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Accounting, Commercial Transaction  
Terms/Structure  
Witness: Todd Mooney  
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Company  
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Date Testimony Prepared: October 2017

**Direct Testimony**

**of**

**Todd Mooney**



**Empire District™**  
A Liberty Utilities Company

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1 **I. INTRODUCTION AND BACKGROUND**

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

3 A. My name is Todd Mooney. I am Vice President, Finance & Administration at Liberty  
4 Utilities (Canada) Corp., a subsidiary of Algonquin Power & Utilities Corp. (“APUC”),  
5 which is the ultimate corporate parent of The Empire District Electric Company  
6 (“Empire” or “Company”). My business address is 354 Davis Road, Oakville, ON L6J  
7 2X1.

8 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**  
9 **BACKGROUND.**

10 A. I hold a Master of Accounting from the University of Waterloo and am a Chartered  
11 Accountant. I have worked for APUC since January 2012 in a variety of capacities,  
12 including as Director of Finance and Administration and Vice President of Finance and  
13 Administration for Algonquin Power Co., APUC’s non-regulated generation subsidiary.  
14 In my current position as Vice President, Finance & Administration, I lead the Financial  
15 Reporting, Accounting & Tax function for APUC, representing a team of over 100  
16 professionals responsible for external reporting under US GAAP, consolidations,  
17 accounting standards, regulatory accounting, fixed asset accounting, accounts payable,  
18 general accounting and income tax planning and compliance. Prior to my work at APUC,  
19 I was employed as the Director of Corporate Finance at Psion PLC where I led Psion’s  
20 global accounting, tax, and treasury functions.

21 **Q. HAVE YOU PROVIDED TESTIMONY BEFORE ANY REGULATORY**  
22 **JURISDICTIONS?**

23 A. Yes, I have testified before the California Public Utilities Commission.

1 **Q. PLEASE DESCRIBE THE PURPOSE AND PROVIDE A SUMMARY OF YOUR**  
2 **TESTIMONY.**

3 A. My testimony explains how the Customer Savings Plan, which includes the acquisition of  
4 up to 800 MW of wind generation<sup>1</sup>, is dependent on the use of tax equity financing to  
5 deliver customer savings over 20 years with an estimated net present value of  
6 approximately \$325 million. I will explain how tax equity financing works, and why  
7 Empire must act now to take advantage of this opportunity. The Customer Savings Plan  
8 described in Company witness Swain’s testimony relies on using federal tax incentives  
9 that will be expiring over the next few years and can only be maximized if used in  
10 conjunction with a tax equity partner. Simply put, the Company cannot capture all of the  
11 \$325 million in savings for customers without using a tax equity partnership. This  
12 partnership will allow Empire to acquire up to 800 MW of wind generation for as little as  
13 40 cents on the dollar. My testimony will further explain the structure of the tax equity  
14 partnership contemplated, highlighting how it follows Internal Revenue Service  
15 guidelines and is the most common form of financing for wind and solar projects<sup>2</sup>. As  
16 well, I describe APUC’s substantial prior experience with tax equity financing to develop  
17 other energy projects, including both wind and solar photovoltaic projects, and how  
18 APUC’s experience will benefit Empire to carry out its Customer Savings Plan.

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<sup>1</sup> For purposes of my testimony, I use the term “Wind Project” to refer to the wind generation that Empire will be acquiring in conjunction with tax equity partner(s).

<sup>2</sup> Bloomberg New Energy Finance (“BNEF”) estimates that in 2016 over 55% of utility-scale wind and solar projects representing over 12 GW of capacity used tax equity financing. BNEF Tax Equity Update: 2017, page 10.

1 **II. THE WIND PROJECT TAX INCENTIVES**

2 **Q. HOW DOES UNITED STATES FEDERAL GOVERNMENT TAX POLICY**  
3 **PROVIDE BENEFITS TO WIND PROJECTS?**

4 A. In order to accelerate economic growth and business investment, the United States  
5 federal government provides tax relief for wind generation projects in the form of  
6 Production Tax Credits (“PTCs”)<sup>3</sup> and accelerated tax depreciation. Wind projects  
7 generate PTCs for the first ten years of commercial operations in the amount of \$24 per  
8 MW-hour, which is adjusted annually for inflation, as reported by the Internal Revenue  
9 Service (“IRS”).<sup>4</sup> The PTCs represent a dollar for dollar reduction of the tax liability of  
10 an owner of a qualifying wind project. For example, a 200 MW wind project that  
11 produced 900,000 MW-hours in a given year would generate PTCs that would be  
12 available for an owner of the project to reduce its tax liability by \$21.6 million (900,000  
13 MW-hours x \$24 per MW-hour).

