

1 **DIRECT TESTIMONY OF GERALD BECKER**

2 **ON BEHALF OF**

3 **LIBERTY UTILITIES (WOODMARK SEWER) CORP. AND**
4 **LIBERTY UTILITIES (TALL TIMBERS SEWER) CORP.**
5

6 **I. INTRODUCTION**

7 **Q. Please state your name, occupation, and business address.**

8 **A. My name is Gerald Becker. I am the Utility Rates and Regulatory Manager for**
9 Liberty Utilities. My business address is 12725 W. Indian School Road, Suite D-
10 101, Avondale, AZ 85392.

11 Prior to my employment at Liberty Utilities, I was employed by the Arizona
12 Corporation Commission in the Utilities Division (“Staff”). I was responsible for
13 the examination and verification of financial and statistical information included in
14 utility rate applications. In addition, I developed revenue requirements, and
15 prepared written reports, testimonies, and schedules that included Staff
16 recommendations to the Arizona Corporation Commission. I am also responsible
17 for testifying at formal hearings on these matters.

18
19 **Q. Please describe your educational background and professional experience.**

20 **A. I received a Masters of Business Administration with an emphasis in Accounting**
21 from Pace University. I have achieved the designations of Certified Public
22 Accountant and a Certified Internal Auditor. I have participated in multiple rate,

1 financing, and regulatory proceedings. I attended the National Association of
2 Regulatory Utility Commissioners (“NARUC”) Utilities Rate School.

3 I began employment with the Arizona Corporation Commission as a utilities
4 regulatory analyst in April 2006. Prior to joining the Arizona Corporation
5 Commission, I worked as an Auditor at the Department of Economic Security and
6 Department of Revenue in the Taxpayer Assistance Section. Prior to those jobs, I
7 worked for 15 years as an Auditor, Analyst, Financial Analyst, and Budget Manager
8 at United Illuminating, an investor-owned electric company in New Haven, CT.

9
10 **Q. Please describe your involvement in the instant proceeding.**

11 **A.** I have reviewed the financial and operational data provided to our rate consultant,
12 Mr. Bruce Fairchild who is also filing testimony in this case.

13

14 **II. OVERVIEW OF LIBERTY UTILITIES**

15 **Q. PLEASE PROVIDE AN OVERVIEW OF LIBERTY UTILITIES.**

16 **A.** Liberty Utilities Co. (“Liberty Utilities”) is a Delaware corporation that operates
17 regulated gas, water, sewer and electric utilities in eleven states—Arizona,
18 Arkansas, California, Georgia, Illinois, Iowa, Massachusetts, Missouri, Montana,
19 New Hampshire and Texas. Liberty Utilities Co. is a subsidiary of Liberty Utilities
20 (Canada) Corp. (“Liberty Utilities Canada”). The Texas utilities are wholly owned
21 subsidiaries of Liberty Utilities (Sub) Corp., which is a wholly owned subsidiary of
22 Liberty Utilities. Algonquin Power & Utilities Corp., or APUC, a publicly traded

1 member of the Toronto Stock Exchange, ultimately owns all of the Liberty Utilities
2 entities, including Applicants.

3 APUC is a \$4.1 billion electric generation, transmission and distribution
4 utility company based in Oakville, Ontario. APUC is listed on the Toronto Stock
5 Exchange and is a registrant with the U.S. Security and Exchange Commission.
6 APUC subsidiaries own and operate regulated utilities in the United States, and own
7 non-regulated generation facilities and regulated electric transmission and natural
8 gas pipelines throughout the United States and Canada. The distribution business
9 group operates in the United States as Liberty Utilities and provides rate-regulated
10 water, wastewater, electricity and natural gas utility services to over half a million
11 customers. The electric generation business group operates as Algonquin Power
12 Co. and owns or has interests in a portfolio of North American based contracted
13 wind, solar, hydroelectric and natural gas powered generating facilities representing
14 more than 1,150 MW of installed capacity. The transmission business group
15 invests in rate regulated electric transmission and natural gas pipeline systems in the
16 United States and Canada. Common shares and preferred shares of APUC are
17 traded on the Toronto Stock Exchange under the symbols AQN, AQN.PR.A and
18 AQN.PR.D. The APUC website is www.AlgonquinPowerandUtilities.com.

19 III. PURPOSE OF TESTIMONY/EXHIBITS

20 **Q. Please state the purpose of your testimony.**

21 **A.** The purpose of my testimony is to discuss the rate application development process.

1 **IV. RATE APPLICATION DEVELOPMENT PROCESS**

2 **Q. Generally, what was your assignment and scope of work in regard to this rate**
3 **case?**

4 **A. I have been involved with a number of different aspects of this rate case for the**
5 **Applicants. Generally, my rate case work has entailed:**

- 6 • researching and providing other company information to FINCAP as needed
7 to prepare Applicants' rate application;
8 assisting in development of the company's prefiled direct case; and
9 producing Applicants' business records for submission into the record.

10
11 **Q. Please describe your working relationship with Mr. Bruce Fairchild and**
12 **FINCAP in developing the rate application.**

13 **A. Applicants hired FINCAP, which is Mr. Bruce Fairchild's consulting firm, as a**
14 **consultant to prepare Applicants' sewer rate application. Consulting firms must**
15 **rely on their clients to provide the detailed information that is used to develop such**
16 **rate applications. I served as the liaison for the Applicants to provide Mr. Fairchild**
17 **with the information FINCAP needed from Applicants' business records to populate**
18 **the rate application form. I also researched and provided additional information**
19 **FINCAP requested to complete the application as needed. Mr. Fairchild will testify**
20 **as to how he used that information to develop the Applicants' rate application.**

21
22 **Q. Does this conclude your prefiled direct testimony?**

1 A. Yes, it does.

PUC DOCKET NO. 46256

APPLICATION OF LIBERTY	§	BEFORE THE PUBLIC UTILITY
UTILITIES (WOODMARK SEWER)	§	COMMISSION OF TEXAS
CORP. AND LIBERTY UTILITIES	§	
(TALL TIMBERS SEWER) CORP.	§	
(CCN NOS. 20679 AND 20694) TO	§	
CHANGE RATES FOR SEWER	§	
SERVICE IN SMITH COUNTY,	§	
TEXAS.	§	

DIRECT TESTIMONY AND ATTACHMENTS

OF

CRYSTAL GREENE

ON BEHALF OF

**LIBERTY UTILITIES (WOODMARK SEWER) CORP. AND
LIBERTY UTILITIES (TALL TIMBERS SEWER) CORP.**

September 2, 2016

**DIRECT TESTIMONY AND ATTACHMENTS OF
CRYSTAL GREENE
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ATTACHMENTS:

CG-1 Resume of Crystal Greene

1 **DIRECT TESTIMONY OF CRYSTAL GREENE**

2 **ON BEHALF OF**

3 **LIBERTY UTILITIES (WOODMARK SEWER) CORP. AND**
4 **LIBERTY UTILITIES (TALL TIMBERS SEWER) CORP.**
5

6 **I. INTRODUCTION**

7 **Q. Please state your name, occupation, and business address.**

8 **A.**My name is Crystal Greene. I am the Senior Accounting Manager for Liberty
9 Utilities. My business address is 12725 W. Indian School Road, Suite D-101,
10 Avondale, AZ 85392.

11
12 **Q. Please describe your educational background and professional experience.**

13 **A.**I received a Bachelor of Science in accounting from Arizona State University. I
14 began employment with Liberty Utilities in 2009. Prior to joining Liberty Utilities,
15 I worked as an Accounting Manager/Controller at Aero Automatic Sprinkler Co. &
16 Jet Pipe Industries for six years. I was responsible for financial reporting and
17 general ledger accounting, and I managed cash management functions, coordination
18 of audits and budgeting/forecasting. Prior to that employment, I worked for seven
19 years as an Assistant Controller, Contract Administrator, and Staff Accountant for
20 general and subcontractor construction companies. A copy of my resume is
21 attached as **CG-1**.

1 **II. PURPOSE OF TESTIMONY**

2 **Q. What is the purpose of your testimony?**

3 **A.** I am testifying to provide information regarding the financial statements and general
4 ledger reporting for the test year that were used by Bruce Fairchild with Financial
5 Concepts and Applications, Inc. ("FINCAP") to prepare the rate application for
6 Liberty Utilities (Woodmark Sewer) Corp. and Liberty Utilities (Tall Timbers
7 Sewer) Corp.
8

9 **III. FINANCIAL STATEMENTS AND GENERAL LEDGER REPORTING**

10 **Q. What is your involvement in this proceeding?**

11 **A.** I reviewed the financial statements and general ledger reporting for the test year that
12 were provided to FINCAP for use in preparing the rate application for Liberty
13 Utilities (Woodmark Sewer) Corp. and Liberty Utilities (Tall Timbers Sewer) Corp.
14 that is the subject of this proceeding.
15

16 **Q. What controls and assurances are in place to ensure compliance with National**
17 **Association of Regulatory Utility Commissioners (NARUC) guidelines?**

18 **A.** Liberty Utilities acknowledges GAAP and NARUC guidelines for financial
19 statement purposes. Additionally, we are required to undergo quarterly financial
20 audits and yearly Sarbanes Oxley (SOX) audits with internal and external auditors.
21 Internal controls are in place to ensure accuracy and integrity of the data.
22

1 **Q. What additional controls and assurances are in place to ensure that Liberty**
2 **Utilities (Woodmark Sewer) Corp. and Liberty Utilities (Tall Timbers Sewer)**
3 **Corp. expenses are reasonable and necessary?**

4 **A.** The budgets for operations and maintenance expenses are subject to review and
5 approval in advance of committing funds by both local management in the Avondale
6 office and by senior management at the home office. Further, the results of
7 operations are part of a monthly review also by both local and senior management.

8

9 **Q. What additional controls and assurances are in place to ensure that Liberty**
10 **Utilities (Woodmark Sewer) Corp. and Liberty Utilities (Tall Timbers Sewer)**
11 **Corp. plant investments are reasonable, necessary, and prudently incurred?**

12 **A.** The controls and assurances to ensure the propriety of plant investments are similar
13 to those discussed above for operations and maintenance expenses.

14

15 **Q. How was the original cost for used and useful Liberty Utilities (Woodmark**
16 **Sewer) Corp. and Liberty Utilities (Tall Timbers Sewer) Corp. plant assets**
17 **determined that were provided to FINCAP for use in the rate application?**

18 **A.** The plant assets fall into two categories – those that were in place when the two
19 companies were acquired in 2002 and assets installed since that time. To the best
20 of my knowledge, for the first category of assets, Liberty Utilities relied on values
21 produced by the prior owner during due diligence for the plant roll forward after
22 Liberty Utilities acquired the stock of Liberty Utilities (Woodmark Sewer) Corp.

1 and Liberty Utilities (Tall Timbers Sewer) Corp in 2002 consistent with NARUC
2 uniform accounting systems. The purchase price of the stock purchase agreement
3 supports those plant balances as our starting point. The transaction is available for
4 review in addition to available invoices. Since 2002, Liberty Utilities has utilized
5 the audit and financial controls mentioned above to ensure the integrity of the plant
6 asset data in this case. Liberty Utilities has maintained supporting invoices that are
7 available for review.

8
9 **Q. Are the plant balances for Liberty Utilities (Woodmark Sewer) Corp. and**
10 **Liberty Utilities (Tall Timbers Sewer) Corp. maintained and depreciated using**
11 **an itemized or group accounting method?**

12 **A.** The plant balances for Liberty Utilities (Woodmark Sewer) Corp. and Liberty
13 Utilities (Tall Timbers Sewer) Corp. are maintained and depreciated consistent with
14 NARUC uniform accounting systems using an itemized accounting method. An
15 itemized plant list that supports the rate base totals included in the rate application
16 is available for review upon request.

17
18 **Q. How has Liberty Utilities (Woodmark Sewer) Corp. and Liberty Utilities (Tall**
19 **Timbers Sewer) Corp. accounted for retired assets in the net plant balances**
20 **reported to FINCAP used in the rate application?**

21 **A.** When assets are retired for either Liberty Utilities (Woodmark Sewer) Corp. or
22 Liberty Utilities (Tall Timbers Sewer) Corp., they are accounted for within each

1 company's net plant balances as prescribed by the NARUC uniform system of
2 accounts and consistent with 16 TAC 24.31. If there is reported salvage value,
3 which typically there is not, we make sure the customer gets the benefit of same
4 through either a reduction or increase in value of net plant in service for the
5 replacement asset consistent with the NARUC uniform system of accounts.

6
7 **IV. INTANGIBLE ASSETS**

8 **Q. For the Liberty Utilities (Woodmark Sewer) Corp. and Liberty Utilities (Tall**
9 **Timbers Sewer) Corp. assets included in plant balances used by FINCAP in**
10 **the rate application, are there any intangible assets included?**

11 **A.** No. Intangible asset entries were not included in the plant balances used by
12 FINCAP in the rate application.

13
14 **Q. Does this conclude your pre-filed direct testimony?**

15 **A.** Yes, it does.

Crystal L. Greene

♦ Crystal.Greene@LibertyUtilities.com ♦ (623) 208-2802

PROFESSIONAL EXPERIENCE:

Liberty Water Co. Avondale, AZ

September 2009 – Present

Sr. Accounting Manager

- Provides financial monthly, quarterly, and annual reporting for multiple companies
- Monitors and reviews monthly bank reconciliations, journal entries, balance sheet reconciliations prepared by junior and senior accountants
- Give daily direction and leadership to all accounting staff
- Provide assistance to customer service, operations, home office and business managers
- Preparation of yearly budgets and forecasting
- Act as the administrator for all cash accounts, credit cards, and paypal
- Organize and manage all new acquisitions
- Coordinate and handle all audit requests from internal and external auditors
- Provide all data required during rate cases

Capitol Fire Sprinkler, Inc. & AZ Pipe Fab, LLC Phoenix, AZ **Mar 2003 – Sept 2009**

(Formerly known as Aero Automatic Sprinkler Company and Jet Pipe Industries)

(Left in august of 2006 to pursue a part time accountant position and returned to Capitol Fire in April of 2007.)

Accounting Manager / Controller

- Coordinated month end with the department and performed the general ledger reconciliation of the balance sheet and income statement accounts
- Preparation of all monthly journal entries
- Analyzed and prepared monthly financial statements which includes balance sheet, income statement, cash flow statement, and WIP schedules for both entities
- Handle all cash management functions including lines of credit, investment accounts and banking relationships
- Coordination of 401K and Insurance Audits with outside CPA/Audit firms
- Maintained budgets and forecasting and prepared the necessary reports for all departments
- Prepared monthly and quarterly Sales and Use Tax prep for eight states and fifteen cities
- Managed a staff of five
- Coordination of year-end audit and corporate tax return with CPA firm
- Performed monthly inventory cycle counts and year end physical inventory count
- Maintained accounting system updates with IT along with scheduling training for department
- Designed and Implemented the financial reporting process and procedures in Report Designer/Crystal Reports
- Review all invoices and outgoing checks
- Prepared the due diligence on sale of companies in 2007
- Maintained the accounts payable and accounts receivable functions for both entities from 2007 through 2009.
- Prepared the sales tax returns/closed all tax accounts and licenses in over 150 cities and 10 states
- Maintained full accounting for Owner's two leasing companies
- Managed and closed the terminated 401K/Profit Sharing plan along with final 5500

Contract Work

April 2002 – March 2003

Staff Accountant

Renaissance companies

December 2002 – March 2003

LU 000210

- Temporary position assisting the CFO with A/R, Billing, A/P, Job Cost, and G/L reconciliation

Sales Coordinator

ERA Encore Realty

April 2002 – November 2002

- Handled real estate/title legal documents along with daily communication with customers, escrow officers and loan officers

MKB Construction, Inc. Phoenix, AZ

April 1996 – April 2002

Contract Administrator/Assistant Controller

- Maintained all Contracts which consisted of reviewing contracts, preliminary notices, liens, insurance, change order, and releases
- Prepared all contract billing, accounts receivable entries, and job costing
- Prepared Sales tax returns and quarterly payroll returns
- Maintained general ledger and balance sheet reconciliation
- Prepared the monthly revenue, backlog and cash projection reporting
- Fully trained as backup for payroll, accounts payable, and purchasing positions
- Administrative work for estimators, superintendents, and project managers such as bids, faxes, letters and also managed all job/contract files
- Daily customer communication
- Management of five accounting positions
- Prepared yearly W-2s and 1099s

Software: Microsoft Word, Excel, Access, Outlook, Powerpoint, Quicken, Quickbooks, Eclipse Manufacturing, Timberline, Great Plains, Crystal Reports, and Cogsdale

Education: Arizona State University West: Bachelor of Science in Accounting

PUC DOCKET NO. 46256

APPLICATION OF LIBERTY	§	BEFORE THE PUBLIC UTILITY
UTILITIES (WOODMARK SEWER)	§	
CORP. AND LIBERTY UTILITIES	§	
(TALL TIMBERS SEWER) CORP.	§	COMMISSION OF TEXAS
(CCN NOS. 20679 AND 20694) TO	§	
CHANGE RATES FOR SEWER	§	
SERVICE IN SMITH COUNTY,	§	
TEXAS.	§	

DIRECT TESTIMONY AND ATTACHMENTS

OF

WILLIAM KILLEEN

ON BEHALF OF

**LIBERTY UTILITIES (WOODMARK SEWER) CORP. AND
LIBERTY UTILITIES (TALL TIMBERS SEWER) CORP.**

September 2, 2016

DIRECT TESTIMONY AND ATTACHMENTS OF

WILLIAM R. KILLEEN

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ATTACHMENTS:

WRK-1	Resume of William R. Killeen
WRK-2	Toronto and New York Stock Exchange Rules
WRK-3	2015 Cost Allocation Manual

1 **DIRECT TESTIMONY OF WILLIAM R. KILLEEN**

2 **ON BEHALF OF**

3 **LIBERTY UTILITIES (WOODMARK SEWER) CORP. AND**
4 **LIBERTY UTILITIES (TALL TIMBERS SEWER) CORP.**
5

6 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

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

8 A. My name is William R. Killeen. My business address is 345 Davis Road, Oakville,
9 Ontario, Canada, L6J 2X1.

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

12 A. I am the Director of Regulatory Operations for Liberty Utilities (Canada) Corp.
13 ("Liberty Utilities Canada"). Liberty Utilities Canada is the indirect parent
14 company of Liberty Utilities Co. ("Liberty Utilities"). Liberty Utilities Canada is
15 a wholly owned subsidiary of Algonquin Power & Utilities Corp. ("APUC").
16 Applicants Liberty Utilities (Woodmark Sewer) Corp. ("Liberty Woodmark") and
17 Liberty Utilities (Tall Timbers Sewer) Corp. ("Liberty Tall Timbers") are wholly
18 owned subsidiaries of Liberty Utilities (Sub) Corp. Liberty Utilities (Sub) Corp. is
19 a wholly owned subsidiary of Liberty Utilities Co.

