Liberty Utilities

Exhibit No.:
Issue: The Empire District Electric Company –Merger Impact
Witness: Peter Eichler
Type of Exhibit: Direct Testimony
Sponsoring Party: Liberty Utilities
File No.: EM-2016-0213

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Peter Eichler

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Peter Eichler. My business address is 354 Davis Road, Oakville, Ontario Canada L6J 2X1.

Q. By whom are you employed and in what capacity?

A. I am employed by Liberty Utilities (Canada) Corp. ("Liberty Utilities Canada"), which is the parent company for Liberty Utilities Co. ("Liberty Utilities"), a Delaware corporation. Liberty Utilities is a holding company that owns corporations which own and operate regulated gas, water, sewer and electric utilities in eleven states—Arizona, Arkansas, California, Iowa, Illinois, Missouri, Georgia, Massachusetts, Montana, New Hampshire and Texas. I am employed as Vice President of Strategic Planning. Liberty Utilities is the parent of Liberty Utilities (Central) Co. ("LU Central"), the organization formed to complete the acquisition of the shares of The Empire District Electric Company ("Empire"). LU Central will be a holding company and it is expected that all of the shares of the Liberty Utilities subsidiaries which own and operate regulated utility operations in the central and mid-western United States will ultimately be transferred to LU Central. Any required regulatory approval of such transfers will be sought at a later date and will be the subject of a separate docket.

Q. Please describe your duties and responsibilities as Vice President of Strategic Planning.

A. My responsibilities include oversight for Regulatory Strategy, Customer Experience Strategy, and Operations Strategy. As part of my role, I regularly evaluate the regulatory environments within which Liberty Utilities' businesses operate and provide advice to Liberty Utilities' management teams about investment decisions.

Q. Have you held other positions with Liberty Utilities?

A. Yes. I was previously Manager of Financial Planning & Analysis. In that role I was in charge of financial planning, including ensuring overall accountability for rate cases. I was also responsible for analyzing regulatory related accounting and finance issues and responding to related discovery issues. I have also held the positions of Director of Regulatory Strategy, in which my responsibilities included crafting strategies to enhance relationships with state regulatory agencies and developing mechanisms by which customers and utility owners alike can benefit. I have also been involved in the management of certain unregulated affiliates of Liberty Utilities focused on providing hot water heater rentals, rooftop solar leases, and compressed natural gas initiatives.

Q. Please describe your professional and educational background.

A. Before joining Liberty Utilities, I spent four years at regulated electric utilities in Ontario, Canada, working in the areas of Corporate Finance, Ratemaking and Regulatory Affairs. I am a designated accountant, having received the Certified Management Accountant (CMA) designation in Canada, which is now referred to as a Chartered Professional Accountant ("CPA, CMA"). That designation is similar to a Certified Public Accountant designation in the United States. In addition, I have completed a Masters of Business Administration degree from the University of Windsor in Ontario, Canada, and I have a Bachelor of Commerce degree with a specialization in Finance from Ryerson University in Toronto, Canada.

Q. Do you have any specialized training related to utility ratemaking?

A. In addition to my work experience, I completed NARUC's Utility School in November, 2009.

Q. Have you testified before the Missouri Public Service Commission ("Commission") or other state public utility regulatory commissions?

A. Yes, I provided testimony on behalf of Liberty Utilities subsidiaries in Commission Case No. GM-2012-0037. I have also testified previously before many other commissions. Please see Schedule PE-1 for a complete list of prior testimony.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss four matters associated with the proposed acquisition by LU Central of all of The Empire District Electric Company's ("Empire") capital stock. I will describe the principal legal entities involved directly in the transaction, financing for the transaction, the financial strength of Liberty Utilities post-closing and the implications of the transaction as they may bear on affiliate transactions and corporate cost allocations. I will also explain how these matters inform the Commission's consideration of the question of whether the proposed transaction is detrimental to the public interest.

Q. Are you sponsoring any Schedules?

A. Yes. I am sponsoring Schedule PE-1, Schedule PE-2 which shows some of the savings in regulated administration costs of the combined entities, and Schedule PE-3 which contains a balance sheet and income statement for the 12 months ending December 31, 2014 for Algonquin Power & Utilities Corp. ("Algonquin") and for the nine months ending September 30, 2015, of Empire and LU Central and the merged entity.

