite of average total returns for water utilities. Data from Value Line Analyzer software.

² As reported by the Federal Reserve.

³ Source is Rebuttal Schedule D-4.8.

D SCHEDULES

Liberty Utilities (Black Mountain Sewer) Corp.
 Test Year Ended December 31, 2014
 Summary of Cost of Capital

Exhibit
 Rebuttal Schedule D-1
 Page 1
 Witness: Bourassa

Line No.	Item of Capital	Adjusted End of Test Year				Projected Capital Structure			
		Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	1,960,354	30.00%	3.53%	1.06%
2									
3	Stockholder's Equity	6,276,158	100.00%	10.80%	10.80%	4,574,160	70.00%	10.80%	7.56%
4									
5	Totals	6,276,158	100.00%		10.80%	6,534,515	100.00%		8.62%
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									
21									

SUPPORTING SCHEDULES:

- D-2
- D-3
- D-4
- Testimony

RECAP SCHEDULES:

22
23
24
25
26
27
28
29
30

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Preferred Stock

Exhibit
Rebuttal Schedule D-3
Page 1
Witness: Bourassa

Line

No.

1

End of Test Year

End of Projected Year

2

3

Description
of Issue

Shares
Outstanding

Amount

Dividend
Requirement

Shares
Outstanding

Amount

Dividend
Requirement

5

6

7

NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING

8

9

10

11

12

13

14

15

16

17

18

19

20

SUPPORTING SCHEDULES:

RECAP SCHEDULES:

22

D-1

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Common Equity

Exhibit
Rebuttal Schedule D-4
Page 1
Witness: Bourassa

Line
No.

1		
2	The Company is proposing a cost of common equity of	10.80%
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
18	D-4.1 to D-4.16	D-1
19		
20		

**Liberty Utilities (Black Mountain Sewer) Corp.
Summary of Results**

**Exhibit
Rebuttal Schedule D-4.1
Witness: Bourassa**

Line No.		Indicated Cost of Equity for <u>Water Sample Group</u>		Indicated Cost of Equity for <u>Liberty Utilities (Black Mountain Sewer) Corp.</u> ¹	
1	DCF Constant Growth - Rebuttal Schedule D-4.7	8.8%	to 9.8%	10.3%	to 11.3%
2	Risk Premium Model - Rebuttal Schedule D-4.9		10.5%		12.0%
3	CAPM - Rebuttal Schedule D-4.11	9.1%	to 10.6%	10.6%	to 12.1%
4	Range of Cost of Equity Estimates	9.5%	to 10.3%	11.0%	to 11.8%
5	Financial Risk Adjustment - Rebuttal Schedule D-4.14		0.0%		-0.40%
6	Adjusted Range of Cost of Equity Estimates	9.5%	to 10.3%	10.6%	to 11.4%
7	Mid-point		9.9%		11.0%
8	Cost of Equity Recommendation			10.8%	

Notes:

¹Estimates include an equity risk premium of 150 basis points based on comparative risk study. See Testimony.

**Liberty Utilities (Black Mountain Sewer) Corp.
Selected Characteristics of Sample Group of Water Utilities**

**Exhibit
Rebuttal Schedule D-4.2
Witness: Bourassa**

Line No.	Company	Symbol	% Water Revenues ¹	Operating Revenues (millions) ¹	Net Plant (millions) ¹	S&P Bond Rating ¹	Moody's Bond Rating ¹	Allowed ROE (%) ¹	Value Line Beta ²	Market Capitalization ²	Size Category ³
1	American States Water	AWR	72%	\$ 458.4	\$ 1,032.1	A+	A2	9.43	0.70	\$ 1,494.8	Low-Cap
2	Aqua America	WTR	95%	\$ 808.5	\$ 4,605.5	AA-	NR	9.79	0.75	\$ 5,150.2	Mid Cap
3	California Water	CWT	98%	\$ 587.3	\$ 1,663.6	AA-	NR	9.43	0.75	\$ 1,075.8	Low-Cap
4	Connecticut Water	CTWS	100%	\$ 97.9	\$ 529.0	A/A-	NR	9.63	0.65	\$ 394.1	Micro-cap
5	Middlesex	MSEX	86%	\$ 123.2	\$ 477.8	A	NR	9.75	0.70	\$ 403.8	Micro-cap
6	SJW Corp.	SJW	95%	\$ 286.8	\$ 991.5	A	NR	9.43	0.75	\$ 583.5	Micro-cap
7	York Water Company	YORW	100%	\$ 46.7	\$ 257.3	A-	NR	NM	0.75	\$ 298.3	Micro-cap
8	Average		92%	\$ 344.1	\$ 1,365.3			9.58	0.72	\$ 1,342.9	Low-Cap
9	Liberty Utilities (Black Mountain Sewer) Corp.		100%	\$ 2.2	\$ 5.5	NR	NR	-			