20 As the Director of Regulatory Operations, I am responsible for strategy
21 development and management of regulatory affairs for all of Liberty Utilities'
22 regulated utilities currently providing water, wastewater, electric and gas utility
23 services in Arizona, Arkansas, California, Georgia, Illinois, Iowa, Massachusetts,
24 Missouri, Montana, New Hampshire and Texas. Liberty Utilities is continuing to
25 expand its regulated utility footprint and holdings throughout the United States.
26 For example, in January 2016, Liberty Utilities acquired three new regulated water
27 utilities—two in California and one in Montana.

1 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
2 **PROFESSIONAL EXPERIENCE.**

3 A. I earned a Bachelor of Engineering Science (Chemical) degree from the University
4 of Western Ontario (now Western University) in 1985. I also earned a Master's
5 degree in Business Administration from the Ivey School of Business at Western
6 University in 1989.

7 I have 27 years of professional experience in the energy and utilities
8 industries in the areas of regulation, supply, operations and customer service.
9 I have worked at natural gas and electric utilities, as well as in consulting,
10 marketing, and government positions. Early in my career, I was employed by
11 Union Gas Limited, a major natural gas utility serving over 1.4 million customers
12 in Ontario, Canada, for twelve years in varying capacities, including regulatory and
13 supply.

14 Prior to joining Liberty Utilities in February 2014, I was employed by
15 Enersource Hydro Mississauga Inc., a major electric utility serving the City of
16 Mississauga, Ontario, for three years as Manager, Regulatory Affairs. In between
17 my employment at these two large utilities, I was employed at various other
18 companies, always retaining responsibility for oversight of regulatory affairs,
19 typically in Ontario or eastern Canada. These companies include Engage Energy
20 Canada Inc., Direct Energy as Manager, Regulatory Affairs and a consulting
21 company, ECNG Energy LP, as Director, Supply and Regulatory Affairs for eight
22 years. Following ECNG, I spent a brief tenure within the Ministry of Energy of
23 the Ontario Government. My Curriculum Vitae is attached as **WRK-1**.

24

25 **Q. DO YOU HAVE ANY PROFESSIONAL DESIGNATIONS?**

26 A. Yes. I am a licensed Professional Engineer in the Province of Ontario and a
27 member of the Ontario Society of Professional Engineers.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS OR ANY OTHER**
2 **COMMISSION?**

3 A. My direct and rebuttal testimonies were admitted in evidence in the Liberty Utilities
4 (Black Mountain Sewer) Corp. rate case, Docket Nos. SW-02361A-15-0206 and
5 SW-02361A-15-0207 (consolidated), before the Arizona Corporation Commission
6 (“ACC”). My direct testimony was pre-filed in the Liberty Utilities (Bella Vista
7 Water) Corp. and Liberty Utilities (Rio Rico Water & Sewer) Corp. rate cases,
8 Docket Nos. W-02465A-15-0367 and WS-02676A-15-0368 (consolidated) also
9 before the ACC. My direct testimony was most recently pre-filed in the Liberty
10 Utilities (Entrada Del Oro Sewer) rate case, Docket No. SW-02361A-16-0085
11 before the ACC. I also have testified in a number of gas and electric utility pricing
12 cases and facility approval cases before the Ontario Energy Board. Additionally, I
13 testified in a rate case before the Arkansas Public Service Commission (Docket No.
14 14-020-U) on behalf of Liberty Utilities (Pine Bluff Water) Inc.

15
16 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

17 A. The purpose of my direct testimony here is to support the Liberty Woodmark and
18 Liberty Tall Timbers consolidated request for new sewer rates by addressing the
19 corporate costs and allocation methods employed by all companies within the
20 APUC/Liberty Utilities umbrella. In my testimony, I explain the APUC and
21 Liberty Utilities corporate cost allocation model and the benefits of our shared
22 service model to Liberty Woodmark, Liberty Tall Timbers and the other regulated
23 utilities operated by Liberty Utilities.

1 **II. OVERVIEW OF LIBERTY UTILITIES' BUSINESS MODEL**

2 **Q. WILL YOU PLEASE SUMMARIZE THE LIBERTY UTILITIES BUSINESS**
3 **MODEL?**

4 A. As mentioned above, APUC serves as the overall corporate parent and has two
5 major operating subsidiaries, Algonquin Power Co. ("APCo") and Liberty Utilities
6 Co. APCo is an unregulated entity that provides renewable power generation from
7 facilities owned throughout the United States and Canada. Liberty Utilities Co.
8 owns and operates regulated water, wastewater, gas and electric utilities in eleven
9 states.

10
11 **Q. PLEASE EXPLAIN THE LIBERTY UTILITIES SHARED SERVICES AND**
12 **CORPORATE COST ALLOCATION MODEL.**

13 A. Two corporate groups provide shared services to entities within the APUC
14 organizational structure, including Liberty Utilities and its regulated utilities.
15 One is APUC, and the other is Liberty Utilities Canada, including the shared
16 services department called Liberty Algonquin Business Services (LABS).

17
18 **Q. WHAT SHARED SERVICES DOES APUC PROVIDE?**

19 A. APUC is structured as a publicly traded holding company and provides substantial
20 benefits to its regulated utilities and generation facilities through access to capital
21 markets. As the ultimate corporate parent, APUC also provides financial, strategic
22 management, corporate governance, administrative and support services to Liberty
23 Utilities and APCo.

24 APUC's financing services involve selling units to public investors in order
25 to generate the funding and capital necessary (be it short term or long term funding,
26 including equity and debt) for Liberty Utilities, as well as providing legal services
27 in connection with the issuance of public debt. In connection with the provision of

1 financing services, APUC incurs the following types of costs: (i) strategic
2 management costs (board of director, third-party legal services, accounting services,
3 tax planning and filings, insurance, and required auditing); (ii) capital access costs
4 (communications, investor relations, trustee fees, escrow and transfer agent fees);
5 (iii) financial control costs (audit and tax expenses); and (iv) administrative costs.¹
6 Non-labor costs, including corporate capital, are pooled and allocated to Liberty
7 Utilities and APCo using the “multi-factor” method summarized in Table 1 of the
8 Algonquin Power & Utilities Corp. Cost Allocation Manual (“CAM”) effective
9 July 1, 2015. Without question, the services provided by APUC are necessary for
10 Liberty Utilities and its regulated subsidiaries to have access to capital markets for
11 capital projects and operations.
12

13 **Q. WHAT TYPES OF SHARED SERVICES DOES LIBERTY UTILITIES**
14 **CANADA PROVIDE?**

15 A. Liberty Utilities Canada provides Liberty Utilities (and its regulated utilities) with
16 the following services: accounting, administration (rent, depreciation, and general
17 office costs), corporate finance, human resources (including training and
18 development), information technology, rates and regulatory affairs, environment,
19 health and safety, and security, customer service, procurement, risk management,
20 legal and utility planning. Specific examples of these services include: (i)
21 budgeting, forecasting, and financial reporting services including preparation of
22 reports and preservation of records, cash management (including electronic fund
23 transfers, cash receipts processing, managing short-term borrowings and
24 investments with third parties); (ii) development of customer service policies and
25 procedures; (iii) development of human resource policies and procedures; (iv)

¹ Appendix 2 of the APUC Cost Allocation Manual or “CAM” referenced below provides a more detailed discussion of the costs incurred by APUC. See **WRK-3**.

1 selection of information systems and equipment for accounting, engineering,
2 administration, customer service, emergency restoration and other functions and
3 implementation thereof; (v) development, placement and administration of
4 insurance coverages and employee benefit programs, including group insurance and
5 retirement annuities, property inspections and valuations for insurance; (vi)
6 purchasing services including preparation and analysis of product specifications,
7 requests for proposals and similar solicitations, and vendor and vendor-product
8 evaluations; and (vii) development of regulatory strategy.

9 Liberty Utilities Canada will direct charge or assign costs that can be directly
10 attributable to a specific utility. Those costs include direct labor and direct non-
11 labor costs. Indirect Liberty Utilities Canada costs, however, cannot be directly
12 attributed to an individual utility. Within the formal organizational structure,
13 Liberty Utilities Canada provides certain services that benefit the entire company,
14 *i.e.*, both Liberty Utilities and APCo. Those indirect business services and costs
15 from these shared service functions are allocated between APCo and Liberty
16 Utilities using the “multi-factor” methodology shown in Table 4 of the CAM.
17 Those factors are designed to closely align the costs with the driver of the activity.
18 These shared service functions include risk management, information technology,
19 human resources, training, facilities and building rent, financial reporting and
20 administration, environmental health safety and security, legal costs, treasury,
21 internal auditing, procurement, and communications.

22 Once those indirect costs are allocated between APCo and Liberty Utilities,
23 the indirect labor and indirect non-labor costs, including capital costs, attributable
24 to Liberty Utilities are then reallocated to its regulated utilities using the Utility Four
25 Factor Methodology set forth in Table 2 of the CAM:

CAM Table 2: Utility Four Factor Methodology

Factor	Weight
Utility Plant	25%
Customer Count	25%
Non-Labor Expenses	25%
Labor	25%
Total	100%

Q. HOW DOES LIBERTY UTILITIES SERVICE CORP. FIT INTO THIS BUSINESS MODEL?

A. Liberty Utilities Service Corp. ("LUSC") is a wholly owned subsidiary of Liberty Utilities Co. All United States regulated utility employees are or will be employed by LUSC. The purpose of LUSC is to streamline administration of payroll across the United States-based companies. All employee costs, such as salaries, benefits, insurance, etc. are paid by LUSC and direct charged to the extent possible to the regulated utility for which the employee performs dedicated work. In situations where time sheets do not allow direct charging of LUSC costs (which is expected to be an infrequent occurrence), those indirect costs are allocated using the allocation methodology set forth in Table 5 of the CAM.

Q. HOW DO LIBERTY WOODMARK, LIBERTY TALL TIMBERS, AND LIBERTY SILVERLEAF IN TEXAS BENEFIT FROM THIS SHARED-SERVICES MODEL?

A. The Liberty Utilities shared services business model serves a significant and very important role for Liberty Woodmark, Liberty Tall Timbers, and Liberty Silverleaf. The benefits of this shared service model are significant, including:

- 1 1. **Access to Skilled Strategic Management.** This means Liberty Woodmark
2 and Liberty Tall Timbers enjoy access to wide ranging expertise and
3 resources that are typically not available to small utilities. That is a direct
4 result of the nationwide utility footprint of Liberty Utilities and our shared
5 services model.
- 6 2. **Controls and Processes.** Through this business model, controls and
7 processes are in place to ensure that accounting methodologies are consistent
8 with generally accepted accounting principles and fully adhere to Sarbanes-
9 Oxley compliance and other appropriate internal controls. That means
10 Liberty Woodmark and Liberty Tall Timbers benefit from sound accounting,
11 capital investment and operational expertise.
- 12 3. **Economies of Scale.** By sharing regional resources with other utilities,
13 Liberty Woodmark and Liberty Tall Timbers enjoy the benefits of lower
14 overall cost structures while at the same time maintaining a local flavor in its
15 day-to-day operations and customer contact. Further, as Liberty Utilities
16 grows, its overall costs will be allocated over a larger base of utilities,
17 lowering the cost of shared services to each subsidiary utility, including
18 Liberty Woodmark and Liberty Tall Timbers.
- 19 4. **Access to Capital.** As discussed earlier, APUC is the entity that is traded
20 on the Toronto Stock Exchange and ensures that Liberty Woodmark and
21 Liberty Tall Timbers have uninterrupted access to capital. The APUC
22 family (including Liberty Utilities) has access to over \$600M in credit
23 facilities and, from 2010-2014, raised over \$1.7B in capital through the
24 issuance of long-term debt and equity. The capital expenditure budget for
25 2015 was \$113M for Liberty Utilities.

1 **Q. AND THESE APUC AND LUC COSTS ARE NECESSARY AND**
2 **BENEFICIAL?**

3 A. Yes. Among other things, many of these costs are requirements of APUC being a
4 publicly traded entity on the Toronto Stock Exchange (TSX). As a publicly traded
5 entity, APUC must issue certain communications subject to the TSX's rules and
6 regulations. For example, Section 714 of the TSX Company Manual states "TSX
7 may delist securities of a listed issuer that has failed to comply with the TSX's
8 Timely Disclosure Policy... or with disclosure requirements under any securities
9 law to which the issuer is subject." Additionally, section 406 of the TSX Company
10 Manual in part states "It is a cornerstone policy of the Exchange that all persons
11 investing in securities listed on the Exchange have equal access to information that
12 may affect their investment decisions.... Companies whose securities are listed on
13 the Exchange are legally obligated to comply with the provisions on timely
14 disclosure..." Finally, Ontario Securities Commission National Policy 51-201
15 states in Section 4.5 "Companies who do not comply with an exchange's
16 requirements could find themselves subject to an administrative proceeding before
17 a provincial securities regulator."

18 These requirements and related costs are no different than publicly traded
19 companies on the New York Stock Exchange (NYSE), whose Listed Company
20 Manual, Section 202.05 states "A listed company is expected to release quickly to
21 the public any news or information which might reasonably be expected to
22 materially affect the market for its securities. This is one of the most important and
23 fundamental purposes of the listing agreement which the company enters into with
24 the Exchange." Put simply, the APUC and LUC costs are the same types of costs
25 that entities traded on the NYSE are required to incur. These costs are a necessary
26 and unavoidable part of a publicly traded entity's cost of doing business. APUC's
27 presence on the TSX is the means by which Liberty Utilities obtains capital for

1 investment and I do not think anyone disputes that APUC's access to capital is a
2 benefit to Liberty Woodmark, Liberty Tall Timbers, and their customers in Texas.
3 If we need access to capital, then we must incur those costs to obtain the needed
4 capital, and those costs should be included if we show they are required. The
5 underlying record illustrates that those costs are required. Copies of these pertinent
6 provisions of the TSX and NYSE rules are attached as **WRK-2**.

8 **III. COST ALLOCATION MANUAL**

9 **Q. YOU HAVE REFERRED TO A COST ALLOCATION MANUAL OR CAM**
10 **THAT GOVERNS THE LIBERTY UTILITIES BUSINESS MODEL.**
11 **CAN YOU PLEASE DESCRIBE THE CAM?**

12 **A.** Yes. Our cost allocation methodologies and processes are set forth in the
13 Algonquin Power & Utilities Corp. Cost Allocation Manual or CAM, which is
14 attached as **WRK-3**. Shared services and corporate costs are allocated to Liberty
15 Woodmark and Liberty Tall Timbers in accordance with the methodologies and
16 processes set forth in the CAM. Specifically, the CAM outlines the methods of
17 direct charge and cost allocations between (1) APUC and its affiliates, APCo and
18 Liberty Utilities; (2) Liberty Utilities Canada and APCo/Liberty Utilities; (3)
19 Liberty Utilities and its regulated utility subsidiaries; and (4) LUSC and its affiliates.

20 The CAM is based on the National Association of Regulatory Utility
21 Commissions ("NARUC") Guidelines for Cost Allocations and Affiliate
22 Transactions. The NARUC Guidelines are attached as Appendix 1 to the CAM.
23 The fundamental premise of those guidelines and the CAM is to direct charge costs
24 as much as possible and to use reasonable allocation factors where allocation of
25 indirect costs is necessary and direct charging is not possible.