14 **Q. ARE THERE ANY LIMITATIONS ON THE AVAILABILITY OR VALUE OF**  
15 **PTCS?**

16 A. Yes. The United States federal government has legislated the phase-out of PTCs over the  
17 next several years. In order to qualify for PTCs at their current value of \$24 per MW-  
18 hour, a project must begin construction before January 1, 2017. The beginning of  
19 construction is typically achieved by incurring at least 5% of a wind project’s costs

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<sup>3</sup> Wind projects can elect to receive PTCs or an Investment Tax Credit (ITC) equal to 30% of the eligible capital costs of the project, with PTCs being the most economical the majority of the time.

<sup>4</sup> See 26 U.S.C. ¶ 45 and IRS Notice 2017-33

1 before the applicable date.<sup>5</sup> By working with wind equipment manufacturers and project  
2 developers who have already met this test, Empire plans to qualify for PTCs at their  
3 maximum value of \$24 per MW-hour. Note, however, that there is a four year limit on  
4 the timeframe allowed for construction.<sup>6</sup>

5 Any projects that begin construction after December 31, 2016 qualify for a  
6 reduced amount of PTCs as follows:

7

Start of Construction	PTC%	PTC Value \$/MW-hour
Before 1/1/2017	100%	24.00
During 2017	80%	19.20
During 2018	60%	14.40
During 2019	40%	9.60
After 12/31 /2019	0%	0.00

8

9 Given that the percentage of the PTC that is available phases out completely for projects  
10 that start construction after December 31, 2019, a limited window of time exists in which  
11 to take advantage of this significant tax benefit.

12 **Q. PLEASE EXPLAIN THE ACCELERATED DEPRECIATION THAT IS**  
13 **AVAILABLE TO WIND PROJECTS.**

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<sup>5</sup> IRS has provided guidance on the determination of the beginning of construction in Internal Revenue Notice 2016-31. The beginning of construction can be established either by beginning physical work of a significant nature (section 2) or by incurring at least 5% of a wind project's costs (the "Five Percent Safe Harbor" provided in Internal Revenue Notice 2013-29).

<sup>6</sup> In order to qualify for PTCs, a wind project must have completed construction and been placed in service within four years of the date that construction commenced. Internal Revenue Notice 2016-31, section 3

1 A. In addition to qualifying for the tax benefits associated with the PTCs, wind projects also  
 2 qualify for accelerated tax depreciation using the five-year Modified Accelerated Cost  
 3 Recovery System (“MACRS”) schedule.<sup>7</sup> Depreciation is a deductible expense that  
 4 reduces taxable income, decreasing income tax payable. Depreciating the assets of a  
 5 wind project over a five year timeframe (compared to the approximately 30 year life of  
 6 the project) creates income tax losses for the wind project in its first five years. These  
 7 losses can also be used by its owner(s) to offset other sources of taxable income, realizing  
 8 significant income tax savings.

9 The combined value of PTCs and accelerated depreciation to a wind project is  
 10 reflected in the following table:

Tax Credits	Accelerated Depreciation	When Combined
<p data-bbox="342 980 613 1035"><b>\$ for \$ reduction of tax liability</b></p> <ul style="list-style-type: none"> <li data-bbox="302 1056 623 1098">▶ Wind generates production tax credits*</li> <li data-bbox="321 1104 602 1159">▪ <i>Wind</i>: \$24 per MWh generated for 10 years</li> </ul>	<p data-bbox="716 980 1010 1035"><b>Shelter for otherwise currently taxable income</b></p> <ul style="list-style-type: none"> <li data-bbox="691 1062 985 1140">▶ All renewable energy generating equipment is depreciable</li> <li data-bbox="691 1148 1010 1203">▶ Using 5-year MACRS (double declining balance)</li> </ul>	<p data-bbox="1101 980 1395 1035"><b>Est. NPV of tax incentives (as a % of project costs)</b></p> <ul style="list-style-type: none"> <li data-bbox="1076 1062 1308 1087">▶ Wind = 50% - 65%</li> <li data-bbox="1101 1096 1419 1176">▪ <i>E.g.</i> for a \$100M project, the tax incentives are worth about \$50M to \$65M</li> </ul>

11  
 12 When combined, the net present value of the federal tax benefits can range from 50% to  
 13 60% of the total capital cost of a wind project.