Notes:

¹AUS Utility Reports (December 2015).

²Value Line Analyzer Data (Weekly as of December 10, 2015)

³ See Schedule D-4.15 for definitions of size category

Liberty Utilities (Black Mountain Sewer) Corp.
Capital Structures

Exhibit
Rebuttal Schedule D-4.3
Witness: Bourassa

Line No.	Company	Symbol	Book Value ¹		Market Value ¹	
			Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1	American States Water	AWR	39.1%	60.9%	17.9%	82.1%
2	Aqua America	WTR	48.5%	51.5%	23.3%	76.7%
3	California Water	CWT	40.1%	59.9%	28.0%	72.0%
4	Connecticut Water	CTWS	45.8%	54.2%	30.9%	69.1%
5	Middlesex	MSEX	40.8%	59.2%	25.2%	74.8%
6	SJW Corp.	SJW	51.6%	48.4%	39.7%	60.3%
7	York Water Company	YORW	44.8%	55.2%	22.1%	77.9%
8	Average		44.4%	55.6%	26.7%	73.3%
9	Liberty Utilities (Black Mountain Sewer) Corp.	Proforma	70.0%	30.0%	N/A	N/A

¹ Value Line Analyzer Data (Weekly as of December 10, 2015)

**Exhibit
Rebuttal Schedule D-4.4**

**Liberty Utilities (Black Mountain Sewer) Corp.
Comparisons of Past and Future Estimates of Growth**

Line No.	[1] Company	[2] Price ¹	[2] Value ²	[3] EPS ²	[4] DPS ²	[5] Average Historical Growth	[6] Value Line Projected Growth ²	[7] Average of Historical and Proj. Grwth
<u>Five-year historical average annual changes</u>								
1	American States Water	19.79%	6.50%	14.00%	8.50%	12.20%	6.00%	9.10%
2	Aqua America	16.93%	6.50%	13.00%	7.00%	10.86%	7.50%	9.18%
3	California Water	9.41%	5.00%	4.00%	2.00%	5.10%	6.50%	5.80%
4	Connecticut Water	11.68%	9.50%	9.00%	2.00%	8.05%	4.50%	6.27%
5	Middlesex	9.74%	3.00%	4.50%	1.50%	4.69%	5.00%	4.84%
6	SJW Corp.	10.40%	3.50%	10.50%	3.00%	6.85%	1.50%	4.17%
7	York Water Company	13.20%	4.50%	6.00%	2.50%	6.55%	6.50%	6.52%
8	GROUP AVERAGE	13.02%	5.50%	8.71%	3.79%	7.76%	5.36%	6.56%

Notes:

¹ Average (geometric) of changes in annual stock prices ending on December 31 through 2014. Data from Yahoo Finance website.

² Value Line Analyzer, weekly as of December 10, 2015.

**Exhibit
Rebuttal Schedule D-4.5**

**Liberty Utilities (Black Mountain Sewer) Corp.
Comparisons of Past and Future Estimates of Growth**

Line No.	Company	[1]	[2]	[3]	[4]	[5]	[6]	[7]
		Price ¹	Book Value ²	EPS ²	DPS ²	Average Col 1-4	Value Line Growth ²	Average of Historical and Proj. Grwth
1	American States Water	14.46%	6.00%	11.00%	5.50%	9.24%	6.00%	7.62%
2	Aqua America	8.84%	7.50%	8.50%	7.50%	8.09%	7.50%	7.79%
3	California Water	5.99%	5.50%	5.00%	1.50%	4.50%	6.50%	5.50%
4	Connecticut Water	6.91%	6.50%	4.00%	2.00%	4.85%	4.50%	4.68%
5	Middlesex	5.94%	4.50%	4.00%	1.50%	3.98%	5.00%	4.49%
6	SJW Corp.	8.61%	6.00%	6.50%	4.00%	6.28%	1.50%	3.89%
7	York Water Company	9.29%	6.50%	5.50%	4.00%	6.32%	6.50%	6.41%
8	GROUP AVERAGE	8.58%	6.07%	6.36%	3.71%	6.18%	5.36%	5.77%