1 **Q. CAN YOU CITE THE KEY PRINCIPLES FROM THE NARUC**
2 **GUIDELINES TO WHICH YOU ARE REFERRING?**

3 A. Yes. The CAM utilizes the following “Cost Allocation Principles” as stated in the
4 NARUC Guidelines:

- 5
6 1. To the maximum extent practicable, in consideration of administrative costs,
7 costs should be collected and classified on a direct basis for each asset,
8 service or product provided (NARUC Guidelines at 2, § B.1).
9
- 10 2. The general method for charging indirect costs should be on a fully allocated
11 cost basis. Under appropriate circumstances, regulatory authorities may
12 consider incremental cost, prevailing market pricing or other methods for
13 allocating costs and pricing transactions among affiliates (NARUC
14 Guidelines at 2, § B.2).
15
- 16 3. To the extent possible, all direct and allocated costs between regulated and
17 non-regulated services and products should be traceable on the books of the
18 applicable regulated utility to the applicable Uniform System of Accounts.
19 Documentation should be made available to the appropriate regulatory
20 authority upon request regarding transactions between the regulated utility
21 and its affiliates (NARUC Guidelines at 2, § B.3).
22
- 23 4. The allocation methods should apply to the regulated entity's affiliates in
24 order to prevent subsidization from, and ensure equitable cost sharing
25 among, the regulated entity and its affiliates, and vice versa (NARUC
26 Guidelines at 2-3, § B.4).
27
- 28 5. All costs should be classified to services or products, which, by their very
29 nature, are regulated, non-regulated, or common to both (NARUC
30 Guidelines at 3, § B.5).
31
- 32 6. The primary cost driver of common costs, or a relevant proxy in the absence
33 of a primary cost driver, should be identified and used to allocate the cost
34 between regulated and non-regulated services or products (NARUC
35 Guidelines at 3, § B.6).
36
- 37 7. The indirect costs of each business unit, including the allocated costs of
38 shared services, should be spread to the services or products to which they
39 relate using relevant cost allocators (NARUC Guidelines at 3, § B.7).
40

1 Our CAM follows these cost allocation principles and, as a result, provides for the
2 appropriate allocation of prudently incurred corporate costs and shared services to
3 Liberty Woodmark and Liberty Tall Timbers.
4

5 **Q. CAN YOU BRIEFLY EXPLAIN HOW THE ALLOCATION PROCESS**
6 **WORKS FOR APUC CORPORATE COSTS AND SHARED SERVICES?**

7 A. Yes. APUC will charge costs that can be directly attributable to a specific utility
8 to that utility. APUC charges labor rates for these shared services at cost.
9 These labor costs are charged directly to a specific utility based on timesheets.
10 If such labor is for the benefit of all subsidiaries and, therefore, not directly
11 chargeable to a single entity, then those indirect labor costs are allocated using the
12 methodologies in the CAM. To start, indirect non-labor and indirect labor costs
13 incurred by APUC, including corporate capital, are pooled and allocated to Liberty
14 Utilities Canada and APCo using the methodology in Table 1 of the CAM.
15 Once those costs are allocated between Liberty Utilities Canada and APCo, the
16 APUC costs allocated to Liberty Utilities Canada are then allocated to the regulated
17 utilities under Liberty Utilities using the Four Factor Methodology set forth in Table
18 2 of the CAM (as set forth above).
19

20 **Q. CAN YOU BRIEFLY EXPLAIN HOW THE ALLOCATION PROCESS**
21 **WORKS FOR LIBERTY UTILITIES CANADA CORPORATE COSTS AND**
22 **SHARED SERVICES?**

23 A. Liberty Utilities Canada will charge costs that can be directly attributable to a
24 specific utility to that utility. Those costs include direct labor and direct non-labor
25 costs. Any remaining indirect corporate costs incurred by Liberty Utilities Canada
26 that can't be directly attributed or billed to an individual utility are then allocated
27 using the Four Factor Method in Table 2 of the CAM.

1 Liberty Utilities Canada, through a shared services department (LABS),
2 provides certain services to both Liberty Utilities (and its regulated utilities) and
3 APCo. Those shared services are as follows: treasury; financial reporting and
4 administration; internal audit; risk management; training; information technology;
5 human resources; environmental, health, safety, and security; legal; procurement;
6 and communication. As noted above, costs will continue to be directly charged
7 where possible.

8 When shared services costs cannot be directly assigned to a specific entity
9 such as either APCo or Liberty Utilities, indirect costs incurred by the shared
10 services department within Liberty Utilities Canada first will be allocated between
11 Liberty Utilities and APCo using the cost drivers and methodologies shown in Table
12 4 of the CAM. Once those indirect corporate costs are allocated between APCo
13 and Liberty Utilities, the resulting indirect charges of Liberty Utilities Canada that
14 are allocated to Liberty Utilities by the shared services department are then
15 reallocated to the regulated utilities using the Four Factor Methodology noted
16 above. Put simply, Liberty Utilities Canada allocates its indirect labor and indirect
17 non-labor costs, including capital costs, to its regulated utilities using the Four
18 Factor Methodology noted above to allocate those costs incurred for the benefit of
19 all of its regulated utilities. Those indirect costs are allocated to the Liberty
20 Utilities regulated entities from the shared services departments within Liberty
21 Utilities Canada, using the Four Factor Utility Methodology (utility plant, customer
22 count, non-labor expenses, and labor). Each factor is equally weighted to more
23 accurately reflect the size and scope of each utility.
24

1 **Q. CAN YOU PLEASE DESCRIBE HOW THE CAM IS USED TO ASSIGN**
2 **AND ALLOCATE COSTS TO LIBERTY WOODMARK AND LIBERTY**
3 **TALL TIMBERS?**

4 A. Yes, under the CAM, a utility incurs costs in one of three ways: (1) Direct Costs –
5 costs incurred directly by a local operating company for its own purposes;
6 (2) Assigned costs – costs incurred by one company for the exclusive benefit of one
7 or more other companies, and which are directly charged to the company or
8 companies that specifically benefited; and (3) Allocated costs – costs incurred by
9 one company that are for the benefit of either (a) all of the Algonquin companies or
10 (b) all of the regulated Liberty Utilities companies. Allocated costs are charged to
11 the benefited companies using a methodology and set of logical allocation factors
12 that establish a reasonable link between cost causation and cost recovery.

13
14 **Q. CAN YOU PROVIDE EXAMPLES?**

15 A. Yes. First, costs that are incurred by Liberty Woodmark and/or Liberty Tall
16 Timbers as part of providing utility services in Texas are direct costs, and thus are
17 neither assigned nor allocated under the CAM. Second, costs that are incurred by
18 APUC, LUC, or LUSC for the exclusive benefit of any utility's operations are
19 directly assigned to that utility. Third, costs that are incurred by APUC, LUC or
20 LUSC that benefit other companies within the Algonquin corporate family are
21 allocated on a rational basis that logically links cost causation to cost recovery using
22 a two-step process.

23
24 **Q. WHAT IS THAT TWO-STEP ALLOCATION PROCESS?**

25 A. The CAM addresses those assigned and allocated costs under the following two-
26 step process. Boiled down, all allocated costs have two levels of allocation filters
27 applied. The first level is designed to appropriately separate common costs

1 between the regulated and the unregulated businesses. The second level is
2 designed to appropriately allocate the costs that have been allocated to the group of
3 regulated utilities to each of the individual regulated utilities.

4
5 **Q. PLEASE ILLUSTRATE THESE CORPORATE COST ALLOCATION**
6 **METHODOLOGIES.**

7 A. As noted above, Liberty Woodmark/Liberty Tall Timbers can be assigned and/or
8 allocated costs from APUC, LUC and LUSC. I provide an overview of the
9 methodology for each cost center in the following paragraphs.

10
11 **Q. LET'S START WITH APUC.**

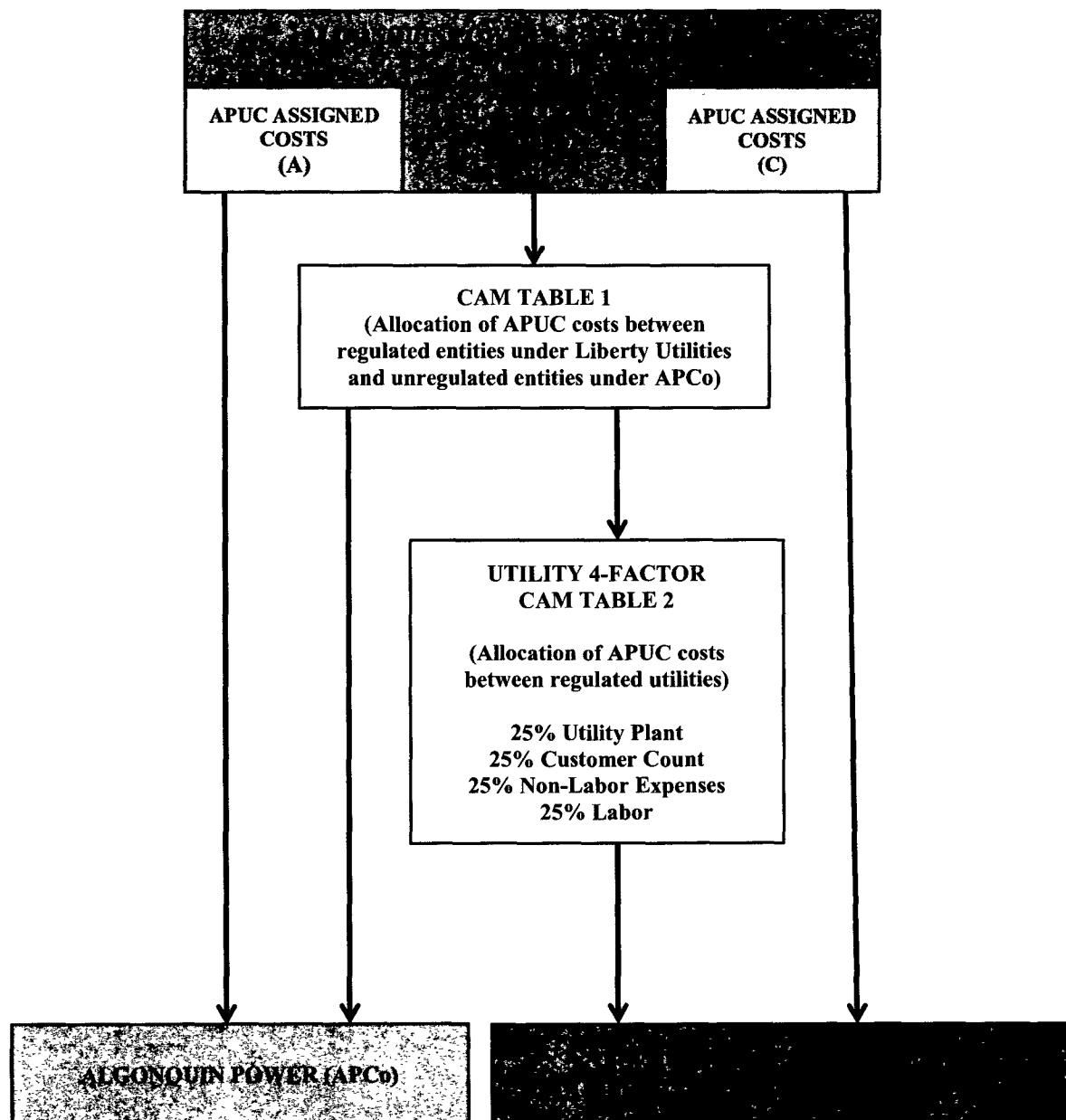
12 A. As noted below on Appendix 1 (Illustration of CAM Allocation of APUC Services)
13 and as described in §3.1 of the CAM, APUC incurs three types of costs that are
14 allocated to its direct and indirect subsidiaries. The first type is APUC's costs that
15 directly benefit a particular unregulated company. Those "Assigned Costs" on
16 Appendix 1 are directly assigned to that unregulated company (APCo).
17 The second type is APUC's Assigned Costs that directly benefit a particular
18 regulated company. Those costs are directly assigned to that regulated company.
19 The third type is APUC's remaining "Allocated Costs" that benefit the entire
20 enterprise (both regulated and unregulated), which are allocated between regulated
21 and unregulated company groups under CAM Table 1. CAM Table 1 specifies:
22 (a) each type of cost incurred by APUC that is to be allocated between regulated
23 and unregulated parts of the business; (b) the factors used to allocate each type of
24 cost between regulated and unregulated activity; (c) the rationale for selecting the
25 factors that are used for allocation; and (d) examples of the specific allocated costs.

26 Once those Allocated Costs are allocated between APCo (unregulated) and
27 Liberty Utilities (regulated) using CAM Table 1, the total of those Allocated Costs

1 allocated to Liberty Utilities is then reallocated to individual utilities using the Four-
2 Factor Utility Allocation Methodology set forth in CAM Table 2.

3 Appendix 1 on the next page labeled “Illustration of CAM Allocation of
4 APUC Services” provides a flow chart illustration of how the APUC direct and
5 indirect costs are allocated under the CAM. The APUC cost allocations for Liberty
6 Woodmark and Liberty Tall Timbers here follow this allocation methodology and
7 process.
8

APPENDIX 1: ILLUSTRATION OF CAM ALLOCATION OF APUC SERVICES



- (A): Costs that are directly assigned and charged to unregulated entities (APCo).
- (B): Costs that benefit both unregulated entities and regulated utilities.
- (C): Costs that are directly assigned and charged to regulated utilities (Liberty Utilities).

1 **Q. CAN YOU PLEASE ILLUSTRATE THE LIBERTY UTILITIES CANADA**
2 **ALLOCATIONS?**

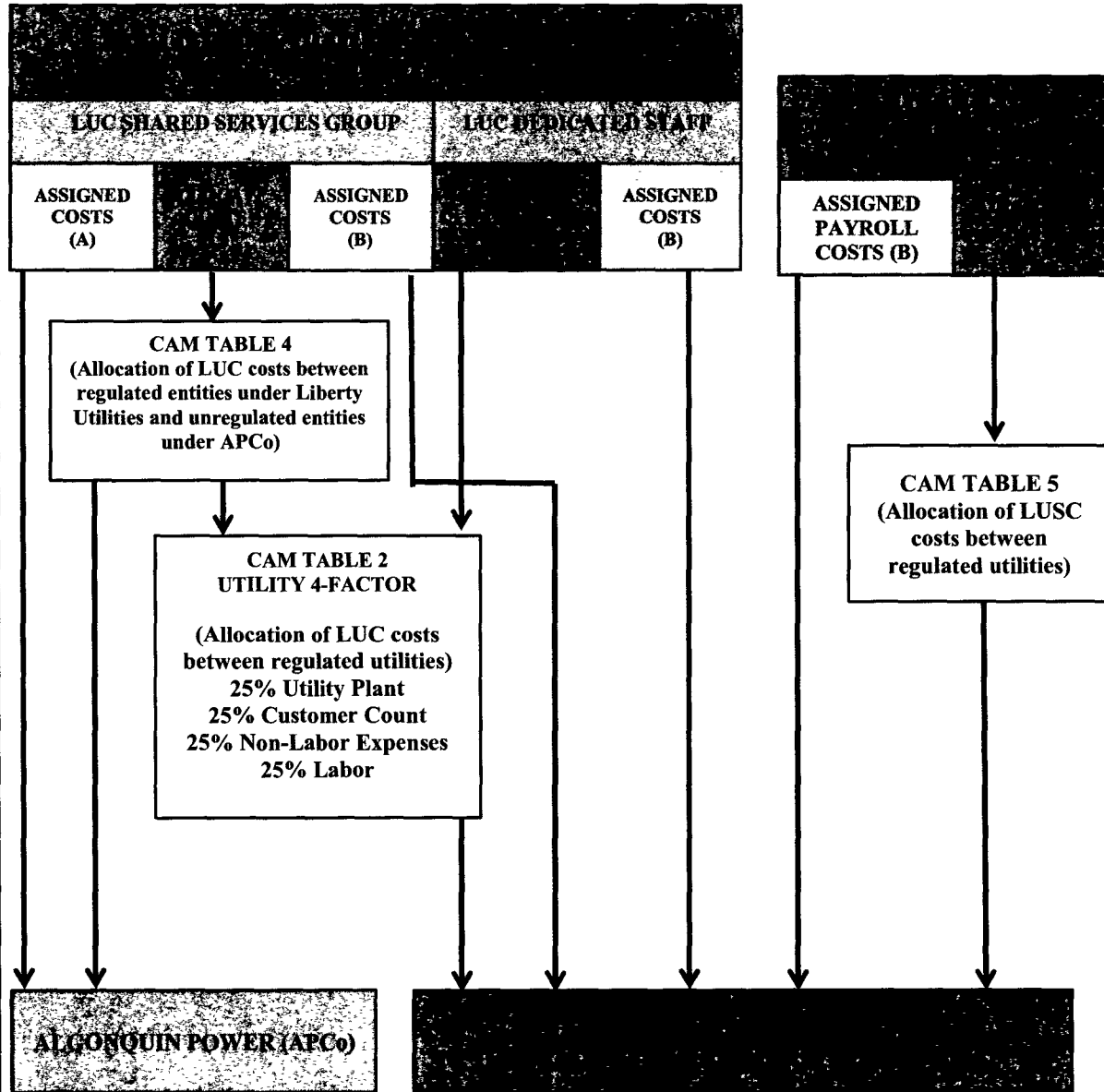
3 A. As illustrated in Appendix 2 on the following page and as described in section 4 of
4 the CAM, Liberty Utilities Canada incurs three types of costs that are passed on to
5 other direct or indirect subsidiaries of APUC. The first type is Assigned Costs that
6 directly benefit a particular regulated company, which are directly assigned to that
7 regulated company. The second type is Shared Services Costs that benefit both the
8 regulated group of companies and the unregulated group of companies.
9 Those Shared Services Costs are allocated between the two groups under the
10 methodology set forth in CAM Table 4. CAM Table 4 includes: (a) each type of
11 cost incurred by Liberty Utilities Canada that is to be allocated between regulated
12 and unregulated parts of the business; (b) the factors used to allocate each type of
13 cost between regulated and unregulated activity; (c) the rationale for selecting the
14 factors that are used for allocation; and (d) examples of the specific allocated costs.

15 In turn, the Shared Services costs that are allocated to the regulated
16 companies as a group are then reallocated to individual companies using the four-
17 factor utility allocation methodology set forth in CAM Table 2, resulting in utility-
18 specific allocated charges from Liberty Utilities Canada.

19 The third type of costs allocated by Liberty Utilities Canada is Allocated
20 Costs that benefit all of the regulated companies, which are allocated using the four-
21 factor method in CAM Table 2. Appendix 2 below illustrates the cost allocation
22 methodology relating to the direct and indirect services provided and costs incurred
23 by Liberty Utilities Canada for the benefit of Liberty Woodmark/Liberty Tall
24 Timbers. The Liberty Utilities Canada cost allocations for Liberty
25 Woodmark/Liberty Tall Timbers follow this allocation methodology and process.
26

APPENDIX 2:

ILLUSTRATION OF CAM ALLOCATION OF LUC AND LUSC SERVICES



(A): Costs that are directly assigned to unregulated companies.

(B): Costs that are directly assigned to regulated companies.

(C): Costs that benefit both unregulated and regulated companies and operations.

(D): Costs that benefit all regulated companies and operations.

1 **Q. FINALLY, CAN YOU ILLUSTRATE HOW THE ALLOCATION PROCESS**
2 **WORKS FOR LUSC COSTS?**

3 A. As illustrated in Appendix 2 and as described in section 5 of the CAM, LUSC can
4 incur two types of costs that can be passed on to regulated utilities of Liberty
5 Utilities. The first type is LUSC Assigned Payroll Costs that directly benefit a
6 particular regulated company. Those Assigned Payroll Costs are directly assigned
7 to that regulated company. Currently, payroll expenses for all regulated operating
8 company employees are incurred by LUSC, and those utility-specific expenses are
9 directly assigned to each operating utility.