II. <u>THE TRANSACTION</u>

Q. Please summarize the proposed transaction that will culminate in the acquisition by LU Central of the stock of Empire.

A. LU Central witness David Pasieka will address in more detail the features of, and rationale for, the acquisition of Empire. Generally, however, LU Central which is a Delaware Corporation and a subsidiary of Liberty Utilities proposes to acquire all of Empire's capital stock in an all-cash transaction through a merger of a wholly owned subsidiary, Liberty Utilities Sub Corp. ("LSC") and Empire. After the completion of the merger, LSC will cease to exist and LU Central will be the immediate parent of Empire. Empire's shareholders will receive $34 per common share. Additionally, Empire will maintain $900 million dollars of debt currently on its balance sheet for a total purchase price of $2.4 billion dollars. At the close of the transaction, Empire will become a wholly-owned subsidiary of LU Central.

Q. Will Empire's stock continue to be traded on the New York Stock Exchange?

A. No. Following closing of the transaction, Empire will cease to be a publicly traded corporation under the new corporate structure. All of its shares of common equity will be held by LU Central.

Q. What will become of the regulated and other operations of Empire?

A. Following the completion of the acquisition of the shares of Empire, all of Empire's assets utilized for the provision of electric, water and natural gas utility operations, as well as its fiber optic line of business will continue to be owned by Empire and these services will continue to be provided by Empire and its existing subsidiary companies, The Empire District Gas Company ("EDG") and Empire District Industries ("EDI").

III. FINANCIAL CONDITION OF LIBERTY AFTER CLOSING

Q. What impact do you anticipate the transaction to have on Liberty Utilities?

A. The transaction is expected to significantly strengthen Liberty Utilities' financial profile by creating a consolidated entity with combined utility rate base of approximately $2.9 billion serving nearly 800,000 gas, electric and water customers. Nearly 100% of Liberty Utilities income will be earned from regulated utility operations. All of these factors are expected to contribute to continued strength in Liberty Utilities' investment grade credit rating, financial profile, and overall business operating environment.

Q. How does Liberty Utilities' investment grade credit rating relate to Empire?

A. Under our operating model, all debt for regulated utilities is raised at the Liberty Utilities level. This debt is then mirrored to the individual regulated utility for which it is required. While Empire will maintain the debt currently on its books, future financing is expected to occur at the Liberty Utilities level and will be mirrored to Empire. For this reason, strength in Liberty Utilities credit rating will provide prudent access to capital.

Q. What impact will the transaction have on the credit rating of Liberty Utilities?

A. The financing plan for the acquisition of the shares of Empire is designed to maintain a strong investment grade rating. Based on discussions with Standard & Poor's undertaken prior to announcement of the Empire transaction, we do not anticipate any changes to Liberty Utilities' current BBB credit rating and believe that the Empire acquisition will be supportive of maintaining the rating.

IV. TRANSACTION RELATED FINANCING

Q. What is the overall value of the transaction to Liberty Utilities?

A. $2.4 billion in US dollars.

Q. From where will the cash consideration to Empire's shareholders come?

A. The total cash consideration required to purchase the shares of Empire from its shareholders is approximately $1.6 billion. Such amount shall be funded by a combination of equity sourced by Liberty Utilities' ultimate parent, Algonquin, and debt sourced by Liberty Utilities and contributed to LU Central to complete the acquisition of the Empire shares.

Q. How does Liberty Utilities source equity financing?

A. Liberty Utilities is the subsidiary of Algonquin, which is a publicly traded company on the Toronto Stock Exchange. Algonquin enjoys robust access to the capital markets and regularly raises equity that it in turn invests in its subsidiaries. Algonquin intends to raise the equity necessary to complete the transaction.

Q. How does Liberty Utilities source debt financing?

A. Under our operating model, all debt for regulated utilities is raised at the Liberty Utilities level. Specific amounts of this debt is then mirrored to the individual regulated utility for which it is required. There is no cross collateralization, cross default or debt guarantees between the individual regulated utilities. While Empire will maintain the debt which is currently on its books, future financing is expected to occur at the Liberty Utilities level and then only that portion required by Empire will be mirrored to Empire. For this reason, the strength in Liberty Utilities credit rating will provide prudent access to capital.