Notes:

¹ Average (geometric) of changes in annual stock prices ending on December 31 through 2014. Data from Yahoo Finance website.

² Value Line Analyzer Data, weekly as of December 10, 2015.

Liberty Utilities (Black Mountain Sewer) Corp.
Current Dividend Yields for Water Utility Sample Group

Exhibit
Rebuttal Schedule D-4.6
 Witness: Bourassa

Line No.	Company	[1] Stock Price (P ₀) ¹	[2] Current Dividend (D ₀) ¹	[3] Current Dividend Yield (D ₀ /P ₀)	[4] Average Annual Dividend Yield (D ₀ /P ₀) ^{1,2}
1	American States Water	\$ 42.63	\$ 0.91	2.13%	2.63%
2	Aqua America	\$ 30.51	\$ 0.73	2.39%	2.53%
3	California Water	\$ 23.29	\$ 0.69	2.96%	2.77%
4	Connecticut Water	\$ 38.62	\$ 1.08	2.80%	3.00%
5	Middlesex	\$ 26.80	\$ 0.80	2.99%	3.65%
6	SJW Corp.	\$ 29.51	\$ 0.80	2.71%	2.64%
7	York Water Company	\$ 24.82	\$ 0.63	2.54%	2.79%
8	GROUP AVERAGE			2.65%	2.86%

Notes:

¹ Stock prices as of December 18, 2015. Indicated Dividend from Value Line Analyzer weekly as of December 10, 2015.

² Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. As report by Value Line Analyzer software. For comparison purposes only.

Liberty Utilities (Black Mountain Sewer) Corp.
Discounted Cash Flow Analysis
DCF Constant Growth

Exhibit
Rebuttal Schedule D-4.7 (page 1)
 Witness: Bourassa

Line No.	[1] Dividend Yield (D_0/P_0) ¹	[2] Expected Dividend Yield (D_1/P_0) ²	[3] Value Line Projected Growth (g) ³	[4] Indicated Cost of Equity (COE) $k = \text{Div Yld} + g$ (Cols 2+3)	[5] Indicated Cost of Equity (COE) $k = \text{Div Yld} + g$ (Cols 2+3) ⁴
1	2.13%	2.26%	+ 6.00%	= 8.26%	8.26%
2	2.39%	2.57%	+ 7.50%	= 10.07%	10.07%
3	2.96%	3.16%	+ 6.50%	= 9.66%	9.66%
4	2.80%	2.92%	+ 4.50%	= 7.42%	7.42%
5	2.99%	3.13%	+ 5.00%	= 8.13%	8.13%
6	2.71%	2.75%	+ 1.50%	= 4.25%	4.25%
7	2.54%	2.70%	+ 6.50%	= 9.20%	9.20%
8				Average	8.14%
				Adjusted Average ⁴	8.79%

Notes:

¹ Spot Dividend Yield = D_0/P_0 . See Rebuttal Schedule D-4.6.

² Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.

³ Value Line Growth rate (g). See Rebuttal Schedule D-4.5, Col. 6.

⁴ Remove any results less than the projected cost of Baa Bonds plus 100 basis points.