14 **Q. WHY IS EMPIRE PROPOSING A TAX EQUITY STRUCTURE INSTEAD OF A**  
 15 **MORE TRADITIONAL STRUCTURE IN WHICH EMPIRE IS THE SOLE**  
 16 **OWNER OF THE WIND PROJECT FROM THE OUTSET AND FINANCES**

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<sup>7</sup> See 26 U.S.C. § 168.

1           **THE PROJECT’S COSTS WITH CONVENTIONAL UTILITY DEBT AND**  
2           **EQUITY FINANCING?**

3    A.    Empire is proposing a tax equity structure in order to maximize customer savings by  
4           utilizing the value of the available tax incentives. Such a structure enables Empire to  
5           reduce the capital investment it needs to construct the Wind Project by an amount that  
6           reflects the ability of a Tax Equity Partner to utilize the tax savings provided by both  
7           PTCs and MACRS in the near term. This reduced capital investment allows customers to  
8           realize the benefits of the full 10 years of PTCs and MACRS from day 1 through a  
9           reduced rate base.       Given the time value of money, using a tax equity structure (as  
10          compared with direct ownership of the Wind Project by Empire without a partner) would  
11          result in between \$4 and \$7 per MW hour more savings for Empire customers.

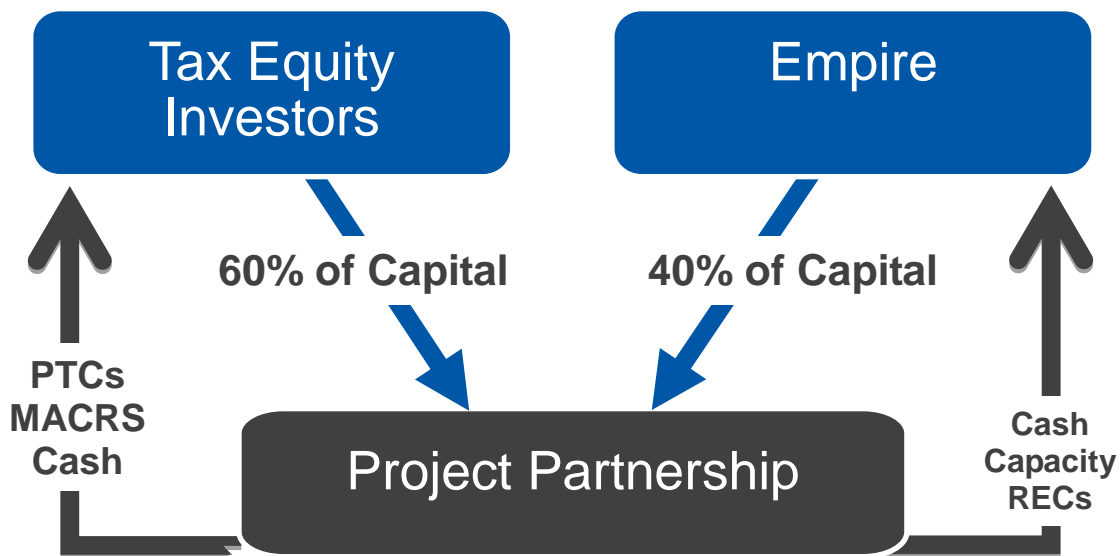
12 **III.    THE TAX EQUITY STRUCTURE**

13 **Q.    WHAT IS A TAX EQUITY STRUCTURE?**

14    A.    A tax equity structure is a method of financing renewable energy projects (including  
15           wind projects and solar generation projects) to optimize the value in the near term of  
16           available tax incentives. In a tax equity structure, large, tax-paying corporations  
17           (typically large banks and insurance companies) become equity partners in a wind project  
18           (“Tax Equity Partners”). In exchange for providing a significant portion of the capital  
19           investment of the partnership, which is used to develop the wind generation facility, a  
20           Tax Equity Partner receives the tax incentives (PTCs and MACRS discussed earlier)  
21           generated from the wind project during the first 10 years of the project’s life. In addition,  
22           the Tax Equity Partner receives cash distributions in the latter years of the project  
23           (typically in years 6 to 10) as part of its return on and recovery of the capital it invested.



