Exhibit No.:Issue(s):Rate of Return and
Capital StructureWitness:David MurraySponsoring Party:MoPSC StaffType of Exhibit:Substitute Rebuttal
TestimonyCase No.:WR-2018-0170Date Testimony Prepared: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

1	SUBSTITUTE REBUTTAL TESTIMONY		
2	OF		
3	DAVID MURRAY		
4 5	LIBERTY UTILITIES (MISSOURI WATER) LLC, 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	А.	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 10.3	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	А.	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	А.	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	А.	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	А.	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

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

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

Does this conclude your substitute rebuttal testimony?

8

9

A. Yes.

Q.

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 3 - 1 day of August, 2018.

Janne L. Vaupt

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