

Exhibit No.: _____
Issue: Algonquin Financial and
Operational Qualifications
Witness: Michael D. Weber, P.E.
Type of Exhibit: Direct Sponsoring
Party: Algonquin Water Resources of
Missouri, LLC
Case No.: WO-2005-0206
Date Testimony Prepared: May 13, 2005

MISSOURI PUBLIC SERVICE COMMISSION

ALGONQUIN WATER RESOURCES OF MISSOURI, LLC

CASE NO. WO-2005-0206

DIRECT TESTIMONY OF
MICHAEL D. WEBER, P.E.

Jefferson City, Missouri

May 13, 2005

1 WITNESS INTRODUCTION

2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS**
3 **ADDRESS?**

4 A. My name is Michael D. Weber, P.E. and my business address is 111 W. Wigwam
5 Boulevard, Suite B, Litchfield Park, AZ 85340.

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

7 A. I am employed by Algonquin Water Services as Vice President and General
8 Manager.

9 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND THE**
10 **NATURE OF YOUR DUTIES.**

11 A. Marked as Schedule MDW-1 and attached hereto is a description of my education,
12 professional experience and training.

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
14 **PROCEEDING?**

15 A. The purpose of my testimony is to support the Joint Application in this matter.

16 ALGONQUIN

17 **Q. PLEASE DESCRIBE ALGONQUIN WATER RESOURCES OF**
18 **MISSOURI, LLC.**

19 A. Algonquin Water Resources of Missouri, LLC (Algonquin) is a Missouri limited
20 liability company. The sole member of Algonquin Water Resources of Missouri,
21 LLC is Algonquin Water Resources of America (AWRA), a Delaware
22 Corporation. AWRA is an indirect wholly owned subsidiary of the publicly
23 traded entity Algonquin Power Income Fund ticker symbol APF.UN on the

1 Toronto Stock Exchange. This fund was established to own energy and
2 infrastructure related assets in the United States and Canada. Since its inception in
3 1997, the Algonquin Power Income Fund has grown to hold approximately \$800
4 million in such assets.

5 **Q. DOES AWRA HAVE ANY EXPERIENCE PROVIDING WATER AND**
6 **SEWER SERVICES IN THE UNITED STATES?**

7 A. Yes. AWRA currently serves approximately 50,000 water and wastewater
8 connections in southern parts of the United States through its numerous subsidiary
9 companies such as the Litchfield Park Service Company (LPSCO) of Phoenix,
10 AZ, Bella Vista Water Company of Sierra Vista, AZ, Black Mountain Sewer
11 Company of Carefree, AZ, Gold Canyon Sewer Company of Pinal County, AZ,
12 and Tall Timbers Utility Company and Woodmark Utilities Inc. of Tyler, TX..

13 **Q. WHAT TRANSACTION IS THE SUBJECT OF THIS CASE?**

14 A. Silverleaf Resorts, Inc. (Silverleaf) and Algonquin have entered into an Asset
15 Purchase Agreement dated August 29, 2004 (Agreement). Pursuant to the
16 Agreement, Algonquin proposes to obtain and acquire certain assets of Silverleaf.
17 These assets include the Silverleaf water and sewer utility assets located in the
18 State of Missouri.

19 **FINANCIAL AND OPERATIONAL QUALIFICATIONS**

20 **Q. WHY IS ALGONQUIN PURSUING THIS TRANSACTION?**

21 A. Algonquin seeks to expand its water and sewer operations to increase its scope of
22 services and to further enhance unit-holder value.

23 **Q. HOW WILL ALGONQUIN PAY FOR THIS TRANSACTION?**

1 A. This transaction will be paid for with cash from company equity.

2 **Q. PLEASE DESCRIBE ALGONQUIN’S FINANCIAL CAPABILITIES TO**
3 **CLOSE ON THIS TRANSACTION AND TO SUPPORT ITS OPERATION**
4 **OF THE SYSTEMS?**

5 A. Algonquin’s member, AWRA, has \$824 million in assets including \$495 million
6 in equity.

7 **Q. PLEASE DESCRIBE ALGONQUIN’S OPERATIONAL CAPABILITIES**
8 **TO EFFECTIVELY OPERATE THE SYSTEMS.**

9 A. Algonquin’s parent has a robust team of utility professionals who would manage
10 and operate the systems. These resources include in-house engineering,
11 development services, accounting, environmental/safety compliance, customer
12 service, and operations work groups.