1 On or before the end of the first ten years when the Tax Equity Partner has received its  
2 return on and recovery of its investment, the ownership structure “flips” and the majority  
3 of the ongoing financial benefits of the wind project transfers over to the non-tax equity  
4 partner, with the Tax Equity Partner retaining a nominal residual stake in the partnership  
5 (typically 5%). At this point, the non-tax equity investor also has an option to purchase  
6 the tax equity investor's interest in the partnership. The following visual depicts a  
7 commonly used tax equity structure:



8 Tax equity structures have been used to finance over 62 GW of wind and solar projects in  
9 the United States over the past decade.<sup>8</sup> These structures are accepted by the IRS as long

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<sup>8</sup> BNEF Tax Equity Update: 2017, Tax Equity Demand Forecast dataset.

1 as they conform to certain well-established guidelines and jurisprudence, including  
2 Revenue Procedure 2007-65.

3 **Q. CAN YOU GIVE AN EXAMPLE OF HOW THIS WOULD WORK IN THE CASE**  
4 **OF EMPIRE’S PROPOSAL?**

5 A. Yes. Empire would be required to contribute less capital to the Wind Project under this  
6 model. Assuming a \$100 capital cost of the Wind Project and a 60 percent capital  
7 contribution by the Tax Equity Partner to the Wind Project, Empire would contribute \$40  
8 in capital to the Wind Project. This \$40 would be a capital addition that would be  
9 included in Empire’s rate base, and as Company witness Krygier explains, recovered in  
10 Empire’s rates. This lower capital cost reduces the costs of the Wind Project  
11 significantly for Empire’s customers throughout the 30-year anticipated life of the Wind  
12 Project.

13 **Q. PLEASE EXPLAIN THE BASIC COMMERCIAL TERMS ASSOCIATED WITH**  
14 **THE TAX EQUITY PARTNER’S INVESTMENT IN THE WIND PROJECT.**

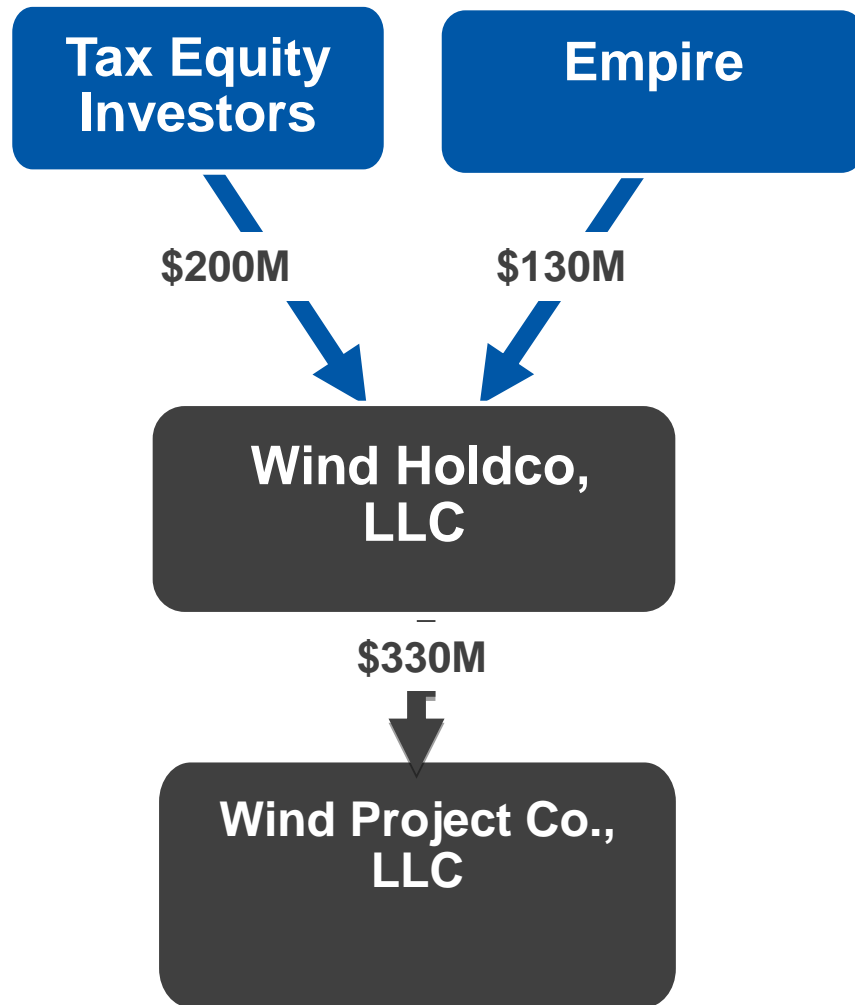
15 A. The tax equity structure requires the creation of a separate Wind Project company to own  
16 and operate each Wind Project. Thus, Empire and the Tax Equity Partner will create a  
17 new legal entity in the form of a limited liability company that will own each Wind  
18 Project (the “Wind Project Co.”). Each Wind Project Co. will be wholly owned by a  
19 holding company, which in turn will be wholly owned by Empire and the Tax Equity  
20 Partner.