10 The second type of cost that may be incurred by LUSC is Allocated Costs
11 that benefit all of the regulated operating companies. LUSC does not provide
12 indirect services to any unregulated entity, so there is no reason to allocate these
13 costs between APCo and Liberty Utilities. As such, the only allocation by LUSC
14 occurs under CAM Table 5 between the regulated utilities of Liberty Utilities.
15 Currently, LUSC is not incurring any indirect costs and LUSC has not allocated any
16 Allocated Costs to Liberty Woodmark/Liberty Tall Timbers. I only mention it here
17 because if those costs are incurred by LUSC in the future, those costs would be
18 allocated to Liberty Woodmark/Liberty Tall Timbers under CAM Table 5.

19

20 **Q. HOW WOULD YOU SUMMARIZE APUC'S COST ALLOCATION**
21 **METHODOLOGIES AS APPLIED TO LIBERTY WOODMARK/TALL**
22 **TIMBERS UNDER THE CAM?**

23 A. Ultimately, our cost allocation process applies a reasonable and common sense
24 approach. To start, costs are assigned and allocated from the three cost centers
25 (APUC, LUC and LUSC) each month. Where there is a factual basis to do so, costs
26 incurred specifically for Liberty Woodmark or Liberty Tall Timbers are directly
27 assigned to Liberty Woodmark/Liberty Tall Timbers. The cost allocation

1 methodologies are applied only after all direct charges have been assigned to Liberty
2 Woodmark/Liberty Tall Timbers and the other APUC subsidiaries. The allocations
3 deal only with remaining costs that are not specific to a particular operating entity.
4 Cost allocations involve a two-step approach. The first step is to split all costs
5 between the unregulated businesses (APCo) and the regulated businesses (Liberty
6 Utilities and its subsidiaries). The second step is to allocate the costs that are
7 attributable to the regulated utilities among those regulated entities, including
8 Liberty Woodmark and Liberty Tall Timbers, to determine utility-specific charges.
9 All of those costs are allocated among the regulated utilities to determine utility-
10 specific charges.

11
12 **Q. WHEN WAS THE CAM MOST RECENTLY UPDATED?**

13 A. The current methodology within the CAM became effective July 1, 2014. The
14 CAM percentages were updated in April 2016 to reflect the growth of the companies
15 within the APUC group of companies and Liberty Utilities. The 2016 changes were
16 administrative in nature and did not alter the methodology developed in 2015.

17 A thorough review of the cost drivers was done to develop and affirm the
18 current methodology, including a department-by-department identification of cost
19 drivers. Essentially, each department was asked to confirm the factors driving their
20 costs, and the weightings of the factors if there were multiple drivers. Going
21 forward, we intend to review the CAM annually to evaluate whether the
22 methodology is achieving its purposes—i.e., to achieve a fair allocation of shared
23 services and corporate costs, and to adjust for changes in the number and size of
24 companies receiving shared services and benefitting from the shared services model.
25 This could occur more frequently in the event of a significant acquisition that could
26 change the balance of utility sizes and scope or the overall cost structure.

1 **Q. WHAT IS THE IMPACT OF THE PARK WATER COMPANY**
2 **TRANSACTION ON CORPORATE ALLOCATIONS?**

3 A. The addition of three Park Water Company utilities was recognized and
4 incorporated into the distribution of corporate charges commencing with the
5 January 2016 billings. The allocation percentages have been adjusted to reflect the
6 addition of these additional utilities amongst the Liberty family.

7

8 **Q. HAVE OTHER REGULATORY COMMISSIONS IN OTHER**
9 **JURISDICTIONS APPROVED THIS COST ALLOCATION MODEL IN**
10 **RECENT RATE CASES FOR LIBERTY UTILITIES?**

11 A. Yes. We have received favorable treatment and review of this cost allocation model
12 in other states.

13

14 **Q. HAVE THE APUC AND LUC CORPORATE COST POOLS CHANGED**
15 **SINCE THE LAST RATE CASES FOR LIBERTY UTILITIES?**

16 A. No, the general costs allocated from APUC and LUC have not changed. We are
17 allocating the same general corporate costs from APUC and LUC to Liberty
18 Woodmark/Tall Timbers and the other Texas utilities. Although the types of costs
19 allocated have not changed, we have made changes to how those costs are allocated.
20 As noted above, we updated the cost methodologies to reflect the growth of APUC
21 and its subsidiaries, and we made some changes in allocation factors to ensure that
22 the proper cost drivers are reflected in the allocation methodologies. As Liberty
23 Utilities evolves as a company, we continually strive to implement our own best
24 practices and link costs to cost drivers. That is why we intend to annually review
25 the allocation methodologies and the results of the APUC and LUC allocations.
26 That review process involves evaluating and updating the allocation factors based
27 on current information relating to plant, customer numbers, and other similar

1 information.

2
3 **Q. WHAT WAS THE CORPORATE COST ALLOCATION AMOUNT FOR**
4 **LIBERTY WOODMARK/TALL TIMBERS IN THE TEST YEAR?**

5 A. The corporate cost allocation was \$57,505 for Liberty Woodmark and \$56,286 for
6 Liberty Tall Timbers. That is a very good price for the level of services received.

7
8 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

9 A. Yes.

CURRICULUM VITAE OF WILLIAM R. KILLEEN

Work Experience:

Liberty Utilities (Canada) Corp. (2014 to Present)
Director, Regulatory Strategy

Enersource Hydro Mississauga Inc. (2011 – 2014)
Manager, Regulatory Affairs

Ministry of Energy, Energy Supply and Competition Branch (2011)
Senior Advisor, External Energy Supply

ECNG Energy LP (2003 -2010)
Director, Energy Supply and Regulatory

Direct Energy (2002-2003)
Manager, Regulatory Affairs

Engage Energy Canada Inc. (2001-2002)
Manager, Marketing and Sales

Union Gas Limited (1989 – 2001)
Team Leader, Customer Support Services
Manager, Gas Supply Planning
Coordinator, Regulatory Affairs

Education:

Masters of Business Administration, Richard Ivey School of Business, University of Western Ontario (now Western University), 1989

Bachelor of Engineering Science, Chemical Engineering, University of Western Ontario (now Western University), 1985

Appearances before the Ontario Energy Board (on behalf of Union Gas):

EBRO 499
EBRO 493-04/494-06
EBRO 493/494
EBRO 486-04
EBRO 486-03
EBRO 486
EBO 174
EBLO 243
EBRM 103

EBRM 104
EBLO 244
EBRO 476-03

Appearances before the Ontario Energy Board (on behalf of Enersource):

EB-2012-0033

Other Representations at the Ontario Energy Board:

EB-2002-0130
EB-2005-0520
EB-2008-0106
EB-2008-0219
EB-2008-0292

Other Testimony (on behalf of Liberty Utilities):

Arkansas Public Service Commission - Docket No. 14-020-U – on behalf of
Liberty Utilities (Pine Bluff Water) Inc.

Arizona Corporation Commission – Docket Nos. SW-02361A-15-0206 & SW-
02361A-15-0207 (consolidated) – on behalf of Liberty Utilities (Black Mountain
Sewer) Corp.

Memberships:

Professional Engineers of Ontario
Ontario Society of Professional Engineers
Ontario Energy Association (OEA): Former Chairperson, Energy Markets
Committee; Member of Utilities Sector Committee; Former Member of Marketers
and Retailers Committee

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Location: TSX Company Manual > Part IV Maintaining a Listing > General Requirements > B. Timely Disclosure > Introduction > Sec. 406.

[Introduction](#)[Material Information](#)**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 CSA 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.

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NATIONAL POLICY 51-201 DISCLOSURE STANDARDS

Part I - Introduction

1.1 Purpose

(1) It is fundamental that everyone investing in securities have equal access to information that may affect their investment decisions. The Canadian Securities Administrators ("the CSA" or "We") are concerned about the selective disclosure of material corporate information by companies to analysts, institutional investors, investment dealers and other market professionals. Selective disclosure occurs when a company discloses material nonpublic information to one or more individuals or companies and not broadly to the investing public. Selective disclosure can create opportunities for insider trading and also undermines retail investors' confidence in the marketplace as a level playing field.

(2) This policy provides guidance on "best disclosure" practices in a difficult area involving competing business pressures and legislative requirements. Our recommendations are not intended to be prescriptive. We encourage companies to adopt the suggested measures, but they should be implemented flexibly and sensibly to fit the situation of individual companies.

(3) The timely disclosure requirements and prohibitions against selective disclosure are substantially similar everywhere in Canada, but there are differences among the provinces and territories, so companies should carefully review the legislation which is applicable to them for the details.

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



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About the Listed Company Manual

The New York Stock Exchange Listed Company Manual is the comprehensive rulebook for listed companies. The Manual also details original and continued listing requirements of the Exchange and sets forth NYSE rules and policies on such matters as corporate governance, shareholder communications, and shareholder approval.



Listed Company Manual

Sections

- › [General Organization](#)
- › [Section 1 - The Listing Process](#)
- › [Section 2 - Disclosure and Reporting Material Information](#)
- › [Section 3 - Corporate Responsibility](#)
- › [Section 4 - Shareholders' Meetings and Proxies](#)
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The determination to impose restrictions is based on a careful inspection of the trading for the latest one week period, the year's average weekly volume to the volume for the period considered, arbitrage, stop order bans, short position, earnings

The restriction itself is aimed primarily at eliminating the extension of credit to those who buy a security and sell it the same requirement is usually imposed on all other margin customers in that they must put up the full purchase price within five business days.

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 into with the Exchange.

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

The issuer of income deposit securities traded as a unit shall publicize any change in the terms of the unit, such as change component), or to the ratio of the components within the unit. Such publication shall be made as soon as practicable in relation to the issuer must provide information regarding the terms and conditions of the components of the unit (including information with

202.06 Procedure for Public Release of Information

(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 issuers must comply with the timely alert policy set forth in Section 202.05 and may do so by any method (or combination of companies to comply with the immediate release policy by issuing press releases.

The spirit of the immediate release policy is not considered to be violated on weekends where a "Hold for Sunday or Monday

Annual and quarterly earnings, dividend announcements, mergers, acquisitions, tender offers, stock splits, major management News of major new products, contract awards, expansion plans, and discoveries very often fall into the same category. Undisguise unfavorable news endangers management's reputation for integrity. Changes in accounting methods to mask such

It should be a company's primary concern to assure that news will be handled in proper perspective. This necessitates appropriate qualified, conservative and factual. Excessive or misleading conservatism should be avoided. Likewise, the repetitive release

Few things are more damaging to a company's shareholder relations or to the general public's regard for a company's securities

Premature announcements of new products whose commercial application cannot yet be realistically evaluated should be . not match earlier projections, this too should be reported and explained.

Judgment must be exercised as to the timing of a public release on those corporate developments where the immediate release company should weigh the fairness to both present and potential shareholders who at any given moment may be considering

(B) Telephone Alert to the Exchange

When the announcement of news of a material event or a statement dealing with a rumor which calls for immediate release representative by telephone at least ten minutes prior to release of the announcement, to inform the Exchange of the substance information necessary to locate the news upon publication. When the announcement is in written form, the company must : to release of the announcement. If the Exchange receives such notification in time, it will be in a position to consider whether openings and trading halts.) A delay in trading after the appearance of the news on the Dow Jones, Reuters or Bloomberg specialist's book in view of the news announcement. Even if limit orders are not canceled or changed during the halt, the firm regardless of the previously entered limit. A longer delay in trading may be necessary if there is an unusual influx of orders overall importance of fairness to all those participating in the market demands that these procedures be followed.

(C) Release to Newspapers and News Wire Services

ALGONQUIN POWER & UTILITIES CORP.

COST ALLOCATION MANUAL

V2014.1 Effective: July 1st, 2015

This document outlines the methods of direct charges and cost allocations:

- (i) between Algonquin Power & Utilities Corp. and its affiliates, including Algonquin Power Company and Liberty Utilities (Canada) Corp.;
- (ii) between Liberty Utilities (Canada) Corp. and its regulated utility subsidiaries;
- (iii) between Liberty Utilities (Canada) Corp.'s shared services functions and its affiliates, including Algonquin Power Company and Liberty Utilities (Canada) Corp.; and
- (iv) between Liberty Utilities Service Corp. and its affiliates.

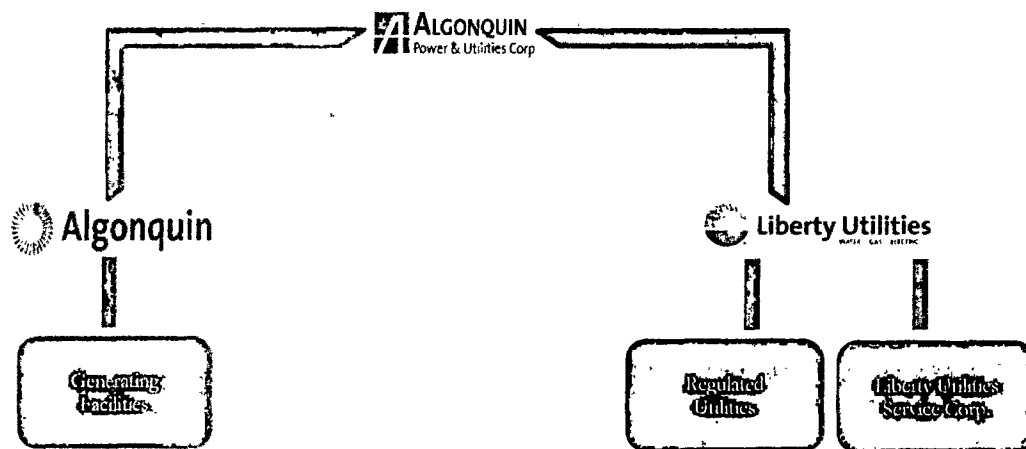
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1. INTRODUCTION

The purpose of this manual is to provide a detailed explanation of services provided by Algonquin Power & Utilities Corp (“APUC”), and its affiliates, Algonquin Power Company (“APCo”), Liberty Utilities (Canada) Corp. (“LUC”), and Liberty Utilities Service Corp. (“LUSC”) to the regulated utilities and to describe the Direct Charge¹ and Cost Allocation² Methodologies used by APUC, APCo, LUC, and LUSC. The following organization chart identifies the relationships between the separate entities.

Figure 1: Algonquin Power & Utilities Corporate Structure



This Cost Allocation Manual (“CAM”) has been completed in accordance and conformance with the *NARUC Guidelines for Cost Allocations and Affiliate Transactions* (“NARUC Guidelines”). More specifically, the founding principles of this Cost Allocation Manual are to a) directly charge as much as possible to the entity that procures any specific service, and b) to ensure that inappropriate subsidization of unregulated activities by regulated activities, and vice versa, does not occur. For ease of reference, the NARUC Guidelines are attached as Appendix 1.

¹ Direct charges (sometimes referred to as assigned costs) are costs incurred by one company for the exclusive benefit of one or more other companies, and which are directly charged (or assigned) to the company or companies that specifically benefited.

² Allocated costs are costs incurred by one company that are for the benefit of either (a) all of the Algonquin companies or (b) all of the regulated companies, and which are charged to the benefited companies using a methodology and set of logical allocation factors that establish a reasonable link between cost causation and cost recovery.

Costs charged and allocated pursuant to this CAM shall include direct labor, direct materials, direct purchased services associated with the related asset or services, and overhead amounts. The direct charges are assigned as follows:

- a. Tariffed rates or other pricing mechanisms established by rate setting authorities shall be used to provide all regulated services;
- b. Services not covered by (a) shall be charged by the providing party to the receiving party at fully distributed cost; and
- c. Facilities and administrative services rendered to a rate-regulated subsidiary shall be charged on the following basis:

(i) the prevailing price for which the service is provided for sale to the general public by the providing party (i.e., the price charged to non-affiliates if such transactions with non-affiliates constitute a substantial portion of the providing party's total revenues from such transactions) or, if no such prevailing price exists, (ii) an amount not to exceed the fully distributed cost incurred by the providing party in providing such service to the receiving party.

2. THE APUC CORPORATE STRUCTURE

APUC's primary business is direct interest or equity ownership in renewable and thermal power generating facilities and regulated utilities. APUC owns a widely diversified portfolio of independent power production facilities³ and regulated utilities⁴ consisting of water distribution, wastewater treatment facilities, electric and gas utilities. While power production facilities are located in both Canada and the United States, regulated utility operations are exclusively in the United States. APUC is publicly traded on the Toronto Stock Exchange⁵. Its structure as a publicly traded holding company provides substantial benefits to its regulated utilities through access to capital markets.

³ All power production (i.e. generation) facilities are found within Algonquin Power Company within the APUC corporate structure.

⁴ All distribution utilities are found within Liberty Utilities (Canada) Corp. within the APUC corporate structure.

⁵ Common shares and preferred shares are traded on the Toronto Stock Exchange (TSX) under the symbols AQN, AQN.PR.A and AQN.PR.D. Additional corporate information can be found at the company's website, algonquinpower.com.

APUC is the ultimate corporate parent and affiliate that provides financial, strategic management, corporate governance, administrative and support services to LUC and its subsidiaries as well as to the numerous generation assets held by APCo. The services provided by APUC are necessary for LUC and its subsidiaries to have access to capital markets for capital projects and operations. These services are expensed at APUC and are performed for the benefit of APCo and LUC and their respective businesses.

APUC and its affiliates capitalize on APUC's expertise and access to the capital markets through the use of certain shared services, which maximizes economies of scale and minimizes redundancy. In short, it provides for maximum expertise at lower costs. Further, the use of shared expertise allows each of the entities to receive a benefit they may not be able to achieve on a stand-alone basis such as strategic management advice and access to capital at more competitive rates.

3. SCOPE OF SERVICES FROM APUC AND APCO AMONG AFFILIATES AND HOW THOSE COSTS ARE DISTRIBUTED

Each distribution utility can be assigned and/or allocated costs from APUC, LUC and LUSC. This section provides an overview of the services and the cost methodology for APUC. In addition, this section also addresses any costs and services that may arise from APCo.