Liberty Utilities (Black Mountain Sewer) Corp.
Discounted Cash Flow Analysis
DCF Constant Growth

Exhibit
Rebuttal Schedule D-4.7 (page 2)

Line No.	[1] Dividend Yield (D_0/P_0) ¹	[2] Expected Dividend Yield (D_1/P_0) ²	[3] Average of Historical and Proj. Grwth ³	[4] Indicated Cost of Equity (COE) $k=Div\ Yld + g$ (Cols 2+3)	[5] Indicated Cost of Equity (COE) $k=Div\ Yld + g$ (Cols 2+3) ⁴
1	2.13%	2.33%	9.10%	11.43%	11.43%
2	2.39%	2.61%	9.18%	11.79%	11.79%
3	2.96%	3.13%	5.80%	8.94%	8.94%
4	2.80%	2.97%	6.27%	9.24%	9.24%
5	2.99%	3.13%	4.84%	7.97%	7.97%
6	2.71%	2.82%	4.17%	7.00%	7.00%
7	2.54%	2.70%	6.52%	9.23%	9.23%
8				Average 9.37%	9.77%

Notes:

- ¹ Spot Dividend Yield = D_0/P_0 . See Table 7.
- ² Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.
- ³ Historical Growth rate (g). See Schedule D-4.5 Col. 7.
- ⁴ Remove any results less than the projected cost of Baa Bonds plus 100 basis points.

**Liberty Utilities (Black Mountain Sewer) Corp.
Forecasts of Long-Term Interest Rates**

**Exhibit
Rebuttal Schedule D-4.8
Witness: Bourassa**

Line No.		<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Average</u>
1	Long-term Treasury Rates				
2	Blue Chip Consensus Forecasts ¹	3.40%	4.00%	4.40%	
3	Value Line ²	3.90%	4.40%	4.60%	
4	Average				4.1%
5	Aaa Corporate Bonds				
6	Blue Chip Consensus Forecasts ¹	4.50%	5.10%	5.50%	
7	Value Line ²	4.90%	5.50%	5.80%	
8	Average				5.2%
9	Baa Corporate Bonds				
10	Blue Chip Consensus Forecasts ¹	5.60%	6.00%	6.50%	
11	Value Line ²				
12	Average				6.0%

Notes:

¹ Blue Chip consensus forecasts (December 2015).

² Value Line Quarterly forecasts dated December 4, 2015.

**Liberty Utilities (Black Mountain Sewer) Corp.
Risk Premium Analysis Based on Total Returns**

**Exhibit
Rebuttal Schedule D-4.9
Witness: Bourassa**

Line No.	Year	Annual Total Return ¹	Treasury Bond Yields ²	Annual Risk Premiums
1	1999	26.28%	5.87%	20.41%
2	2000	2.70%	5.94%	-3.24%
3	2001	16.00%	5.49%	10.51%
4	2002	-4.16%	5.42%	-9.58%
5	2003	23.72%	5.05%	18.67%
6	2004	13.78%	5.12%	8.66%
7	2005	19.02%	4.56%	14.46%
8	2006	15.86%	4.91%	10.95%
9	2007	-2.71%	4.84%	-7.55%
10	2008	-1.87%	4.28%	-6.15%
11	2009	-0.20%	4.08%	-4.28%
12	2010	15.26%	4.25%	11.01%
13	2011	1.52%	3.91%	-2.39%
14	2012	15.08%	2.92%	12.16%
15	2013	20.34%	3.45%	16.89%
16	2014	14.98%	2.59%	12.39%
17		16-Year Average	4.5%	6.4%
18		Expected Long-term Treasury Bond Rate ³		4.1%
19		Projected Returns on Equity for Sample		10.5%

Notes:

- ¹ Composite of average total returns for water utilities. Data from Value Line Analyzer software.
- ² As reported by the Federal Reserve.
- ³ Source is Rebuttal Schedule D-4.8.

Liberty Utilities (Black Mountain Sewer) Corp.
Estimation of Current Market Risk Premium
Using DCF Analysis