1           The Tax Equity Partner will contribute capital to the Wind Project Co. (typically  
2           50 to 60 percent of the capital cost of the Wind Project), and, in return for its investment  
3           in the Wind Project Co., the Tax Equity Partner<sup>9</sup> will obtain an ownership interest in the  
4           Wind Project Co. Empire will also invest capital in the Wind Project Co., which  
5           constitutes the investment for which Empire will seek rate recovery, as described in Mr.  
6           Krygier’s testimony. An example of the funding of the Wind Project Co. is depicted  
7           below:

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<sup>9</sup> It should be noted that it is possible that a different Tax Equity Partner will participate in each Wind Project proposed by Empire.

Example 200 MW, \$330 million Wind Project  
Initial Funding



- 1 Q. WHAT ARE THE KEY TERMS FOR ANY TAX EQUITY PARTNER SEEKING
- 2 TO BECOME AN INVESTOR IN THE WIND PROJECTS?
- 3 A. The table below summarizes the key terms of the tax equity partnership.

	Sponsor (Empire)	Tax Equity Partner(s)
<b>Initial Capital Contribution</b>	35% - 50%	45% - 60% <sup>10</sup>
<b>Expected Return</b>	As determined in future rate cases	6.75% - 7.75%
<b>Partnership taxable income allocations</b>		
<b>Years 1 to 10 (flip date<sup>11</sup>)</b>	1%	99%
<b>Thereafter</b>	90% - 95%	5% - 10%
<b>PTC Allocation</b>		
<b>Years 1 to 10</b>	1%	99%
<b>Partnership cash distributions</b>		
<b>Years 1 to 5</b>	100%	0%
<b>Years 6 to 10 (flip date)</b>	75% to 50%	25% to 50%
<b>Thereafter</b>	90% - 95%	5% - 10%
<b>Contingent contributions</b>		
<b>Years 1 to 10</b>	None	0% to 2% of Wind Project capital cost per year. Based on actual production in excess of a threshold: <ul style="list-style-type: none"> <li>• (Actual MW-hr produced less 75% of P50 MW-hr) multiplied by PTC rate</li> </ul>
<b>Purchase Option</b>	After the flip date, the Class B Members will have an option to purchase all of the Class A Interests, for 100% of their fair market value	None
<b>Creditworthiness</b>	N/A	A-/A3 or better

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<sup>10</sup> The initial capital contribution by the Tax Equity Partner(s) depends on the estimated production of the Wind Project (and hence the value of PTCs generated), the federal income tax rate, the total capital costs of the facility, the Tax Equity Partner(s) expected return, the amount of contingent contributions planned and the amount of cash distributions to the Tax Equity Partner(s) in years 6 to 10.

<sup>11</sup> The “Flip Date” is the date at which the Tax Equity Partner(s) has achieved its expected return, scheduled to be approximately 10 years from the commencement of commercial operations.

1 **Q. WOULD EMPIRE AGREE TO ENTER INTO A TAX EQUITY PARTNERSHIP**  
2 **ONLY UNDER THE TERMS SPECIFIED ABOVE?**

3 A. Yes.

4 **Q. HOW DOES THE TAX EQUITY PARTNER GET REPAID FOR ITS CAPITAL**  
5 **INVESTMENT IN THE WIND PROJECT?**

6 A. For the first five years of operation of the Wind Project, the Tax Equity Partner receives  
7 the tax benefits from the Wind Projects, including PTCs and accelerated depreciation as  
8 discussed above. In years 6-10, the Tax Equity Partner continues to receive those tax  
9 benefits, but also receives a percentage of the net income from the Wind Project Co.  
10 (The income of the Wind Project Co. is derived from SPP revenues and the hedging  
11 agreement described below; net income is revenue less all expenses of the Wind Project  
12 Co.) At approximately the end of the first 10 years (“Tax Equity Period”), this structure  
13 is designed so Empire can buy out the Tax Equity Partner thus acquiring sole ownership  
14 of the Wind Project.