13 **Q. WILL THE FINANCIAL STRENGTH AND SIZE OF ALGONQUIN’S**
14 **CORPORATE STRUCTURE BENEFIT SILVERLEAF’S CUSTOMERS?**

15 A. Yes. Silverleaf’s customers will benefit from having available Algonquin’s
16 financial capability, its human resources, and further benefits from an
17 organization that specializes in utility ownership, operation, and management.

18 **Q. WHAT RATES, RULES AND REGULATIONS DOES ALGONQUIN**
19 **PROPOSE TO USE FOR THE SYSTEMS?**

20 A. Algonquin will continue to utilize the rates, rules and regulations and other tariffs
21 currently on file with and approved by the Commission for Silverleaf’s operations
22 and will continue to operate under those rates, rules and regulations until such
23 time as they may be modified by the Commission.

1 **Q. WILL THE EXISTING SILVERLEAF CUSTOMERS NOTICE ANY**
2 **CHANGES AFTER THE PROPOSED ACQUISITION?**

3 A. Customers may notice a change in signage denoting Algonquin ownership of
4 facilities and a change in logos on bills, informational mailings, notifications,
5 service vehicles, and employee uniforms.

6 **Q. WILL THE SILVERLEAF MISSOURI SYSTEMS BENEFIT IN ANY**
7 **WAY FROM ASSOCIATION WITH ALGONQUIN'S EXISTING**
8 **OPERATIONS?**

9 A. Yes. The Missouri systems will have the benefit of all technical, managerial and
10 financial resources of Algonquin.

11 **Q. WILL THE TRANSACTION RESULT IN ANY LOSS OF JOBS ON THE**
12 **SYSTEMS?**

13 A. No. It has been Algonquin's past practices to retain all staff following an
14 acquisition.

15 **ACQUISITION ADJUSTMENT**

16 **Q. HOW WOULD YOU DEFINE THE TERM ACQUISITION**
17 **ADJUSTMENT?**

18 A. An acquisition adjustment is the difference between the cost of acquiring an
19 operating unit or system and the depreciated original cost of the acquired property.

20 **Q. WHAT IS AN ACQUISITION PREMIUM?**

21 A. That is generally the term used to refer to an acquisition adjustment when the
22 purchase price exceeds the depreciated original cost of the acquired property.

1 **Q. WHAT IS THE PURCHASE PRICE TO BE PAID BY ALGONQUIN TO**
2 **SILVERLEAF?**

3 A. The total purchase price is \$13.2 million. The Agreement contains a provision
4 allocating \$3,800,000 of this amount to the Missouri assets.

5 **Q. HOW WAS THE PURCHASE PRICE DERIVED?**

6 A. The parties to the transaction settled on a purchase price after arms length
7 negotiations between Silverleaf and Algonquin.

8 **Q. WHAT IS THE BOOK VALUE OF THE MISSOURI ASSETS TO BE**
9 **ACQUIRED BY ALGONQUIN?**

10 A. It is unclear. These systems appear to have never been through a formal rate case
11 and rates have not changed for the systems in any respect since 1998.

12 **Q. IS ALGONQUIN AWARE THAT STAFF ALLEGES THAT AN**
13 **ACQUISITION ADJUSTMENT WILL EXIST?**

14 A. Yes. I, as well as other employees of Algonquin, have reviewed the Staff's
15 Recommendation in this case and are aware of its positions.