Exhibit
Rebuttal Schedule D-4.10
Witness: Bourassa

Line No.	Month	Dividend Yield (D_t/P_0) ¹	Expected Dividend Yield (D_t/P_0) ²	Expected Growth (g) ³	Expected Market Return (k)	Monthly Average 30 Year Treasury Rate ⁴	Expected Market Risk Premium (MRP)
1	May 2014	2.37%	2.59%	+ 9.42%	= 12.01%	= 3.39%	= 8.62%
2	June	2.34%	2.56%	+ 9.33%	= 11.89%	= 3.42%	= 8.47%
3	July	2.42%	2.65%	+ 9.50%	= 12.15%	= 3.33%	= 8.82%
4	Aug	2.38%	2.61%	+ 9.50%	= 12.11%	= 3.20%	= 8.91%
5	Sept	2.82%	3.10%	+ 9.83%	= 12.93%	= 3.26%	= 9.67%
6	Oct	2.45%	2.68%	+ 9.50%	= 12.18%	= 3.04%	= 9.14%
7	Nov	2.38%	2.61%	+ 9.67%	= 12.27%	= 3.04%	= 9.23%
8	Dec	2.44%	2.67%	+ 9.67%	= 12.34%	= 2.83%	= 9.51%
9	Jan 2015	2.45%	2.68%	+ 9.50%	= 12.18%	= 2.46%	= 9.72%
10	Feb	2.38%	2.61%	+ 9.50%	= 12.11%	= 2.57%	= 9.54%
11	Mar	2.42%	2.64%	+ 9.17%	= 11.81%	= 2.63%	= 9.18%
12	Apr	2.40%	2.61%	+ 9.00%	= 11.61%	= 2.59%	= 9.02%
13	May	2.41%	2.63%	+ 9.00%	= 11.63%	= 2.96%	= 8.67%
14	June	2.50%	2.72%	+ 8.83%	= 11.56%	= 3.11%	= 8.45%
15	July	2.56%	2.78%	+ 8.83%	= 11.62%	= 3.07%	= 8.55%
16	Aug	2.70%	2.95%	+ 9.00%	= 11.95%	= 2.86%	= 9.09%
17	Sept	2.84%	3.10%	+ 9.00%	= 12.10%	= 2.95%	= 9.15%
18	Oct	2.67%	2.91%	+ 9.00%	= 11.91%	= 2.89%	= 9.02%
19	Nov.	2.70%	2.94%	+ 8.83%	= 11.77%	= 3.03%	= 8.74%
20	Recommended	2.74%	2.98%	+ 8.94%	= 11.92%	= 2.96%	= 8.97%
21	Short-term Trends						
22	Recent Twelve Months Avg	2.54%	2.77%	+ 9.11%	= 11.88%	= 2.83%	= 9.05%
23	Recent Nine Months Avg	2.58%	2.81%	+ 8.96%	= 11.77%	= 2.90%	= 8.87%
24	Recent Six Months Avg	2.66%	2.90%	+ 8.92%	= 11.82%	= 2.99%	= 8.83%
25	Recent Three Months Avg	2.74%	2.98%	+ 8.94%	= 11.92%	= 2.96%	= 8.97%

Notes:

- ¹ Average Dividend Yield (D_0/P_0) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks
- ² Expected Dividend Yield (D_t/P_0) equals current average dividend yield (D_0/P_0) times one plus growth rate(g).
- ³ Median of Projected EPS, Projected DPS Growth and Projected BV Growth for VL 1700 stocks. Data from Value Line Investment Analyzer Software.
- ⁴ Monthly average 30 year U.S. Treasury. Federal Reserve.

Liberty Utilities (Black Mountain Sewer) Corp.
 Traditional Capital Asset Pricing Model (CAPM)

Exhibit
 Rebuttal Schedule D-4.11
 Witness: Bourassa

<u>Line No.</u>	<u>Rf</u> ¹	+	<u>beta</u> ²	x	<u>RP_M</u>	=	<u>k</u>
1	Historical Market Risk Premium CAPM		4.1%	+	0.72	x	7.00% ³ = 9.1%
2	Current Market Risk Premium CAPM		4.1%	+	0.72	x	8.97% ⁴ = 10.6%
3	Average						9.9%

Notes:

¹ Forecasts of long-term treasury yields. See Rebuttal Schedule D-4.8.

² Value Line Investment Analyzer data. See Rebuttal Schedule D-4.3.

³ Historical Market Risk Premium Duff & Phelps 2015 Valuation Handbook, Appendix 3, Long-Horizon ERP.

⁴ See Rebuttal Schedule D-4.10.