15 **Q. WHO WILL OPERATE AND MAINTAIN THE WIND PROJECT?**

16 A. In short, Empire itself or Empire through an agreement with the manufacturer. There will  
17 be a number of agreements governing the operation of the Wind Projects, which are  
18 described in Company witness Mertens’ testimony.

19 **Q. DESCRIBE THE FINANCIAL TRANSACTIONS OF THE WIND PROJECT.**

20 A. The Wind Project Co. will sell all of the output of the wind facility to the Southwest  
21 Power Pool Integrated Marketplace (“SPP”) and will receive all of the revenues for such  
22 sales. In addition, Empire and the Wind Project Co. will execute a ten-year fixed price  
23 hedging agreement. For the energy generated by the Wind Project, Empire will pay the

1 Wind Project Co. a fixed price and will receive (in the form of a fixed for floating swap)  
2 the floating SPP locational marginal price at the SPP node. Essentially, this means that  
3 Empire will pay to or receive from the Wind Project Co. the difference between the  
4 market price and a fixed “hedge” price during the first ten years of the Wind Project’s  
5 operation. Empire will also receive all Renewable Energy Credits from the Wind Project  
6 Co. under this hedging agreement.

7 The above sales to SPP and hedge settlements with Empire will constitute the  
8 revenue of the Wind Project Co. The agreement between Empire and the Tax Equity  
9 Partner (“Tax Equity Partnership Agreement”) will provide that the Wind Project Co.  
10 will use these revenues to pay Operations and Maintenance (“O&M”) expenses,  
11 Administrative and General (“A&G”) expenses, and property taxes (collectively, “Wind  
12 Project Operating Expenses”).<sup>12</sup> In the first five years of the project, any net cash flows  
13 of the Wind Project Co. that remain after payment of Wind Project Operating Expenses  
14 will be paid back to Empire in the form of a cash distribution. In years 6 through 10 of  
15 the project, any net cash flows of the Wind Project Co. that remain after payment of  
16 Wind Project Operating Expenses will be paid to both the Tax Equity Partner and Empire  
17 in an agreed upon percentage. The Tax Equity Partner’s share of the cash distribution  
18 during the latter half of the hedging agreement depends on the how many tax benefits  
19 have been created during the first five years of the wind project’s operation. The  
20 transactions described above are depicted in the following chart:

21 \_\_\_\_\_

<sup>12</sup> Since Empire itself will be performing certain O&M services for the Wind Project Co., some of the Wind Project Operating Expenses will be paid back to Empire for the performance of those services.

1 Illustration of Transactions

Phase	Timing	Wind Project	Empire	Tax Equity Partners
0	Start		<ul style="list-style-type: none"> <li>Contributes ~40% of capital</li> </ul>	<ul style="list-style-type: none"> <li>Contribute ~60% of capital</li> </ul>
1	Years 1 – 5	<ul style="list-style-type: none"> <li>Sells energy to SPP</li> <li>Settles price hedge with Empire</li> <li>Pays O&amp;M, A&amp;G</li> <li>Distributes net cash</li> </ul>	<ul style="list-style-type: none"> <li>Buys energy from SPP</li> <li>Settles price hedge with Project</li> <li>Receives 100% of net cash</li> <li>Receives 1% of PTCs and tax losses</li> </ul>	<ul style="list-style-type: none"> <li>Receive 0% of net cash</li> <li>Receive 99% of PTCs and tax losses</li> </ul>
2	Years 6 – 10	<ul style="list-style-type: none"> <li>Sells energy to SPP</li> <li>Settles price hedge with Empire</li> <li>Pays O&amp;M, A&amp;G</li> <li>Distributes net cash</li> </ul>	<ul style="list-style-type: none"> <li>Buys energy from SPP</li> <li>Settles price hedge with Project</li> <li>Receives 50% - 75% of cash</li> <li>Receives 1% of PTCs and tax losses/income</li> </ul>	<ul style="list-style-type: none"> <li>Receive 25% - 50% of net cash</li> <li>Receive 99% of PTCs and tax losses/income</li> </ul>
3	After	<ul style="list-style-type: none"> <li>Sells energy to SPP</li> <li>Pays O&amp;M, A&amp;G</li> <li>Distributes net cash</li> </ul>	<ul style="list-style-type: none"> <li>Buys energy from SPP</li> <li>Empire exercises option to purchase Tax Equity Partners' 5% stake at FMV</li> </ul>	<ul style="list-style-type: none"> <li>5% residual stake sold to Empire</li> </ul>