3.1 Labor Services and Cost Allocation from APUC to LUC and APCo

3.1.1 Description of the APUC Services and Costs

APUC provides benefits to its affiliate companies by use of certain shared services. APUC charges labor rates for these shared services at cost, which is the dollar hourly rate per employee as recorded in APUC's payroll systems, grossed up for burdens such as payroll taxes, health benefits, retirement plans, other insurance provided to employees, and other employee benefits. These labor costs are charged directly based on timesheets to the extent possible. If labor is for the benefit of all subsidiaries then the allocation methodologies used for non-labor costs are applied.

APUC's non-labor services include Financing Services. As used herein Financing Services means the selling of units to public investors in order to generate the funding and capital necessary (be it short term or long term funding, including equity and debt) for LUC and APCo as well as providing legal services in connection with the issuance of public debt.

The capital and funds obtained from the sale of shares in APUC are used by LUC and APCo for current and future capital investments. The services provided by APUC are critical and necessary to LUC and APCo because without those services they would not have a readily available source of capital funding. Further, relatively small utilities may have difficulty attracting capital on a stand-alone basis.

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). See Appendix 2 for a more detailed discussion of the costs incurred by APUC.

Non-labor costs, excluding corporate capital, are pooled and allocated to LUC's subsidiaries and APCo using the method summarized in Table 1. Each corporate cost type, or function, has been carefully reviewed to properly identify the factors driving those costs. Each function or cost type is typically driven by more than one factor and each has been assigned an appropriate weighting. Table 1 includes brief commentary on the rationale for each cost driver and weighting, along with examples for each cost type.

Table 1: Summary of Corporate Allocation Method of APUC Indirect Costs

Type of Cost	Allocation Methodology		Rationale	Examples
Legal Costs	Net Plant	33.3%	This function is driven by factors which include Net Plant, as typically the higher the value of plant, the more legal work it attracts; similarly, a greater number of employees are typically more indicative of larger facilities that require greater levels of attention; and O&M costs tend to be a third factor indicative of size and legal complexity.	Employee labor and related administration and programs; Third party legal
	Number of Employees	33.3%		
	O&M	33.3%		
Tax Services	Revenue	33.3%	This function is driven by a variety of factors that influence the size and relative tax complexity, including Revenues, O&M and Net Plant. Tax activity can be driven by each of these factors.	Employee labor and related administration and programs, including Third party tax advice and services
	O&M	33.3%		
	Net Plant	33.3%		
Audit	Revenue	33.3%	This function is driven by a variety of factors that influence the size	Employee labor and related administration and programs,
	O&M	33.3%		
	Net Plant	33.3%		

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			and complexity of Audit, including Revenues, O&M and Net Plant. Audit activity can be driven by each of these factors.	including Third party accounting and audit services
Investor Relations	Revenue O&M Net Plant	33.3% 33.3% 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Employee labor and related administration and programs, including third party Investor day communications and materials
Director Fees and Insurance	Revenue O&M Net Plant	33.3% 33.3% 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Board of Director fees, insurance and administration
Licenses, Fees and Permits	Revenue O&M Net Plant	33.3% 33.3% 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Third party costs
Escrow and Transfer Agent Fees	Revenue O&M Net Plant	33.3% 33.3% 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Third party costs

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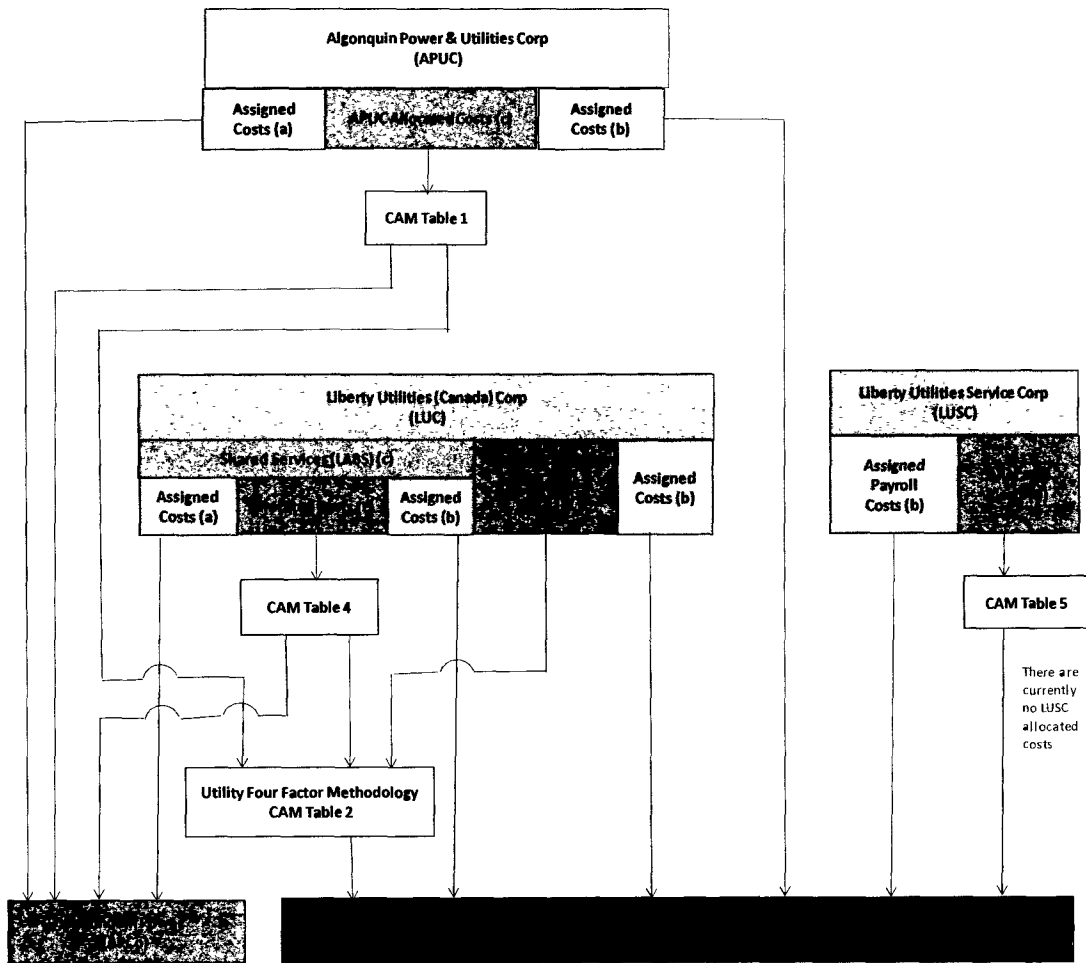
Other Professional Services	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Third party costs
Office Administration	Oakville Employees 50% Square Footage 50%	This function is driven by factors which are indicative of number of employees and square footage utilized by these employees.	Office space and utility costs. Employee labor and related administration
Executives	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Employee labor cost that is not directly attributable to any entity

Notwithstanding the above, if a charge is related either solely to the regulated utility business, i.e., LUC, or to the power generation business, i.e., APCo, then all of those costs will be direct charged, or assigned, to the business segment for which they are incurred.

Lastly, if a cost can be directly attributable to a specific entity, it will be directly charged to that entity.

3.1.2 Description of the APUC Cost Flows

Please refer to Figure 2 for a diagram of the various flows of costs that may arise from each affiliate, including APUC.

Figure 2: Illustration of APUC Corporate Cost Distributions

- (a) Costs that are directly assignable to unregulated companies
- (b) Costs that are directly assignable to regulated companies
- (c) Costs that benefit both unregulated and regulated operations
- (d) Costs that benefit all regulated operations

As illustrated in Figure 2 and as described above, APUC incurs three types of costs that are passed on to its direct and indirect subsidiaries. The first type is APUC's costs that directly benefit a particular specific unregulated company, which are directly assigned to that unregulated company. The second type is APUC's costs that directly benefit a particular regulated company, which are directly assigned to that regulated company. The third type are APUC's remaining costs that benefit the entire enterprise (both regulated and unregulated), which are allocated between regulated and unregulated company groups pursuant to CAM Table 1. Information within Table 1 includes: (a) each type of cost incurred by APUC that is to be allocated between regulated and unregulated parts of the business; (b) the factors used to allocate each type of cost between regulated and unregulated activity; (c)

the rationale for selecting the factors that are used for allocation; and (d) examples of the specific allocated costs. The costs allocated to the regulated companies as a group are then reallocated to individual companies using the Utility Four-Factor allocation methodology set forth in CAM Table 2 (described below), resulting in utility-specific allocated charges from APUC.

For an example of how an APUC invoice would be assigned or allocated, please see Appendix 3.

Certain costs, which are incurred for the benefit of APUC's businesses, are not allocated to any subsidiary. These include costs such as certain corporate travel and certain overheads.

3.2 Labor Services and Cost Allocation From APCo To LUC

From time to time, APCo may provide Engineering and Technical Labor to LUC or its utilities. These charges plus an allocation for corporate overheads such as rent, materials/supplies, etc. are capitalized and directly charged to the relevant utility.

From time to time, APCo employees may provide administrative support to LUC or its utilities. These charges are direct charged using time sheets.

4. SCOPE OF SERVICES PROVIDED BY LUC TO ITS SUBSIDIARIES, APUC AND APCO, AND HOW THOSE COSTS ARE DISTRIBUTED

Each distribution utility can be assigned and/or allocated costs from APUC, LUC and LUSC. This section provides an overview of the services and the cost methodology for LUC.

4.1 Overview of LUC Services and Costs

Please refer to Figure 2 for a diagram of the various flows of costs that may arise from each affiliate, including LUC.

As illustrated in Figure 2, LUC incurs three types of costs that are passed on to other direct or indirect subsidiaries. The first type is an LUC cost that directly benefits a particular regulated company, which is directly assigned to that regulated

company. The second type is an LUC cost that benefits all of the regulated companies, which is allocated using the Utility Four-Factor Methodology described in CAM Table 2. Both of these cost types are described in section 4.2 below.

The third type of costs arising from LUC are those from shared services⁶ that benefit both the regulated group of companies and the unregulated group of companies within the Liberty / Algonquin family, which are allocated between the two groups pursuant to the methodology described in section 4.3 and as set forth in CAM Table 4.

4.2 LUC Services and Costs Provided to Utilities

LUC provides its regulated utilities with the following services: accounting, administration, corporate finance, human resources (including training and development), information technology, rates and regulatory affairs, environment, health, safety, and security, customer service, procurement, risk management, legal, and utility planning. The following are examples of some of the services provided: (i) budgeting, forecasting, and financial reporting services including preparation of reports and preservation of records, cash management (including electronic fund transfers, cash receipts processing, managing short-term borrowings and investments with third parties); (ii) development of customer service policies and procedures; (iii) development of human resource policies and procedures; (iv) selection of information systems and equipment for accounting, engineering, administration, customer service, emergency restoration and other functions and implementation thereof; (v) development, placement and administration of insurance coverages and employee benefit programs, including group insurance and retirement annuities, property inspections and valuations for insurance; (vi) purchasing services including preparation and analysis of product specifications, requests for proposals and similar solicitations; and vendor and vendor-product evaluations; (vii) energy procurement oversight and load forecasting; and (viii) development of regulatory strategy.

LUC will assign costs that can be directly attributable to a specific utility. These include direct labor and direct non-labor costs. However, the indirect LUC costs cannot be directly attributed to an individual utility. LUC allocates its indirect

⁶ As discussed later, LUC costs that benefit both regulated and unregulated businesses are incurred within Liberty Algonquin Business Services (“LABS”), which is a business unit within LUC that serves both regulated and unregulated entities.

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labor and indirect non-labor costs, including capital costs, to its regulated utilities using a Utility Four-Factor Methodology. LUC uses the Utility Four-Factor Methodology to allocate costs incurred for the benefit of all of its regulated assets (“System-Wide Costs”) to all of its utilities.

The Utility Four-Factor Methodology allocates costs by relative size of the utilities. The methodology used by LUC involves four allocating factors, or drivers: (1) Utility Plant; (2) Total Customers; (3) Non-Labor Expenses; and (4) Labor, with each factor assigned an equal weight, as shown in Table 2 below.

Table 2: Utility Four-Factor Methodology Factors and Weightings

Factor	Weight
Utility Plant	25%
Customer Count	25%
Non-Labor Expenses	25%
Labor	25%
Total	100%

LUC also uses the Utility Four-Factor Methodology to allocate to its regulated utilities the system-wide indirect labor and indirect non-labor costs allocated to LUC from APUC.

Table 3 provides a simplified hypothetical example to demonstrate how the Utility Four-Factor Methodology would be calculated based on ownership of only two hypothetical utilities.

Table 3: Utility Four-Factor Methodology Example

Factor	Utility 1	Utility 2	Total All Utilities	Utility 1 % of Total	Factor Weight	Utility 1 Allocation
Utility Plant (\$)	727	371	1098	66%	25%	17%
Customer Count (#)	6000	1000	7000	86%	25%	21%
Labor (\$)	57	32	89	64%	25%	16%
Non-Labor Expenses (\$)	108	41	149	72%	25%	18%
Total Allocation						72%

As can be seen from these hypothetical numbers in Table 3, Utility 1 would be allocated 72% of the total indirect costs incurred by LUC, based on its relative size and application of the Utility Four-Factor Methodology. Utility 2 would be allocated the remaining 28%. LUC has developed and utilized this methodology to better allocate costs, recognizing that larger utilities require more time and management attention and incur greater costs than smaller ones.

On occasion there may be costs which are incurred for the benefit of two or more utilities, but not all of the utilities. These costs are directly assigned to utilities as per the vendor invoice, or, if the invoice doesn't specify a share for each utility, the Utility Four-Factor Methodology is used. In this situation, the weighting is determined by only including the utilities that benefited from the service and excluding the utilities that did not receive the service.

For an example of how an LUC invoice would be assigned or allocated, please see Appendix 4.

4.3 Shared Services from LUC

The third type of costs arising from LUC are those from shared services⁷ that benefit both the regulated group of companies and the unregulated group of companies within the Liberty / Algonquin family.

Consistent with the organization practices described earlier, shared services and costs (within LUC) are assigned when they are directly attributable to a specific business unit⁸. Labor charges for LUC shared services staff are assigned using time sheets that depict the amount of time that is to be direct charged to either LUC or APCo.

Indirect costs for services from the shared services functions that cannot be directly assigned are allocated between the regulated and unregulated business units, LUC and APCo, pursuant to the methodology set forth in CAM Tables 4a and 4b. Similar to Table 1, Tables 4a and 4b include: (a) each type of cost incurred by LUC that is to be allocated between regulated and unregulated parts of the business; (b) the factors used to allocate each type of cost between regulated and

⁷ Liberty Algonquin Business Services ("LABS") is a business unit found organizationally within LUC that serves both regulated and unregulated entities.

⁸ To clarify, if a LABS service is for only one specific organization, such as the unregulated generation business, APCo, the cost will be directly charged to that business unit.

unregulated activity; (c) the rationale for selecting the factors that are used for allocation; and (d) examples of the specific allocated costs. The costs allocated to the regulated companies as a group are then reallocated to individual companies using the Utility Four-Factor Methodology set forth in CAM Table 2, resulting in utility-specific allocated charges from LUC.

For an example of how an invoice or cost within LUC's shared services (LABS) would be assigned or allocated, please see Appendix 5.

4.3.1 Business Services and Corporate Services

LUC shared services that benefit the entire company, i.e., APCo and LUC, are internally referenced under two names - Business Services and Corporate Services. The services and functions within each category are shown in the tables below⁹. Indirect costs from Business Services and Corporate Services are allocated using the following methodology shown in Tables 4a and 4b, respectively, which are designed to closely align the costs with the driver of the activity.

Table 4a: Summary of Corporate Allocation Method of LUC Business Services Indirect Costs

Type of Cost	Allocation Methodology		Rationale	Examples
Information Technology	Number of Employees	90%	IT function is driven by factors which include number of employees and O&M. The larger the number of employees, the more support, software and IT infrastructure is required.	Enterprise wide support, architecture, etc. Third party fees
	O&M	10%		

⁹ Note that the shared service functions found in Tables 4a and 4b are unchanged from those shown in Table 4 in the prior version of the CAM. These functions have simply been reorganized into these two Tables, 4a and 4b, to show the differentiation between Business Services and Corporate Services.

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Human Resources	Number of Employees 100%	HR function is driven by number of employees. A greater number of employees requires additional HR support	HR policies, payroll processing, benefits, employee surveys
Training	Number of Employees 100%	Training is directly proportional to the number of employees per function	Courses, lectures, in house training sessions by third party providers
Facilities and Building Rent	Square Footage 100%	Office space occupied accurately reflects space requirements of each subsidiary	Corporate office building
Environment, Health, Safety and Security	Number of Employees 100%	EHSS training, etc. is directly proportional to the number of employees per function	Enterprise wide programs, employee labor and related administration
Procurement	O&M Capital Expenditures 50%	Procurement function is based on typical proportion of expenditures	Enterprise wide support and related administration

Table 4b: Summary of Corporate Allocation Method of LUC Corporate Services Indirect Costs

Risk Management	Net Plant Revenue O&M	33.3% 33.3% 33.3%	This function is driven by factors which reflect the relative size and complexity of Risk Management - Revenues, Net Plant and O&M costs.	Software platform; fees and administration
Financial Reporting and Administration	Revenue O&M Net Plant	33.3% 33.3% 33.3%	This function is driven by factors which reflect the relative size and complexity of Financial Reporting and Admin. - Revenues, Net Plant and O&M costs.	Employee labor and related administration and third party fees
Treasury	Capital Expenditures 25% O&M Net Plant	 50% 25%	Treasury activity is typically guided by the amount of necessary capex/plant for each utility, and operating costs/cash flow	Third party financing, employee labor and related administration and programs
Internal Audit	Net Plant O&M	25% 75%	This function is driven by factors which reflect the relative size and complexity of Internal audit activity. Larger Plant and operating costs drive of a given facility drive	Third party fees, employee labor and related administration and programs

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		more activity from IA.	
Communications	Number of Employees 100%	Communications cost is directly proportional to the number of employees	Enterprise wide support and related administration
Legal Costs	Net Plant 33.3% Number of Employees 33.3% O&M 33.3%	This function is driven by factors which include Net Plant, as typically the higher the value of plant, the more legal work it attracts; similarly, a greater number of employees are typically more indicative of larger facilities that require greater levels of attention; and O&M costs tend to be a third factor indicative of size and legal complexity.	Employee labor and related administration and programs, including third party legal

5. LIBERTY UTILITIES SERVICE CORP.

Each distribution utility can be assigned and/or allocated costs from APUC, LUC and LUSC. This section provides an overview of the services and the cost methodology for LUSC.