16 **Q. IS ALGONQUIN SEEKING AN ORDER IN THIS CASE CONCERNING**
17 **ANY ACQUISITION ADJUSTMENT THAT MAY RESULT?**

18 A. No. Algonquin is not asking the Commission to address acquisition adjustment in
19 this case. Algonquin is proposing to leave this as a possible issue for a future rate
20 case. It is Algonquin's position that the variety of issues raised by the Staff that
21 may impact the calculation of acquisition premium are most appropriately dealt
22 with in a rate case.

1 **Q. DOES ALGONQUIN UNDERSTAND THAT IF AN ACQUISITION**
2 **PREMIUM IS ULTIMATELY DETERMINED TO EXIST THAT IT IS A**
3 **POSSIBILITY THAT ALGONQUIN WILL NOT RECOVER ANY OF**
4 **THE PREMIUM IN RATES?**

5 A. Yes.

6 **Q. WHAT IMPACT WOULD SUCH A RESULT HAVE ON ALGONQUIN'S**
7 **ABILITY TO PROVIDE SAFE AND ADEQUATE SERVICE?**

8 A. If the Commission finds an acquisition premium to exist and Algonquin does not
9 recover any of the premium, Algonquin has the financial resources to allow it to
10 continue to operate the Missouri assets and provide safe and adequate service.

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

12 A. Yes.

Name: Michael D. Weber, P.E.

Title: Vice President & General Manager

Immediate Supervisor: Robert Dodds, Ph.D., P. Eng.

I. Primary Job Responsibilities:

Responsible for all aspects of Infrastructure Division's multi-state performance and growth, long range planning, developer negotiations, and regulatory and environmental compliance.

II. Education, Certifications, Awards, Recognitions:

- Bachelor of Science, Civil Engineering, Arizona State University
- Master of Business Administration, Arizona State University
- Registered Professional Civil Engineer, Arizona (No. 27314)
- Grade IV (Highest Grade) ADEQ Operator Certifications in Water Treatment, Water Distribution, Wastewater Treatment, & Wastewater Collection
- Board of Directors, Arizona Water Utilities Association
- Member, American Society of Civil Engineers
- Member, American Water Works Association
- Member, Arizona Water & Pollution Control Association
- Member, Water Environment Federation

III. Publications/Presentations:

- "Innovative Arsenic Treatment Strategies For Waters that Have High Concentrations of Interfering Ions", Poster Presentation, 2003 Arizona Water and Pollution Control Association Annual Conference, Mesa, Arizona.
- "Water on the Web: Customer Information to Promote Conservation", Water Environment Federation Annual Conference, March 2002, Charlotte, North Carolina.
- "Effective Odor Control & Responsive Community Relations in the Sonoran Desert", Water Environment Federation National Conference, April 2000, Cincinnati, Ohio.
- "Replacement of Small Meters for Optimal Economic Value," American Water Works Association Annual Conference, June 1996, Toronto, Ontario, Canada.
- "Chemicals in Combination," Water Environment & Technology, Water Environment Federation, October 1995 issue.
- "Determining Flocculation Basin Baffle Performance Using Particle Count Technology," American Water Works Association Annual Conference, June 1995, Anaheim, California.
- "Ferric Chloride and Chlorine Feed Rates for Odor Control at the Sun City West Water Reclamation Plant," Arizona Water and Pollution Control Association, May 1994, Prescott, Arizona.
- "Evaluation and Optimization of Ferric Chloride and Chlorine Feed Rates for Odor Control At the Sun City West Water Reclamation Plant," Water Environment Federation National Specialty Conference, April 1994, Jacksonville, Florida.
- "*Odor Control at the Sun City West Water Reclamation Plant*", Water/Wastewater/Water Resources National Technology Transfer Conference, HDR Engineering, Inc., April 16-17, 1993, Las Vegas, Nevada.

IV. Summary of Experience:

- 12/03 - current - Vice President & General Manager, Algonquin Water Services (see above listed responsibilities).