2 **Q. PLEASE EXPLAIN THE CHANGES IN THE OWNERSHIP STRUCTURE AND**  
3 **COMMERCIAL ARRANGEMENTS AFTER THE FIRST TEN-YEAR PERIOD.**

4 A. After this initial ten year period, the ownership of the Wind Project “flips”, with the Tax  
5 Equity Partner’s ownership interest reducing to 5% and Empire’s ownership interest  
6 increasing to 95%. At this point, Empire has the option to purchase the Tax Equity  
7 Partner’s residual 5% ownership interest. The purchase price (i.e., “Buy-Out Payment”)  
8 for the Tax Equity Partner’s residual ownership interest in the Wind Project (typically  
9 five percent) would be calculated based on a corresponding percentage of the Wind  
10 Project’s “fair market value.” Based on the Wind Project’s planned capacity of 800 MW,



1 Empire estimates that the Buy-Out Payment for all Wind Projects would be  
2 approximately \$40 to \$60 million. Upon exercising this right and paying the Buy-Out  
3 Payment, Empire would own 100 percent of the Wind Project Co. and would no longer  
4 have any obligation to the Tax Equity Partner.

5 **Q. EXPLAIN EMPIRE’S AFFILIATES’ EXPERIENCE USING TAX EQUITY**  
6 **STRUCTURES TO FINANCE RENEWABLE ENERGY PROJECTS.**

7 A. Since its acquisition, Empire has become part of the APUC family of businesses. Other  
8 APUC subsidiaries have substantial experience with tax equity arrangements in the  
9 context of the financing of renewable energy projects in the United States. To date,  
10 Liberty Power, a subsidiary of APUC, has developed and financed 750 megawatts  
11 (“MW”) of wind projects and 105 MW of solar projects using tax equity financing, which  
12 significantly reduced the overall project costs. In addition, Liberty Utilities (CalPeco  
13 Electric) LLC, a regulated electric distribution company serving Lake Tahoe, California  
14 and another APUC subsidiary, recently used tax equity financing to construct the 50 MW  
15 Luning solar facility. Approved by the California Public Utilities Commission on  
16 January 14, 2016, this project achieved commercial operation in the first quarter of 2017.  
17 Tax equity partners provided significant capital investment for the Luning solar facility  
18 (with Liberty CalPeco providing the balance) and received the tax benefits of that solar  
19 facility. The lower capital investment required by Liberty Utilities (CalPeco Electric)  
20 LLC resulted in savings to customers of \$5 per MW-hour compared to existing energy  
21 supply. Liberty CalPeco has proposed an additional 10 MW of tax equity financed solar  
22 generation for approval by the California Public Utilities Commission. A settlement

1 agreement on this project (Project Turquoise) is pending Commission approval at this  
2 time.

3 This lower cost power is the direct result of the use of a similar tax equity  
4 structure, as proposed here. These experiences have provided APUC with existing  
5 commercial relationships with potential tax equity partners which are generally large  
6 national and international financial institutions. Several have expressed interest in  
7 partnering with Empire with respect to the Wind Project.

8 **Q. HOW WILL THE INVESTMENT IN THE WIND PROJECT AND THE TAX**  
9 **EQUITY STRUCTURE BE ACCOUNTED FOR IN THE FINANCIAL**  
10 **STATEMENTS THAT EMPIRE FILES WITH REGULATORY AUTHORITIES?**

11 A. The financial statements that Empire provides to regulatory authorities represent the non-  
12 consolidated financial statements of Empire prepared in accordance with accounting  
13 principles generally accepted in the United States (“US GAAP”) and FERC accounting  
14 rules. The investment in the Wind Project will create a difference between US GAAP  
15 (which uses the equity method of accounting for investments) and the regulatory  
16 approach used to track Empire’s revenue requirement. While based on the same starting  
17 value, for revenue requirement purposes Empire’s contribution will be depreciated over  
18 the useful life of the Wind Project.