All U.S.-based utility employees are employed, or will be employed, by Liberty Utilities Service Corp. (LUSC). All employees' costs, such as salaries, benefits, insurances etc. are to be paid by LUSC and direct charged to the company to which the employee is dedicated and performs work. Services provided from

COST ALLOCATION MANUAL

LUSC to each regulated utility shall be done on a time sheet basis to the extent possible. In infrequent instances where time sheeting may not be possible, the allocation factors shown in Table 5 are to be used.

Table 5: Summary of Allocation Method of LUSC Indirect Costs

Type of Cost	Allocation Methodology	Rationale	Examples
Customer Care and Billing	Customer count 100%	Customer count accurately reflects the resource requirements of the Customer Care and Billing group	Customer Care and Billing employees and related administrations
IT/Tech Support	Number of Employees 100%	Technical support requirements are related to the number of employees	Tech support staff, associated administration, and required software, hardware, etc.
Human Resources	Number of Employees 100%	HR function is driven by number of employees. A greater number of employees requires additional HR support	HR policies, payroll processing, benefits, employee surveys
Gas Control	Net Plant 100%	The greater the plant, the more control required	Gas Control labor, administration, and associated programs
Legal	Net Plant 33.3% Number of Employees 33.3% O&M 33.3%	Allocated based on the relative size of affiliate and employee count.	Employee labor and related administration and programs, including third party legal

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Regulatory	Net Plant Number of Employees O&M	33.3% 33.3% 33.3%	Allocated based on the relative size of affiliate and employee count.	Utility-wide studies or third party costs beneficial to all utilities
Environment, Health, Safety and Security	Number of Employees	100%	EHSS training, etc. is directly proportional to the number of employees	Utility-wide programs, employee labor and related administration
Procurement	O&M Capital Expenditures	50% 50%	Based on typical proportion of expenditures	Utility-wide support and related administration

Please note the allocation methodology can be adjusted based on the number of participating utilities. For example, Customer Service representatives who serve only the New Hampshire utilities will only have their indirect costs allocated, if any, based on the number of customers within New Hampshire. Labor costs associated with energy procurement are directly billed to the utilities requiring energy procurement services using timesheets.

6. CORPORATE CAPITAL

APUC or LUC will make capital investments for the benefit of all the utilities or facilities it owns (examples include corporate headquarters, IT systems, etc.). All capital investments kept at the corporate level benefiting all facilities will be distributed monthly in the form of an intercompany operating expense charge that captures the depreciation expense and cost of capital associated with the assets. All costs associated to service the investment will be allocated to APCo and LUC's utilities based on that department's allocation where the capital investment is made. For example, if the capital investment is made in Human Resources then the allocation methodology used for Human Resources to allocate non-capital indirect costs as shown in Table 4a will be used to allocate the charge associated with the corporate capital expenditures, including the cost of capital, depreciation, property tax, operation and maintenance costs and all other associated costs. Any corporate capital charges allocated to LUC are then reallocated to individual companies using the Utility Four-Factor Methodology set forth in CAM Table 2.

7. UPDATING ALLOCATIONS

Allocation percentages¹⁰ are updated annually. These annual updates to the allocation percentages are based on the most recent audited financial statements and other actual, year-end information. The updated percentages come into effect each April 1st and are valid through to the following March 31st. These allocations percentages are also updated if an entity is either acquired or sold.

8. CAM TRAINING

The oversight of the CAM is currently the responsibility of the corporate Regulatory department. Any updates or revisions are coordinated and completed by this group. The CAM, and any support material, is distributed to Finance and Regulatory staff throughout the organization at least annually. Any revisions to the CAM are distributed immediately upon finalization to this same audience. Training sessions are conducted annually to Finance, Regulatory and other affected departments. As part of the employee orientation program, new employees receive an introduction to the CAM. Further enhancements and additions to this employee training program to foster and enhance the organization's understanding of the CAM are ongoing. For example, it is anticipated that an online training module will be created and deployed across the organization, supplemented by a self-certification process.

¹⁰ To clarify, the factors and weightings are expected to remain constant. It is the underlying information used to calculate the allocation percentages that is updated annually, such as the most recent net plant figures, or the most recent numbers of employees, for example.

9. APPENDICES

APPENDIX 1 - NARUC GUIDELINES FOR COST ALLOCATIONS

Guidelines for Cost Allocations and Affiliate Transactions:

The following Guidelines for Cost Allocations and Affiliate Transactions (Guidelines) are intended to provide guidance to jurisdictional regulatory authorities and regulated utilities and their affiliates in the development of procedures and recording of transactions for services and products between a regulated entity and affiliates. The prevailing premise of these Guidelines is that allocation methods should not result in subsidization of non-regulated services or products by regulated entities unless authorized by the jurisdictional regulatory authority. These Guidelines are not intended to be rules or regulations prescribing how cost allocations and affiliate transactions are to be handled. They are intended to provide a framework for regulated entities and regulatory authorities in the development of their own policies and procedures for cost allocations and affiliated transactions. Variation in regulatory environment may justify different cost allocation methods than those embodied in the Guidelines.

The Guidelines acknowledge and reference the use of several different practices and methods. It is intended that there be latitude in the application of these guidelines, subject to regulatory oversight. The implementation and compliance with these cost allocations and affiliate transaction guidelines, by regulated utilities under the authority of jurisdictional regulatory commissions, is subject to Federal and state law. Each state or Federal regulatory commission may have unique situations and circumstances that govern affiliate transactions, cost allocations, and/or service or product pricing standards. For example, The Public Utility Holding Company Act of 1935 requires registered holding company systems to price "at cost" the sale of goods and services and the undertaking of construction contracts between affiliate companies.

The Guidelines were developed by the NARUC Staff Subcommittee on Accounts in compliance with the Resolution passed on March 3, 1998 entitled "Resolution Regarding Cost Allocation for the Energy Industry" which directed the Staff Subcommittee on Accounts together with the Staff Subcommittees on Strategic Issues and Gas to prepare for NARUC's consideration, "Guidelines for Energy Cost Allocations." In addition, input was requested from other industry parties.

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Various levels of input were obtained in the development of the Guidelines from the Edison Electric Institute, American Gas Association, Securities and Exchange Commission, the Federal Energy Regulatory Commission, Rural Utilities Service and the National Rural Electric Cooperatives Association as well as staff of various state public utility commissions.

In some instances, non-structural safeguards as contained in these guidelines may not be sufficient to prevent market power problems in strategic markets such as the generation market. Problems arise when a firm has the ability to raise prices above market for a sustained period and/or impede output of a product or service. Such concerns have led some states to develop codes of conduct to govern relationships between the regulated utility and its non-regulated affiliates. Consideration should be given to any "unique" advantages an incumbent utility would have over competitors in an emerging market such as the retail energy market. A code of conduct should be used in conjunction with guidelines on cost allocations and affiliate transactions.

A. DEFINITIONS

1. Affiliates - companies that are related to each other due to common ownership or control.
2. Attestation Engagement - one in which a certified public accountant who is in the practice of public accounting is contracted to issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party.
3. Cost Allocation Manual (CAM) - an indexed compilation and documentation of a company's cost allocation policies and related procedures.
4. Cost Allocations - the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).
5. Common Costs - costs associated with services or products that are of joint benefit between regulated and non-regulated business units.
6. Cost Driver - a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.

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7. Direct Costs - costs which can be specifically identified with a particular service or product.
8. Fully Allocated costs - the sum of the direct costs plus an appropriate share of indirect costs.
9. Incremental pricing - pricing services or products on a basis of only the additional costs added by their operations while one or more pre-existing services or products support the fixed costs.
10. Indirect Costs - costs that cannot be identified with a particular service or product. This includes but not limited to overhead costs, administrative and general, and taxes.
11. Non-regulated - that which is not subject to regulation by regulatory authorities.
12. Prevailing Market Pricing - a generally accepted market value that can be substantiated by clearly comparable transactions, auction or appraisal.
13. Regulated - that which is subject to regulation by regulatory authorities.
14. Subsidization - the recovery of costs from one class of customers or business unit that are attributable to another.

B. COST ALLOCATION PRINCIPLES

The following allocation principles should be used whenever products or services are provided between a regulated utility and its non-regulated affiliate or division.

1. To the maximum extent practicable, in consideration of administrative costs, costs should be collected and classified on a direct basis for each asset, service or product provided.
2. The general method for charging indirect costs should be on a fully allocated cost basis. Under appropriate circumstances, regulatory authorities may consider incremental cost, prevailing market pricing or other methods for allocating costs and pricing transactions among affiliates.

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3. To the extent possible, all direct and allocated costs between regulated and non-regulated services and products should be traceable on the books of the applicable regulated utility to the applicable Uniform System of Accounts. Documentation should be made available to the appropriate regulatory authority upon request regarding transactions between the regulated utility and its affiliates.
4. The allocation methods should apply to the regulated entity's affiliates in order to prevent subsidization from, and ensure equitable cost sharing among the regulated entity and its affiliates, and vice versa.
5. All costs should be classified to services or products which, by their very nature, are either regulated, non-regulated, or common to both.
6. The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, should be identified and used to allocate the cost between regulated and non-regulated services or products.
7. The indirect costs of each business unit, including the allocated costs of shared services, should be spread to the services or products to which they relate using relevant cost allocators.

C. COST ALLOCATION MANUAL (NOT TARIFFED)

Each entity that provides both regulated and non-regulated services or products should maintain a cost allocation manual (CAM) or its equivalent and notify the jurisdictional regulatory authorities of the CAM's existence. The determination of what, if any, information should be held confidential should be based on the statutes and rules of the regulatory agency that requires the information. Any entity required to provide notification of a CAM(s) should make arrangements as necessary and appropriate to ensure competitively sensitive information derived therefrom be kept confidential by the regulator. At a minimum, the CAM should contain the following:

1. An organization chart of the holding company, depicting all affiliates, and regulated entities.
2. A description of all assets, services and products provided to and from the regulated entity and each of its affiliates.

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3. A description of all assets, services and products provided by the regulated entity to non-affiliates.
4. A description of the cost allocators and methods used by the regulated entity and the cost allocators and methods used by its affiliates related to the regulated services and products provided to the regulated entity.

D. AFFILIATE TRANSACTIONS (NOT TARIFFED)

The affiliate transactions pricing guidelines are based on two assumptions. First, affiliate transactions raise the concern of self-dealing where market forces do not necessarily drive prices. Second, utilities have a natural business incentive to shift costs from non-regulated competitive operations to regulated monopoly operations since recovery is more certain with captive ratepayers. Too much flexibility will lead to subsidization. However, if the affiliate transaction pricing guidelines are too rigid, economic transactions may be discouraged.

The objective of the affiliate transactions' guidelines is to lessen the possibility of subsidization in order to protect monopoly ratepayers and to help establish and preserve competition in the electric generation and the electric and gas supply markets. It provides ample flexibility to accommodate exceptions where the outcome is in the best interest of the utility, its ratepayers and competition. As with any transactions, the burden of proof for any exception from the general rule rests with the proponent of the exception.

1. Generally, the price for services, products and the use of assets provided by a regulated entity to its non-regulated affiliates should be at the higher of fully allocated costs or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.
2. Generally, the price for services, products and the use of assets provided by a non-regulated affiliate to a regulated affiliate should be at the lower of fully allocated cost or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.
3. Generally, transfer of a capital asset from the utility to its non-regulated affiliate should be at the greater of prevailing market price or net book value, except as

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otherwise required by law or regulation. Generally, transfer of assets from an affiliate to the utility should be at the lower of prevailing market price or net book value, except as otherwise required by law or regulation. To determine prevailing market value, an appraisal should be required at certain value thresholds as determined by regulators.

4. Entities should maintain all information underlying affiliate transactions with the affiliated utility for a minimum of three years, or as required by law or regulation.

E. AUDIT REQUIREMENTS

1. An audit trail should exist with respect to all transactions between the regulated entity and its affiliates that relate to regulated services and products. The regulator should have complete access to all affiliate records necessary to ensure that cost allocations and affiliate transactions are conducted in accordance with the guidelines. Regulators should have complete access to affiliate records, consistent with state statutes, to ensure that the regulator has access to all relevant information necessary to evaluate whether subsidization exists. The auditors, not the audited utilities, should determine what information is relevant for a particular audit objective. Limitations on access would compromise the audit process and impair audit independence.

2. Each regulated entity's cost allocation documentation should be made available to the company's internal auditors for periodic review of the allocation policy and process and to any jurisdictional regulatory authority when appropriate and upon request.

3. Any jurisdictional regulatory authority may request an independent attestation engagement of the CAM. The cost of any independent attestation engagement associated with the CAM, should be shared between regulated and non-regulated operations consistent with the allocation of similar common costs.

4. Any audit of the CAM should not otherwise limit or restrict the authority of state regulatory authorities to have access to the books and records of and audit the operations of jurisdictional utilities.

5. Any entity required to provide access to its books and records should make arrangements as necessary and appropriate to ensure that competitively sensitive information derived therefrom be kept confidential by the regulator.

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F. REPORTING REQUIREMENTS

1. The regulated entity should report annually the dollar amount of non-tariffed transactions associated with the provision of each service or product and the use or sale of each asset for the following:

- a. Those provided to each non-regulated affiliate.
- b. Those received from each non-regulated affiliate.
- c. Those provided to non-affiliated entities.

2. Any additional information needed to assure compliance with these Guidelines, such as cost of service data necessary to evaluate subsidization issues, should be provided.

Source:

<http://www.naruc.org/Publications/Guidelines%20for%20Cost%20Allocations%20and%20Affiliate%20Transactions.pdf>

APPENDIX 2 – DETAILED EXPLANATION OF APUC COSTS

1. APUC STRATEGIC MANAGEMENT COSTS

Strategic management decisions are critical for any public utility. The need for strategic management is even more pronounced for APUC as a publicly traded company, which depends on access to capital funding through public sales of units. APUC seeks to hire talented strategic managers that aid in running each facility owned by the company as efficiently and effectively as possible. This ensures the long term health of each utility and ensures that rates are kept as low as possible without compromising the level of service. It also facilitates each regulated utility's access to necessary capital funding at reduced costs. The costs included in Strategic Management Costs fall into the following categories.

a. Board of Directors

The Board of Directors provides strategic oversight on all company affairs including high level approvals of strategy, operation and maintenance budgets, capital budgets, etc. In addition, the Board of Directors provides corporate governance and ensures that capital and costs are incurred prudently, which ultimately protects ratepayers.

b. General Legal Services

General legal services 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, without which the utilities could not provide adequate service. Additionally, the services ensure that APUC's subsidiaries remain compliant in all aspects of operations and prevent those entities from being exposed to unnecessary risks.

c. Professional Services

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.



Algonquin



Liberty Utilities

2. ACCESS TO CAPITAL MARKETS

One of APUC's primary functions is to ensure its subsidiaries have access to quality 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 the following costs. These services and costs are a prerequisite to the subsidiaries continued access to those capital markets.

a. License and Permit Fees

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.

b. Escrow Fees

In connection with the payment of dividends to unit holders, APUC incurs escrow fees. Escrow fees are incurred to ensure continued access to capital and ensure continuing and ongoing investments by shareholders. Without such escrow fees, APUC's subsidiaries would not have a readily available source of capital funding.

c. Unit Holder Communications

Unit holder 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. With such communications services, the subsidiaries would not have a readily available source of capital funding.