Liberty Utilities (Black Mountain Sewer) Corp.
 Financial Risk Computation
 Unlevered Beta

Exhibit
 Rebuttal Schedule D-4.12
 Witness: Bourassa

Line No.	Company	VL Beta β_L^1	Raw Beta β_u^2	Tax Rate t^3	MV Debt D^4	MV Equity E^4	Unlevered Raw Beta β_u^5
1.	American Water Worl	0.70	0.55	38.4%	17.9%	82.1%	0.48
2.	Aqua America	0.75	0.63	10.5%	23.3%	76.7%	0.50
3.	California Water	0.75	0.63	33.0%	28.0%	72.0%	0.50
4.	Connecticut Water	0.65	0.48	14.4%	30.9%	69.1%	0.35
5.	Middlesex	0.70	0.55	35.0%	25.2%	74.8%	0.45
6.	SJW Corp.	0.75	0.63	32.5%	39.7%	60.3%	0.44
7.	York Water	0.75	0.63	29.8%	22.1%	77.9%	0.53
13	Sample Water Utilitie:	0.72	0.59	27.7%	26.7%	73.3%	0.46

¹ Value Line Investment Analyzer data. See Rebuttal Schedule D-4.1.

Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:

Adjusted beta = .33 + (.67) * Raw beta

² Raw Beta = (VL beta - .33)/(.67)

³ Effective tax rates for year ended December 31, 2013.

⁴ See Rebuttal Schedule D-4.2.

⁵ Raw $\beta_u = \beta_L / (1 + (1-t)^*D/E)$

Liberty Utilities (Black Mountain Sewer) Corp.
Financial Risk Computation
Relevered Beta

Line No.	Unlevered Raw Beta $\beta_{U,1}$	MV Book Debt $\frac{BD^2}{EC^2}$	MV Equity Capital $\frac{EC^2}{EC^2}$	Tax Rate t^2	Relevered Raw Beta $\beta_{RL} = \beta_U (1 + (1-t)BD/EC)$	VL Adjusted Relevered Beta $\beta_{RL} = .33 + .67(\text{Raw Beta})$
1	0.46	14.8%	85.2%	37.23%	0.51	0.67

Liberty Utilities (Black Mountain Sewer) Corp.

¹ Unlevered Beta from Unlevered Beta tab in WP.

² Proforma Capital Structure of Company per D-1

	BV (in Thousands)	MV (in Thousands)	MV %
Long-term Debt	\$ 1,960	\$ 1,960	14.80%
Preferred Stock	\$ -	-	0.0%
Common Stock	\$ 4,574	11,263	85.2%
Total Capital	\$ 6,535	\$ 13,223	100.0%

(a) Current market-to-book ratio of sample water utilities. See work papers.

³ Current Tax rate based on test year ending 12/31/2014. See Rebuttal Schedule C-3.

Liberty Utilities (Black Mountain Sewer) Corp.
Financial Risk Computation

Exhibit
Rebuttal Schedule D-4.14
 Witness: Bourassa

Line	<u>No.</u>							
1		<u>CAPM</u>						
2		Historical Market Risk Premium	Rf	+	β	x	(Rp)	k
3		Current Market Risk Premium	4.1%	1	0.72	2	7.00%	3
4			4.1%	1	0.72	2	8.97%	4
5								=
6		Average						=
7								<u>9.9%</u>
8								
9		<u>CAPM Relevered Beta</u>						
10		Historical Market Risk Premium	Rf	+	β	x	(Rp)	k
11		Current Market Risk Premium	4.1%	1	0.67	5	7.00%	3
12			4.1%	1	0.67	5	8.97%	4
13								=
14		Average						=
15								<u>8.8%</u>
16		Indicated Financial Risk Adjustment						<u><u>-0.4%</u></u>
17								<u>9.5%</u>

¹ Forecast of long-term treasury yields. See Rebuttal Schedule D-4.8.
² Value Line Investment Analyzer data. See Rebuttal Schedule D-4.1.
³ Historical Market Risk Premium from (Rp) Duff & Phelps 2015 Valuation Handbook Appendix 3 Long-Horizon ERP 1926-2014.
⁴ Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rebuttal Schedule D-4.10.
⁵ Relevered beta found on Relevered Beta. See Rebuttal Schedule D-4.15.

18
 19
 20
 21
 22
 23
 24
 25