- 8/00 - 12/03 - President, CEO & General Manager, Community Water Company -- responsible for all aspects of company performance, long range planning, and regulatory and environmental compliance. Increased service area nearly 20%, successfully negotiated company's interests with Arizona Department of Water Resources, Arizona Department of Environmental Quality, and the Arizona Corporation Commission. Successfully lobbied state legislators in opposition of water related tax. Evaluated financial position to assess need of rate increase.

- 4/94 - 8/00 - Various Roles of Increasing Responsibility, Citizens Water Resources, as follows:

2/98 - 8/00 - Operations Manager of Arizona Operations - responsible for compliance with all Federal, State, and County regulations for water quality, permits, effluent discharges, and air quality for multi-properties. Accountable for Water Plant Operations, Field Operations, Wastewater Plant Operations, and Environmental & Technical Support departments and for 11 separate operating entities which comprise the largest investor owned water and wastewater utility in Arizona. Additional responsibilities included long range planning, OSHA and safety compliance, and managing the remote water system in Tubac, AZ. Duties included developing operating and capital budgets and providing input, planning, and testimony in rate cases, as well as establishing written procedures, policies, and tariffs.

Responsible for complete management of the unregulated O&M (contract operations) business and for securing external O&M contracts. Lead operational evaluation of potential acquisitions. Developed annual business plans, evaluated alternatives to maximize shareholder value, such as strategic outsourcing options, energy saving feasibility evaluations (power optimization), chemical optimization studies, and implementing special task forces for Plan/Deploy/Review (PDR) projects.

Responsible for Anthem, AZ surface CAP water treatment and wastewater treatment plants utilizing Zenon ultra-filtration membranes, activated carbon, fluoride, and potassium permanganate for taste and odor control. Other aspects of this property entailed the sale of treated water by the regulated business to the unregulated entity. Project also entailed recharge/reuse of effluent and raw Central Arizona Project water and the operation of the non-potable water system.

4/97 - 2/98 - Development Services Supervisor - responsible for long range and master planning efforts, negotiating line extension agreements, and for managing plan review, construction inspection, and mapping personnel. Immediately responsible for an approximate \$11 million portion of capital budget in an unprecedented period of growth. Implemented a Backflow Prevention Program and drafted applicable tariffs. Developed line extension agreements and common facilities costs for master-planned communities. Managed special projects including well head treatment alternatives study, various master plans, and system interconnect studies. Continued role as technical advisor to operations' staff on treatment process modifications and optimization efforts.

1/94 - 4/97 - Operations Engineering Supervisor - responsible for operations engineering and water quality compliance sections. Responsible for coordinating testing of regulated inorganic, organic, VOCs, SOCs, lead and copper, bacteriological, and unregulated contaminants. Responsible for treatment process improvements, technical studies, and miscellaneous improvement projects for water and wastewater treatment facilities and well field operations. Developed Storm Water Management Plan, initiated Industrial Wastewater Pretreatment Program and tariffs, and served as in-house expert on USEPA's 503 Sludge Regulations. Implemented policies and procedures to ensure compliance with Aquifer Protection Permits.

- 2/85 - 1/94 - Project Manager and Project Engineer for various Civil Engineering Consulting firms (Black & Veatch, HDR Engineering, Burgess & Niple, Inc.). Responsible for various designs, studies, and construction management for municipal and investor owned waste and wastewater systems.

AFFIDAVIT

STATE OF ARIZONA)
COUNTY OF MARICOPA)

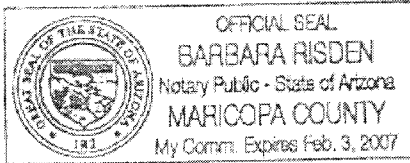
ss

I, Michael D. Weber, state that I am employed by Algonquin Water Services as Vice President and General Manager; that the Direct Testimony attached hereto has been prepared by me or under my direction and supervision; and, that the answers to the questions posed therein are true to the best of my knowledge, information and belief.

Michael D. Weber

Michael D. Weber

Subscribed and sworn to before me this 9th day of May, 2005.



Barbara Riden
Notary Public

My Commission Expires:

Feb. 3, 2007
(SEAL)