3. APUC FINANCIAL CONTROLS

Financial control costs incurred by APUC include 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

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accurately and prudently. Without these services, the regulated utilities would not have a readily available source of capital funding.

a. Audit Fees

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 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 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.

b. Tax Services

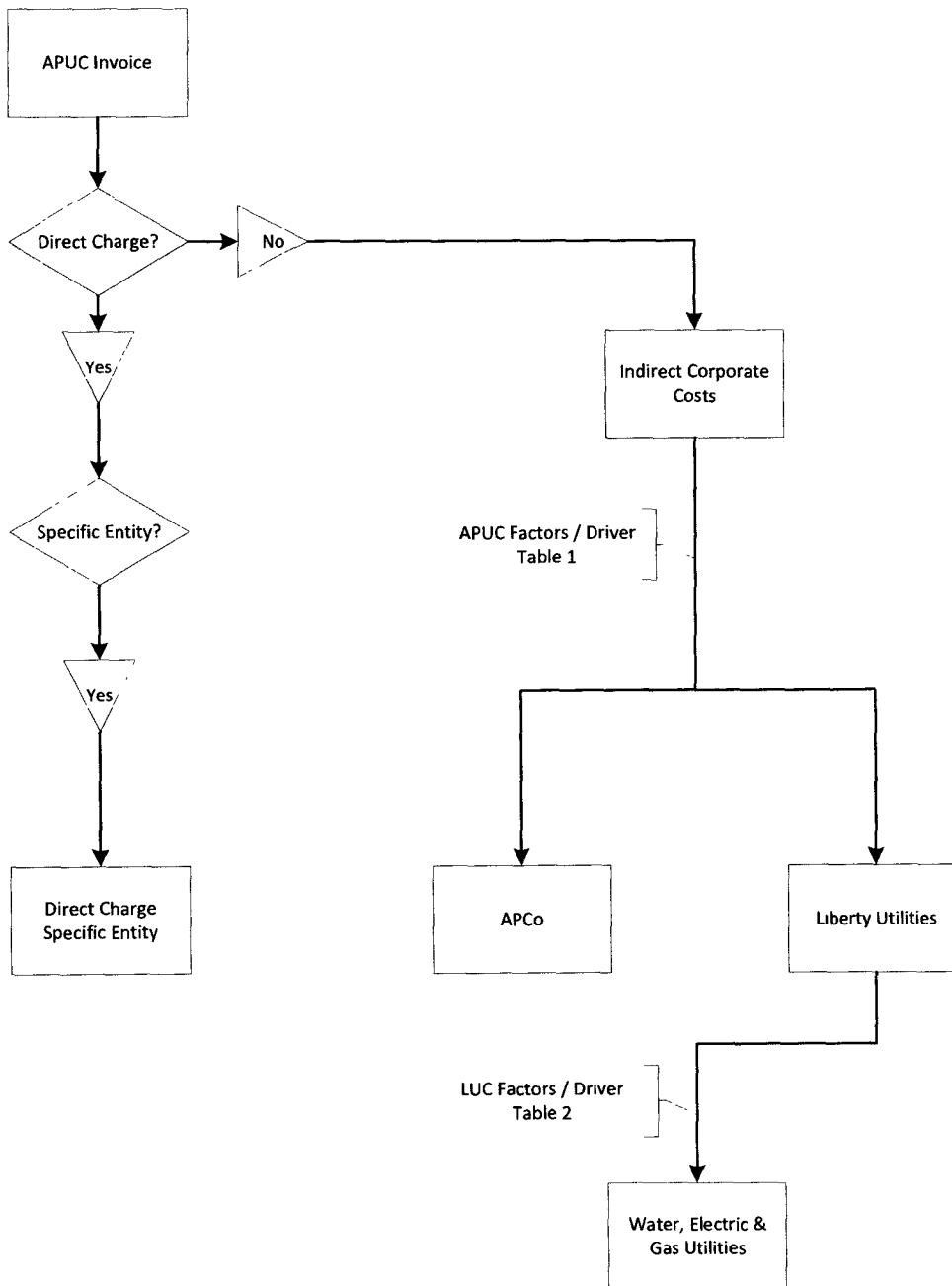
Taxes are paid on behalf of the regulated utilities at the parent level as part of a consolidated United States tax return. Tax services such as planning and filing are provided by third parties. Filing tax returns on a consolidated basis benefits each regulated utility by reducing the costs that otherwise would be incurred by such utility in filing its own separate tax return.

4. APUC ADMINISTRATIVE COSTS

Finally, administrative costs incurred by APUC such as rent, depreciation of office furniture, depreciation of computers, and general office costs are required to house all the services mentioned above. Without these administrative costs, the employees of APUC could not perform their work and provide the necessary services to the regulated utilities. These administrative costs also include training for corporate employees.

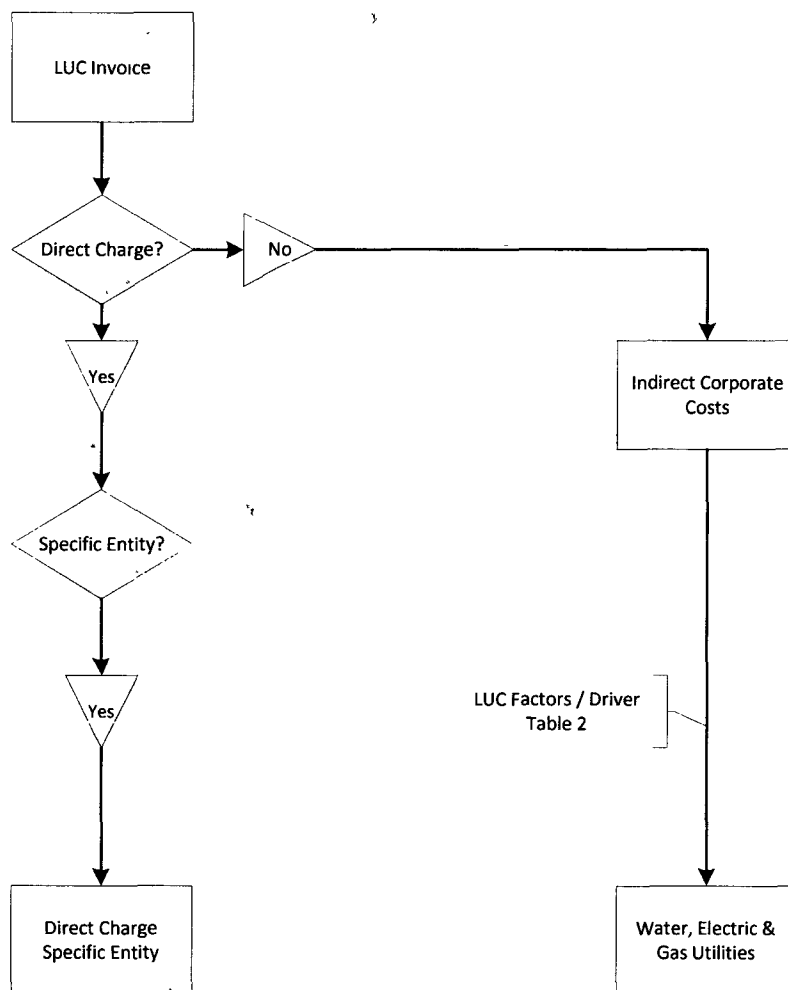
APPENDIX 3 – LIFE OF AN APUC INVOICE

A schematic is provided below showing the trail of an invoice received by APUC for services to be charged to its subsidiaries. The schematic is intended to visually explain the distribution of charges from APUC to APCo and Liberty Utilities companies.



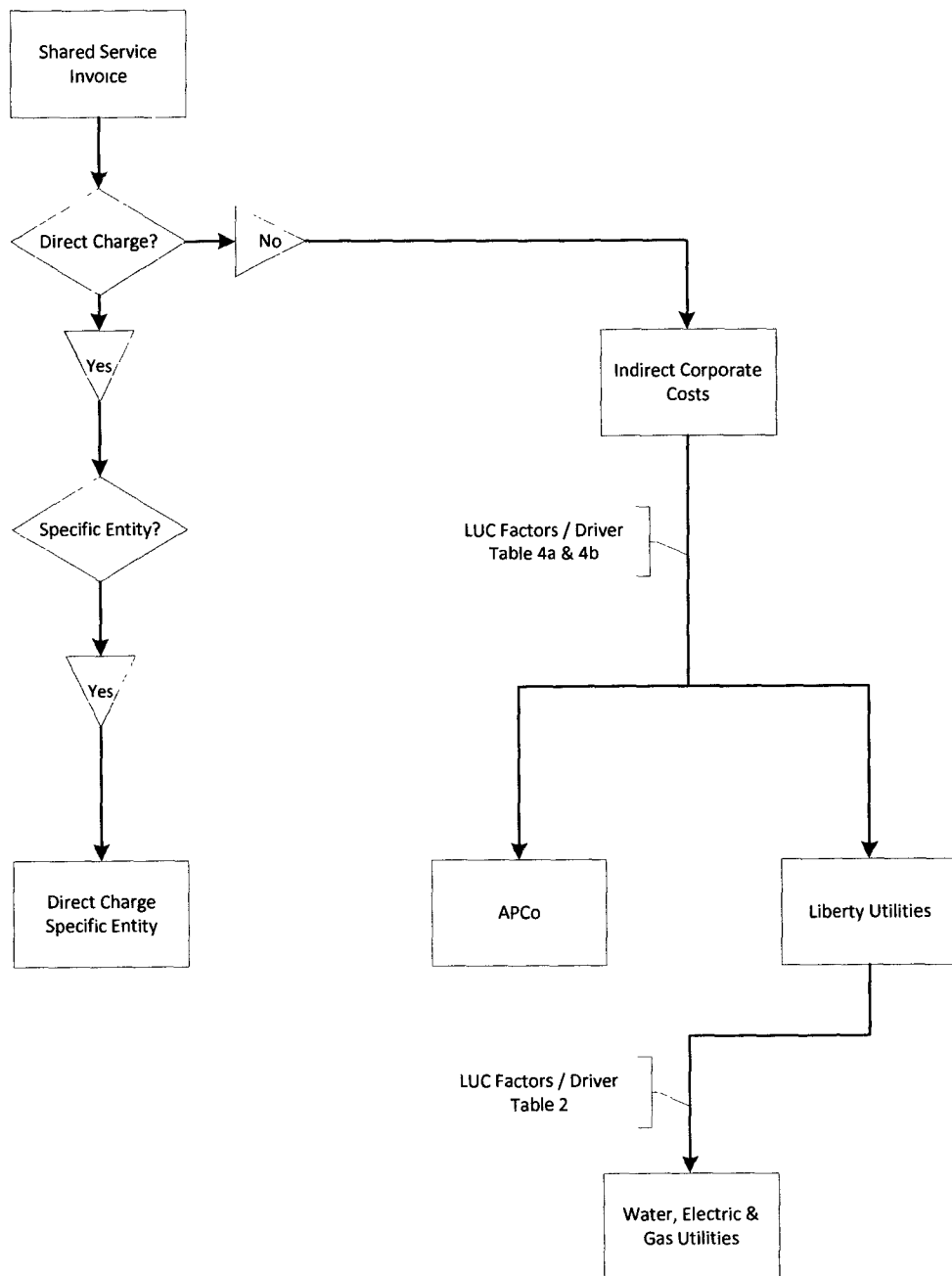
APPENDIX 4 – LIFE OF A LIBERTY UTILITIES INVOICE

A schematic is provided below showing the trail of an invoice received by Liberty Utilities (LUC) for services to be charged to its subsidiaries. The schematic is intended to visually explain the distribution of charges from LUC to Liberty Utilities companies.



APPENDIX 5 – LIFE OF A SHARED SERVICES INVOICE

A schematic is provided below showing the trail of an invoice for shared services provided within Liberty Utilities for services to be charged to affiliates and subsidiaries. The schematic is intended to visually explain the distribution of charges from shared services to APCo and Liberty Utilities companies.



PUC DOCKET NO. 46256,

APPLICATION OF LIBERTY	§	BEFORE THE PUBLIC UTILITY
UTILITIES (WOODMARK SEWER)	§	
CORP. AND LIBERTY UTILITIES	§	COMMISSION OF TEXAS
(TALL TIMBERS SEWER) CORP.	§	
(CCN NOS. 20679 AND 20694) TO	§	
CHANGE RATES FOR SEWER	§	
SERVICE IN SMITH COUNTY,	§	
TEXAS	§	

DIRECT TESTIMONY AND ATTACHMENTS

OF

BRUCE H. FAIRCHILD

ON BEHALF OF

**LIBERTY UTILITIES (WOODMARK SEWER) CORP. AND
LIBERTY UTILITIES (TALL TIMBERS SEWER) CORP.**

September 2, 2016

DIRECT TESTIMONY AND ATTACHMENTS OF

BRUCE H. FAIRCHILD

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ATTACHMENTS

BHF-1	Resume of Bruce H. Fairchild
BHF-2	Bruce H. Fairchild Summary of Testimony Before Regulatory Agencies
BHF-3	Income Statements and Balance Sheets for Woodmark and Tall Timbers Systems for Test Year Ended December 31, 2015
BHF-4	Bruce H. Fairchild Workpapers

DIRECT TESTIMONY OF BRUCE H. FAIRCHILD
ON BEHALF OF
LIBERTY UTILITIES (WOODMARK SEWER) CORP. AND
LIBERTY UTILITIES (TALL TIMBERS SEWER) CORP.

I. INTRODUCTION

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

2 **A. Bruce H. Fairchild, 3907 Red River, Austin, Texas 78751.**

3

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?**

5 **A. I am a principal in Financial Concepts and Applications, Inc. ("FINCAP"), a firm**
6 **engaged in financial, economic, and policy consulting to business and government.**

A. Qualifications

7 **Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND, PROFESSIONAL**
8 **QUALIFICATIONS, AND PRIOR EXPERIENCE.**

9 **A. I hold a BBA degree in accounting and finance from Southern Methodist University, an**
10 **MBA in finance and accounting from the University of Texas at Austin, and a PhD**
11 **degree in finance, accounting, and economics from the University of Texas at Austin. I**
12 **am also a Certified Public Accountant. My previous employment includes working in the**
13 **Controller's Department at Sears, Roebuck and Company and serving as Assistant**
14 **Director of Economic Research at the Public Utility Commission of Texas ("PUCT"). I**
15 **have also been on the business school faculties at the University of Colorado at Boulder**
16 **and the University of Texas at Austin, where I taught undergraduate and graduate courses**
17 **in finance and accounting.**

1 **Q. BRIEFLY DESCRIBE YOUR EXPERIENCE IN UTILITY-RELATED**
2 **MATTERS.**

3 **A.** While at the PUCT, I assisted in managing a division comprised of approximately
4 twenty-five professionals responsible for financial analysis, cost allocation and rate
5 design, economic and financial research, and data processing systems. I testified on
6 behalf of the PUCT staff in numerous cases involving most major investor-owned and
7 cooperative electric, telephone, and water/sewer utilities in the state regarding a variety of
8 financial, accounting, and economic issues. Since forming FINCAP in 1979, I have
9 participated in a wide range of analytical assignments involving utility-related matters on
10 behalf of utilities, industrial consumers, municipalities, and regulatory commissions. I
11 have also prepared and presented expert testimony before a number of regulatory
12 authorities addressing revenue requirements, cost allocation, and rate design issues for
13 gas, electric, telephone, and water/sewer utilities. I have been a frequent speaker at
14 regulatory conferences and seminars and have published research concerning various
15 regulatory issues. A resume that contains the details of my experience and qualifications
16 is attached as **BHF-1**, with **BHF-2** listing my prior testimony before regulatory agencies
17 since leaving the PUCT.

18
B. Purpose

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

20 **A.** I was retained by Liberty Utilities (Sub) Corp. ("Liberty") to assist in preparing
21 applications for changes in the sewer rates of Liberty Utilities (Woodmark Sewer) Corp.
22 ("Woodmark") and Liberty Utilities (Tall Timbers Sewer) Corp. ("Tall Timbers"),

1 including completing the schedules contained in the PUCT's Class B Rate/Tariff Change
2 Application ("Rate Filing Package"). The purpose of my testimony is to describe my
3 various analyses and the data being provided in support of the sewer rates being
4 requested in this case, including a second-step increase.
5

6 **Q. HOW ARE A UTILITY'S RATES USUALLY DEVELOPED?**

7 **A.** A utility's rates are customarily based on its costs of providing service, including a fair
8 return on invested capital. Representative levels of the various components comprising a
9 utility's cost of providing service—operation and maintenance expenses ("O&M"),
10 administrative and general expenses ("A&G"), taxes other than income (e.g., payroll and
11 property taxes), depreciation expense, return on invested capital (calculated as a
12 percentage rate of return applied to rate base), and income taxes—are determined and
13 then summed to calculate revenue requirements. These revenue requirements are then
14 divided by representative billing determinants to calculate unit rates that are included in a
15 utility's tariff.
16

17 **Q. HOW ARE REPRESENTATIVE LEVELS OF THE COMPONENTS OF A**
18 **UTILITY'S COST OF PROVIDING SERVICE USUALLY MEASURED?**

19 **A.** In most jurisdictions, including Texas, the determination of a utility's revenue
20 requirements begins with a historical period, which serves as a "test year". Actual
21 financial and customer billing data from the utility's books and records during the test
22 period provide a starting point. This actual financial and customer billing data are often
23 modified to account for unusual or non-recurring items, abnormal conditions, or
24 subsequent information through adjustments referred to as "normalizing" or "known and

measurable change” adjustments to the test year. While some adjustments will increase and others decrease the amounts recorded on the utility’s books and records in the test year, the ultimate objective is to develop levels of operating expenses, invested capital, capital costs, and billing determinants that are matched and representative of those that are expected to prevail when the rates being set will be in effect.

Q. HAVE YOU DEVELOPED THE REQUESTED RATES FOR THE TALL TIMBERS AND WOODMARK SYSTEMS IN THIS MANNER?

A. Yes, for the first phase, or step, of requested rates requested. As will be discussed subsequently, both the Woodmark and Tall Timbers systems are owned, managed, and operated by Liberty. The first phase of the requested sewer rates are based on operating expenses, invested capital, capital costs, and billing determinants recorded on Woodmark’s and Tall Timbers’ books and records for calendar year 2015. As will be explained subsequently, only a few adjustments were made to test year data, both because the test year was judged reasonably representative of ongoing conditions, as well as to minimize controversy and the cost of processing this case.

Q. HAVE YOU DEVELOPED THE SECOND-STEP REQUESTED RATES?

A. Yes. As provided for in the Commission’s rules, a second-step increase in rates is being requested for the Woodmark and Tall Timbers systems to reflect the additional operating and capital costs associated with three projects, all of which are necessary to achieve compliance with Texas Commission on Environmental Quality (“TCEQ”) regulations and one also being required by the Texas Department of Transportation (“TxDOT”). This second-step rate increase is intended to eliminate the requirement that a subsequent

1 rate application be filed, thus saving the utilities, their customers, and the Commission
2 the time and expenses of another rate case.

