

**FILED<sup>3</sup>**

**AUG 24 2018**

**Missouri Public  
Service Commission**

*Exhibit No.:*

*Issue(s):*

*Witness:*

*Sponsoring Party:*

*Type of Exhibit:*

*Case No.:*

*Date Testimony Prepared:*

109

*Rate of Return and  
Capital Structure*

*David Murray*

*MoPSC Staff*

*Substitute Rebuttal  
Testimony*

*WR-2018-0170*

*August 3, 2018*

**MISSOURI PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF DIVISION**

**FINANCIAL ANALYSIS DEPARTMENT**

**SUBSTITUTE REBUTTAL TESTIMONY**

**OF**

**DAVID MURRAY**

**LIBERTY UTILITIES (MISSOURI WATER) LLC,  
d/b/a LIBERTY UTILITIES**

**CASE NO. WR-2018-0170**

*Jefferson City, Missouri  
August 2018*

Exhibit No. 109

Date Filed Reporter fu

File No. WR-2018-0170

1                                    **SUBSTITUTE REBUTTAL TESTIMONY**

2                                    **OF**

3                                    **DAVID MURRAY**

4                                    **LIBERTY UTILITIES (MISSOURI WATER) LLC,**  
5                                    **d/b/a LIBERTY UTILITIES**

6                                    **CASE NO. WR-2018-0170**

7                    Q.     What is your name?

8                    A.     My name is David Murray.

9                    Q.     Are you the same David Murray who sponsored the Rate-of-Return (ROR)

10        used to establish the revenue requirement contained in Staff's Review and Audit of  
11        Liberty Utilities (Missouri Water) LLC, d/b/a Liberty Utilities (hereinafter referred to as  
12        "Liberty Water"), June 22, 2018 ("Staff Audit"), which was attached to Staff Witness Paul R.  
13        Harrison's Direct Testimony filed as of the same date?

14                  A.     Yes.

15                  Q.     What is the purpose of your Substitute Rebuttal Testimony?

16                  A.     I am responding to information attached to the Direct Testimony of  
17        Liberty Water's witness, Jill Schwartz. Ms. Schwartz's Direct Testimony indicates that  
18        Liberty Water is requesting the same ROR as its gas affiliate, Liberty Utilities (Midstates  
19        Natural Gas) Corp.'s ("Liberty Midstates"). As support for Liberty Water's requested ROR,  
20        Ms. Schwartz attached the Direct Testimony filed by Keith Magee ("Mr. Magee") in  
21        Liberty Midstates' recent rate case, Case No. GR-2018-0013.

22                  Q.     Do you agree with Ms. Schwartz's proposal to apply the ROR developed for  
23        Liberty Midstates for purposes of setting the ROR for Liberty Water?

Substitute Rebuttal Testimony of  
David Murray

1           A.     Yes. My recommended ROR in this case is exactly the same as my  
2 recommended ROR in the Liberty Midstates' gas rate case.

3           Q.     Does Ms. Schwartz explain why the same ROR requested by Liberty Midstates  
4 should be used for Liberty Water?

5           A.     No. On page 6 of her testimony, Ms. Schwartz simply states that they are  
6 recommending the same ROR as they recommended in the Liberty Midstates' gas rate case.

7           Q.     Although the general approach to setting Liberty Water's ROR is not at issue  
8 in this case, why did Staff consider it acceptable to recommend the same ROR for  
9 Liberty Water as Liberty Midstates?

10          A.     Both Liberty Midstates and Liberty Water are financed under the same  
11 corporate structure, with its debt financing being supplied by Liberty Utilities Company  
12 (LUCo) through Liberty Utilities Finance GP1. Additionally, the gas and water utility  
13 industries have similar business risk profiles.

14          Q.     Do Staff and the Company agree on the ROR figures to apply to  
15 Liberty Water?

16          A.     No. Staff and Liberty Midstates did not agree to specific parameters for  
17 purposes of a fair and reasonable ROR. Therefore, although Staff and Liberty Water  
18 recommend the same approach to setting Liberty Water's ROR as we used in the  
19 Liberty Midstates' rate case, we still have not resolved the specific parameters of return on  
20 equity (ROE) and capital structure to be used to set the allowed ROR.

21          Q.     What are the differences between Staff and Liberty Water's ROE and capital  
22 structure recommendations?

Substitute Rebuttal Testimony of  
David Murray

1           A.     Staff recommends a 10.00% ROE and a capital structure of 42.83% equity and  
2 57.17% debt for Liberty Water. Ms. Schwartz recommends a 10.25% ROE from a range of  
3 9.90% to 10.35%, and a capital structure of 53.00% equity and 47.00% debt.

4           Q.     Why do you disagree with the Company's capital structure recommendation?

5           A.     Because it assumes Liberty Water (matching Liberty Midstates) is capitalized  
6 with much more equity than what the parent company, Algonquin Power and Utilities  
7 Corporation ("APUC"), considers appropriate for its low-risk regulated utility assets.

8           I recommend that the Commission use LUCo's actual capital structure as of  
9 December 31, 2017. This choice is appropriate because LUCo's capital structure is used to  
10 finance LUCo's United States' regulated utility assets, including Liberty Midstates and  
11 Liberty Water. LUCo's capital structure contains 42.83% common equity.

12          Q.     Does Liberty Water issue any of its own debt independently?

13          A.     No.

14          Q.     How did the Commission rule on capital structure for Liberty Water's affiliate,  
15 Liberty Midstates, when it was undisputed that Liberty Midstates didn't issue its own debt?

16          A.     In Case No. GR-2014-0152, the Commission adopted LUCo's capital structure  
17 for setting rates for Liberty Midstates.

18          Q.     Why do you disagree with the Company's recommended ROE?

19          A.     The Company recommends an ROE of 10.25%, within a recommended range  
20 of 9.90% to 10.35%. My allowed ROE recommendation continues to be 10.00%, which  
21 allows a 20 basis point consideration over the Commission's recent authorized ROE of 9.8%  
22 for Spire Missouri because of Liberty Water's more leveraged capital structure.

Substitute Rebuttal Testimony of  
David Murray

1           Q.    What conclusion have you reached regarding the Company's recommended  
2 capital structure and ROE?

3           A.    The Company's capital structure recommendation is not consistent with  
4 LUCo's corporate strategy of using a higher proportion of debt to finance its regulated utility  
5 assets. The Company's ROE is not consistent with the Commission's most recent allowed  
6 ROE in the Spire Missouri rate cases. I appropriately considered these issues in my  
7 recommended ROR and therefore, the Commission should adopt by recommendations.

8           Q.    Does this conclude your substitute rebuttal testimony?

9           A.    Yes.

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In The Matter of the Application of Rate Increase for    )  
Liberty Utilities (Missouri Water), LLC d/b/a            )  
Liberty Utilities    )  
Case No. WR-2018-0170

**AFFIDAVIT OF DAVID MURRAY**

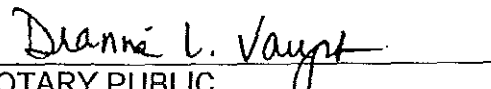
State of Missouri    )  
                                  ) ss  
County of Cole        )

**COMES NOW** David Murray, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Substitute Rebuttal Testimony*; and that the same is true and correct according to his best knowledge and belief. Further the Affiant sayeth not.

  
\_\_\_\_\_  
David Murray

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 3rd day of August, 2018.

  
\_\_\_\_\_  
NOTARY PUBLIC

DIANNA L. VAUGHT  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: June 28, 2019  
Commission Number: 15207377