19 The Wind Project will have its own set of books in which all its activities will be  
20 recorded (capital expenditures, revenues from selling energy to SPP, operating expenses,  
21 general and administrative expenses, etc.). The table below summarizes the main  
22 transactions and their impact on Wind Project’s financial statements, on Empire’s  
23 financial statements and on Empire’s customers.

	Empire		Impact to Empire's Customers	FERC Accounts Used By Empire
	Wind Project	(non-consolidated)		
<b>Investment</b>	Full cost of plant	Net investment in Wind Project (excluding Tax Equity contribution)	Net investment in Wind Project (excluding Tax Equity contribution)	101- Plant in Service
<b>1) Net Revenue (Revenue less power cost)</b>		Approved regulated distribution revenue	Return on and of investment over life of Wind Project, recovery of costs identified below	440-448 Sales of Electricity
	Energy revenue from SPP	Cost of energy from SPP	None	555-Purchased Power
	Net revenue/cost of hedge	Net cost/revenue of hedge	None	555-Purchased Power
<b>2) Operating &amp; Maintenance transactions</b>	Energy services agreement cost	Energy services agreement revenue	None	548-554 - Other Power Generation Operations and Maintenance
	3 <sup>rd</sup> Party O&M agreement cost		3 <sup>rd</sup> Party O&M agreement cost	548-554 - Other Power Generation Operations and Maintenance
	Balance of Plant (BOP) service agreement cost	BOP service agreement revenue	None	548-554 - Other Power Generation Operations and Maintenance
		Labor & materials for BOP maintenance	Labor & materials for BOP maintenance	548-554 - Other Power Generation Operations and Maintenance
<b>3) Administrative &amp; General transactions</b>	Asset management agreement cost	Asset management agreement revenue	None	548-554 - Other Power Generation Operations and Maintenance
	3 <sup>rd</sup> Party A&G (e.g. property taxes, land leases, insurance)		3 <sup>rd</sup> Party A&G (e.g. property taxes, land leases, insurance)	408 - Other Taxes 920-935 - Administrative and general operations and maintenance
		Labor for asset management	Labor for asset management	548-554 - Other Power Generation Operations and Maintenance
<b>4) Net Operating Cash Flow</b>	4 = 1 – 2 – 3	4 = 1 – 2 – 3	4 = 1 – 2 – 3	
<b>5) Distributions / Contributions to Tax Equity</b>	Distributions (contributions) to (from) Tax Equity		Distributions (contributions) to (from) Tax Equity	
<b>6) Cash available for Empire</b>	6 = 4 – 5			
<b>7) Distributions to Empire</b>	7 = 6	Distributions from Wind Project	<u>None</u> <sup>[1]</sup>	

- 1
- 2 <sup>1</sup>Distributions from the Wind Project to Empire offset Empire's cost of energy from SPP, cost/revenue of hedge,
- 3 energy services revenue, BOP service revenue and asset management revenue, leaving no net impact
- 4

1 **IV. SUMMARY**

2 **Q. HOW DO CUSTOMERS BENEFIT FROM THIS OWNERSHIP STRUCTURE?**

3 A. Through the use of a tax equity ownership structure, Empire has a time-limited  
4 opportunity to bring approximately \$325 million of savings to customers based on unique  
5 market conditions and federal tax policy. Customers benefit from this ownership  
6 structure since the efficient monetization of tax attributes reduces the overall cost of  
7 energy procured on their behalf by Empire. In addition, direct utility ownership in the  
8 partnership provides strong benefits to the customer based on long-term ownership of the  
9 wind project and due to a regulated utility's lower cost of capital and prudent capital  
10 structure.


11 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

12 A. Yes, it does.

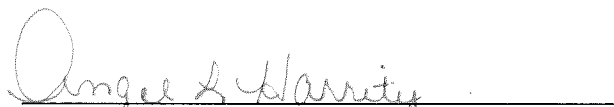
AFFIDAVIT OF TODD MOONEY

STATE OF MISSOURI     )  
  ) ss  
COUNTY OF JACKSON    )

On the 20<sup>th</sup> day of October, 2017, before me appeared Todd Mooney, to me personally known, who, being by me first duly sworn, states that he is Vice President of Finance and Administration at Liberty Utilities (Canada) Corp, and acknowledged that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.

  
\_\_\_\_\_  
Todd Mooney

Subscribed and sworn to before me this 20<sup>th</sup> day of October, 2017

  
\_\_\_\_\_  
Notary Public

My commission expires: Feb. 16, 2020