C. Summary of Conclusions

3 **Q. WHAT FIRST PHASE SEWER RATES ARE BEING REQUESTED FOR THE**
4 **WOODMARK AND TALL TIMBERS SYSTEMS?**

5 **A.** Woodmark and Tall Timbers are proposing to consolidate the rates for their systems,
6 which are substantially similar in terms of facilities, quality of service, and cost of
7 service, because the combined operation of certain facilities would result in economies
8 and efficiencies to both systems. The current rates of each system are tied to a “base
9 equivalent rate” (“BER”), which is essentially the monthly rate for standard residential
10 service and the rates of other customer classes being multiples of the BER. Woodmark
11 and Tall Timbers are requesting a first-step BER for the combined systems of \$76.54,
12 which compares with current BERs outside the City of Tyler and \$66.92 and \$56.18,
13 respectively, and a BER inside Tyler of \$27.75. The requested BER of \$76.54 is based on
14 annual net revenue requirements (or cost of service) of \$3,719,747, which consist of the
15 following components:

Description		Amounts
O&M and A&G Expenses		\$ 1,983,847
Taxes Other than Income		208,074
Depreciation Expense		735,146
Invested Capital	\$ 7,076,376	
Rate of Return	8.60%	
Return on Invested Capital		608,356
Income Taxes		270,993
Other Revenues		(86,668)
Revenue Requirements		\$ 3,719,747
Billing Units		48,600
Requested BER		\$ 76.54

1 **Q. WHAT SECOND-STEP SEWER RATES ARE WOODMARK AND TALL**
2 **TIMBERS REQUESTING?**

3 **A.** Woodmark and Tall Timbers are requesting a second-step BER for the combined systems
4 of \$96.38. This is an increase in the BER of \$19.84, which is based on the following
5 operating and capital costs for the expansion of the Woodmark wastewater treatment
6 plant:

Description		Amounts
O&M Expenses		\$ 53,109
Taxes Other than Income		94,293
Depreciation Expense		223,238
Invested Capital	\$4,779,218	
Rate of Return	8.60%	
Return on Invested Capital		410,489
Income Taxes		183,022
Total		\$ 964,151
Billing Units		48,600
Requested BER Increase		\$ 19.84

II. OVERVIEW

1 **Q. WHAT IS THE PURPOSE OF THIS SECTION?**

2 **A.** The purpose of this section is to describe briefly the Woodmark and Tall Timbers
3 systems, Liberty Utilities, and its parent. I will also describe how I went about
4 assembling and preparing the attached Schedules 1 through 9 and the various schedules
5 in the Rate Filing Package.

A. Woodmark and Tall Timbers

6 **Q. BRIEFLY DESCRIBE THE WOODMARK AND TALL TIMBERS SYSTEMS.**

7 **A.** The Woodmark and Tall Timbers systems provide sewer service in east Texas. Most of
8 their customers are located in unincorporated rural areas, except for a small portion of
9 Tall Timbers' service area, which is within the city limits of Tyler. Woodmark serves
10 approximately 1,660 primarily residential customers, while Tall Timbers serves
11 approximately 2,079 residential and commercial customers. As will be explained in more
12 detail subsequently, neither Woodmark nor Tall Timbers has any employees, with both
13 systems being owned, managed, and operated directly or indirectly by Liberty.

14
15 **Q. PLEASE DESCRIBE LIBERTY UTILITIES CO.**

16 **A.** Liberty Utilities Co. is a Delaware corporation that operates regulated gas, water, sewer
17 and electric utilities in eleven states —Arizona, Arkansas, California, Iowa, Illinois,
18 Missouri, Montana, Georgia, Massachusetts, New Hampshire, and Texas. Liberty
19 Utilities Co. is a wholly owned subsidiary of Liberty Utilites (Canada) Corp. ("Liberty
20 Utilities Canada"). Woodmark and Tall Timbers are wholly owned by Liberty Utilities
21 (Sub) Corp., which in turn is wholly owned by Liberty Utilities Co. All of the Liberty

1 Utilities entities, including Woodmark and Tall Timbers, are ultimately owned by
2 Algonquin Power & Utilities Corp. ("APUC").
3

4 **Q. PLEASE DESCRIBE APUC.**

5 **A.** APUC is a \$4.1 billion electric generation, transmission and distribution utility company
6 based in Oakville, Ontario. Its stock is listed on the Toronto Stock Exchange and is a
7 registrant with the U.S. Security and Exchange Commission. APUC subsidiaries own and
8 operate regulated utilities in the United States, and own non-regulated generation
9 facilities and regulated electric transmission and natural gas pipelines throughout the
10 United States and Canada. The distribution business group operates in the United States
11 as Liberty Utilities and provides rate regulated water, wastewater, electricity, and natural
12 gas utility services to nearly half a million customers. The electric generation business
13 group operates as Algonquin Power Co. and owns or has interests in a portfolio of North
14 American based contracted wind, solar, hydroelectric and natural gas powered generating
15 facilities representing more than 1,150 MW of installed capacity. The transmission
16 business group invests in rate regulated electric transmission and natural gas pipeline
17 systems in the United States and Canada.
18

19 **Q. WHAT IS LIBERTY UTILITIES SERVICE CORP.?**

20 **A.** Liberty Utilities Service Corp. ("LUSC") is a wholly owned subsidiary of Liberty
21 Utilities Co. whose purpose is to employ and provide labor for Liberty's regulated U.S.
22 utilities, including Woodmark and Tall Timbers. The objective of this organization is to
23 streamline the administration of employees by consolidating all of Liberty's domestic
24 human resources activities in a single entity. All of the costs of employees, including

1 salaries, benefits, insurance, and taxes are paid by LUSC and then directly charged, to the
2 extent possible, to the utility for which the employee performs the work.

B. Preparing the Application

3 **Q. HOW DID YOU GO ABOUT OBTAINING THE DATA USED AS THE BASIS**
4 **FOR THIS RATE APPLICATION?**

5 **A.** I requested that Woodmark and Tall Timbers provide me with their December 31, 2015
6 trial balances prepared in accordance with the National Association of Regulatory Utility
7 Commissioners ("NARUC") Uniform System of Accounts, as required by 16 Tex.
8 Admin. Code Section 24.72 ("TAC"). These trial balances reflect the revenues,
9 expenses, assets, liabilities, and equity of Woodmark and Tall Timbers systems for the
10 test year recorded in their proper NARUC accounts. I also obtained monthly billing
11 records for each utility for the purpose of determining billing units with which to develop
12 specific rates.

13
14 **Q. WHAT DID YOU DO NEXT?**

15 **A.** Having obtained test year financial and billing information from the books and records of
16 Woodmark and Tall Timbers, I next obtained the Instructions for the Rate/Tariff Change
17 Application for Class B Investor-owned Utilities – Water and/or Sewer ("Instructions")
18 and the Rate Filing Package from the Commission's website.

19
20 **Q. DID YOU EXPERIENCE ANY TROUBLE COMPLETING THE SCHEDULES IN**
21 **THE RATE FILING PACKAGE?**

1 **A.** Yes. According to the Instructions, the Rate Filing Package is to be used by both water
2 and sewer utilities, but upon review it is principally designed for water, not sewer,
3 utilities. For example, the schedules calling for the breakdown of expenses between
4 volume and non-volume related expenses, meter sizes, water production, and pass-
5 through expenses generally do not apply to sewer utilities, and it was unclear which
6 schedules could be ignored without risking a non-compliance finding. Second, the
7 different schedules in the Rate Filing Package identify revenues, expenses, and plant by
8 NARUC water account number, many of which do not correlate to NARUC sewer
9 account numbers. Therefore, it was not clear on which schedules the different sewer
10 accounts are to be reported. Third, the Rate Filing Package appears to be designed for a
11 small “Mom and Pop” utility, where there are just a few employees, and plant items are
12 readily identifiable and maintained on an asset-by-asset basis. It is not well suited for a
13 large, professionally managed and operated utility with multiple systems, where most
14 operating and administrative functions are performed centrally and allocated to individual
15 utilities, and where plant accounting is maintained more on a group basis following
16 NARUC plant instructions.

17
18 **Q. HOW THEN DID YOU GO ABOUT COMPLETING THE SCHEDULES IN THE**
19 **RATE FILING PACKAGE?**

20 **A.** Because not all regulatory commissions have standardized rate filing packages (*e.g.*, the
21 Texas Railroad Commission), I have had occasion to develop a general set of schedules
22 that present and develop revenue requirements and rates based on accounting records
23 maintained using NARUC systems of accounts. Accordingly, I initially took the test year
24 financial and operating data for the Woodmark and Tall Timbers systems and entered this

1 information into this general rate format. This process organized the basic test year
2 information, which I then used to complete the Rate Filing Package schedules as best as I
3 could.

C. Financial and Operating Information

4 **Q. HOW ARE THE WOODMARK AND TALL TIMBERS SYSTEMS OPERATED?**

5 **A.** The day-to-day business operations of the Woodmark and Tall Timbers systems are
6 handled by employees that live and work in east Texas. These local operations are
7 supported by strategic management and administrative support services provided
8 centrally from Liberty, Liberty Utilities Canada, and APUC. These management and
9 administrative services can be provided more cost effectively and in a manner that
10 ensures consistent quality across all of Liberty's operating utilities by providing them on
11 a shared services basis. Through the combination of local and shared services operations,
12 customers receive high quality utility service from local employees and enjoy significant
13 benefits from centralized shared services.

14
15 **Q. PLEASE EXPLAIN WHY DAY-TO-DAY OPERATIONS ARE PROVIDED BY**
16 **EMPLOYEES LOCATED IN EAST TEXAS.**

17 **A.** Local decision-making and operational control is intended to achieve the highest level of
18 customer satisfaction and maintain strong regulatory compliance. The needs of customers
19 can best be met when the people making the decisions affecting the communities they
20 serve are located near those customers and are in regular, close contact with customers.
21 Each state has a President (*e.g.*, Matthew Garlick), who directs the utilities in that state,

1 with the state presidents having full local decision-making authority and responsibility,
2 including operational and financial authority.
3

4 **Q. PLEASE EXPLAIN WHY MANAGEMENT AND ADMINISTRATIVE**
5 **FUNCTIONS ARE PROVIDED BY CENTRALIZED SHARED SERVICES**
6 **GROUPS.**

7 **A.** Centralizing and sharing management and administrative function achieves economies of
8 scale that allow Liberty to provide quality service at a reasonable price. If Woodmark and
9 Tall Timbers were stand-alone utilities, they would have to hire and pay full time
10 engineering staff, human resources, safety and rates personnel, repair and maintenance
11 staff accounting and billing staff, and customer service and management, all of which
12 would have to be included in rates. Additionally, centralized and shared services allow
13 Woodmark and Tall Timbers access to personnel with experience and subject matter
14 expertise. For example, engineers are able to focus on capital improvements and
15 maintenance of the existing systems, billing clerks focus on getting bills out and
16 payments in, and customer service handles customer inquiries. This shared services
17 model provides these utilities with the right people with the right skills available to do the
18 job that otherwise would not be available or unduly expensive. By sharing costs and
19 expertise over multiple entities, the costs of providing quality service to the Woodmark
20 and Tall Timbers systems are reduced, which results in lower rates for customers.
21

22 **Q. WHERE ARE THE OPERATING AND CAPITAL COSTS ASSOCIATED WITH**
23 **THE WOODMARK AND TALL TIMBERS SYSTEMS INCURRED?**

1 **A.** As indicated earlier, all of the employees that, directly and indirectly, operate, manage,
2 and administer the day-to-day business of the Woodmark and Tall Timbers systems are
3 employed by LUSC. Meanwhile, the source of the capital for the utility plant investment
4 and operations of the Woodmark and Tall Timbers systems is Liberty Utilities Co.

5
6 **Q. HOW DOES LIBERTY KEEP TRACK OF THE COSTS INCURRED TO**
7 **OPERATE AND MANAGE THE WOODMARK AND TALL TIMBERS**
8 **SYSTEMS?**

9 **A.** All direct costs related to each of specific utility operations, including those of the
10 Woodmark and Tall Timbers systems, are charged directly to the applicable entity.
11 Common costs are pooled and allocated among entities, including Woodmark and Tall
12 Timbers, through a central cost allocation. A detailed description of the process by which
13 operating and capital costs attributable to specific operations are accounted-for is
14 contained in the testimony presented by William R. Killeen, Director, Regulatory
15 Operations for Liberty Utilities (Canada) Corp.

16
17 **Q. WHAT FINANCIAL RESULTS ARE PRODUCED UNDER THE CURRENT**
18 **RATES OF THE WOODMARK AND TALL TIMBERS SYSTEMS?**

19 **A.** Income statements and balance sheets for the Woodmark and Tall Timbers systems for
20 the year ended December 31, 2015 are attached as **BHF-3**. As shown there and
21 summarized below, while Tall Timbers earned a nominal return in 2015, Woodmark and
22 the combined systems incurred an operating loss during 2015 at their current rates. In
23 other words, the rates currently being charged by Woodmark and Tall Timbers are
24 insufficient to even cover O&M and A&G expenses, taxes other than income, and

depreciation expenses of the combined systems, let alone provide a fair return on investment:

Description	Amounts
Revenues:	
Sewer Service	\$ 2,709,954
Miscellaneous	86,668
Total Revenues	\$ 2,796,622
Expenses:	
O&M and A&G	\$ 1,981,213
Depreciation Expense	679,596
Taxes Other than Income	172,327
Total Expenses	2,833,137
Operating Income (Loss)	\$ (36,515)

Clearly, the rates for the Woodmark and Tall Timbers systems need to be increased.

D. Consolidated Tariff

Q. WHY ARE WOODMARK AND TALL TIMBERS PROPOSING TO CONSOLIDATE THEIR TARIFFS?

A. The certificates of convenience and necessity ("CCN") of the Woodmark and Tall Timbers systems are adjacent, with the natural slope of the ground sloping from the Tall Timbers system toward the Woodmark system. Some of the sewage on the Tall Timbers system is currently pumped to its wastewater treatment plant by several lift stations. If the operations of the Woodmark and Tall Timbers systems were combined, there may be a savings in pumping costs. Also, as will be discussed in more detail later, the Woodmark wastewater treatment plant needs to be expanded to meet TCEQ regulations. A larger, but proportionately less costly expansion, of the Woodmark plant would postpone the need to expand the Tall Timbers plant and result in savings to the customers of both systems. Finally, because Woodmark and Tall Timbers are adjacent, uniform rates on

1 both systems would avoid any impression of discrimination or unfairness between the
2 two systems.

3
4 **Q. DO THE WOODMARK AND TALL TIMBERS SYSTEMS QUALIFY TO HAVE**
5 **A CONSOLIDATED, SINGLE TARIFF?**

6 **A.** As described above, the Woodmark and Tall Timbers systems both have approximately
7 the same numbers of customers and provide only sewer service, with each having sewer
8 collection systems and a wastewater treatment plant. Because the Woodmark and Tall
9 Timbers systems are operated by the same employees and management applying the
10 same set of core values and operating procedures, the quality of service on both systems
11 is similar. Further, because the Woodmark and Tall Timbers systems are both operated
12 and managed by the same entities, whose costs are largely allocated between systems
13 based on the basis of the number of customers, the cost of service on the two systems are
14 substantially the same. The costs of service on the two systems would become even more
15 similar if the operations of the systems were combined to achieve the savings and
16 economies described above.

III. NARUC ACCOUNT RATE SCHEDULES

17 **Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?**

18 **A.** As discussed earlier, the schedules in the Rate Filing Package are essentially designed for
19 small, stand-alone water utilities, and not particularly well suited to sewer systems owned
20 and operated by a large, centralized corporate entity. Accordingly, in this section, I take
21 test-year financial and operating data for the Woodmark and Tall Timbers systems and

1 insert this information into a general rate format, which will subsequently be used as a
2 basis for completing the Rate Filing Package schedules.

3
4 **Q. ON WHAT GENERAL RATEMAKING PRINCIPLE ARE THE SCHEDULES IN**
5 **THE GENERAL FORMAT PREMISED?**

6 **A.** These general format schedules follow the conventional revenue requirements formula
7 of:

$$\begin{aligned} \text{Revenue Requirements} = & \text{Operation \& Maintenance Expenses} + \\ & \text{Administrative \& General Expenses} + \text{Taxes Other} \\ & \text{than Income} + \text{Depreciation Expense} + \text{Return} \\ & (\text{Rate of Return} \times \text{Rate Base}) + \text{Income Tax} \\ & \text{Expense} \end{aligned}$$

13 The resulting revenue requirements are then essentially divided by total annual billing
14 units to calculate rates.

15
16 **Q. WHAT RATE IS CALCULATED FOR THE WOODMARK AND TALL**
17 **TIMBERS SYSTEMS USING THE BASIC REVENUE REQUIREMENTS**
18 **FORMULA?**

19 **A.** As summarized on Schedule 1, the total cost of providing sewer service on the combined
20 Woodmark and Tall Timbers systems is \$3,806,415. These revenue requirements are
21 based on the adjusted results of operations during a 2015 test year, a rate base of
22 \$7,076,376, and a rate of return of 8.60%. After reducing the total cost of sewer service
23 by other miscellaneous income of \$86,668, the remaining \$3,719,747 net cost of service
24 is divided by test year billing units of 48,600 BERs to produce a standard monthly rate of
25 \$76.54.

A. O&M and A&G Expenses

1 **Q. WHAT O&M AND A&G EXPENSES DID THE WOORMARK AND TALL**
2 **TIMBERS SYSTEM INCUR DURING THE TEST YEAR?**

3 **A.** A breakdown by NARUC account of the O&M and A&G expenses incurred to operate,
4 manage, and administer the Woodmark and Tall Timbers systems during the calendar
5 year 2015 is presented in Schedule 2. The combined Woodmark and Tall Timbers
6 systems incurred total O&M and A&G expenses during the test year of \$1,036,336 and
7 \$944,877, respectively, for a total of \$1,981,213. Additional breakdowns of the amounts
8 in each NARUC account for each system are shown in the trial balances contained in my
9 workpapers, which are provided as **BHF-4**.

10

11 **Q. WERE ANY ADJUSTMENTS MADE TO TEST YEAR O&M AND A&G**
12 **EXPENSES?**

13 **A.** In a typical rate case, it is customary to make a number of adjustments for known and
14 measurable changes to historical test year amounts to reflect current levels of expenses,
15 such as wages and salaries at current staffing levels, and increased operating expenses,
16 such as those due to inflation. However, discussions with management indicate that most
17 of the O&M and A&G expenses incurred during the test year are fairly representative of
18 ongoing levels. Furthermore, raising current rates to the cost of providing service during
19 the test year is a considerable rate increase. For these reasons, only a couple of
20 adjustments are made to test year O&M and A&G expenses. The first is to remove from
21 NARUC Account 766 the \$6,670 amortization during the test year of expenses incurred
22 in Woodmark's last rate case. The second adjustment is to increase bad debts expense