

Exhibit No.:
Issue(s): *Rate of Return and
Capital Structure*
Witness: *David Murray*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Substitute Rebuttal
Testimony*
Case No.: *WR-2018-0170*
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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*

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?

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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.

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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.