Q. What are anticipated to be the features of permanent financing associated with the transaction?

A. Permanent financing in the approximate amount of $2.4 billion for the acquisition of Empire is expected to be comprised of $0.9 billion in debt currently on the books of Empire and approximately $1.5 billion in debt obtained by Liberty Utilities and equity obtained by Algonquin and subsequently invested in Liberty Utilities. Contemporaneously with the announcement of the Empire transaction, Algonquin completed a $ 0.8 billion equity issuance in the form of mandatorily convertible debentures. The timing of additional debt and equity financing activities by Algonquin and Liberty Utilities will be influenced by the regulatory approvals process and is subject to prevailing market conditions.

Q. You mentioned the Mandatorily Convertible Debenture issuance has already been completed. Please elaborate.

A. On March 2, 2016, an offering by Algonquin of mandatorily convertible debentures was successfully completed. Demand in the capital markets for the securities comprising the offering was robust signaling a high level of enthusiasm for the Empire transaction.

Q. Will LU Central have on-going access to sufficient reasonably priced capital to be contributed to its operating subsidiaries?

A. Yes. Liberty Utilities and LU Central plan to use a reasonable and prudent investment grade capital structure comprised, initially of 55% equity and 45% debt. LU Central will be provided with appropriate amounts of debt and equity from Liberty Utilities to maintain such a capital structure. As discussed above Algonquin and Liberty Utilities both enjoy ready access to the public capital markets and have been able to source any required funding on reasonable terms. LU Central will, in turn, use the capital provided by Liberty Utilities to contribute the necessary capital to its utility subsidiaries including Empire.

Q. How does the proposed debt to equity ratio compare to Empire's current ratio?

A. LU Central's debt to equity ratio contains slightly more equity than Empire's debt to equity ratio. This higher level of equity is intended to demonstrate Algonquin and Liberty

Utilities' commitment to the Empire transaction and its intention to readily provide capitalization to the utility in the form of equity. Liberty Utilities and Empire are not seeking any approval of this higher level of equity for ratemaking purposes and intend to propose an appropriate capital structure for approval in the context of future rate cases. As such, the additional equity investment should be seen only for what it is; a demonstration of enthusiasm and commitment, and not a request for any increase to rates.

Q. Is the Company expecting the Commission to approve the capital structures of LU Central or Empire as part of this docket?

A. No. As discussed above, LU Central expects that the appropriate capital structure along with associated components like return on equity and return on debt will be determined in a post-acquisition rate case.

Q. Does the purchase price to be paid for Empire represent a premium over the market price for shares of common stock?

A. Yes. The price of $34 per common share represents a 21% premium to the closing price on February 8, 2016.

Q. Does LU Central intend to seek recovery in rates of any or all of the premium paid over market to acquire the common shares of Empire?

A. No. Neither LU Central nor Empire will in any future rate proceedings seek to recover any of the premium over the net book value of the assets associated with LU Central's acquisition of Empire's common shares. This topic is further discussed in the testimony of LU Central witness Christopher Krygier.

Q. How will LU Central account for the premium?

A. At the time of closing, the acquisition premium will be accounted for as goodwill in the accounting records of LU Central.

Q. Will LU Central's commitment not to seek recovery in rates of the premium paid in the acquisition of Empire shares impair LU Central's ability to fund its subsidiary Missouri utility operations or degrade its financial condition of going forward?

A. Absolutely not. Liberty Utilities has a history of successfully acquiring utilities and, in each case, has ensured that such utilities were provided with on-going access to attractively priced capital following acquisition. It would be antithetical to Liberty Utilities' operating philosophy to prevent its utilities from accessing the necessary capital and other resources required to prudently operate the utilities it owns. Further, Liberty Utilities' long history of successful acquisitions, the robust capital market demand for the recent equity issuance by Algonquin related to the Empire transaction and continued investment grade credit ratings gives confidence that it will be "business as usual" for all Liberty Utilities' subsidiary operations, including those in Missouri, both before and after the acquisition of Empire.

V. CORPORATE COST ALLOCATIONS AND AFFILIATE TRANSACTIONS

Q. Please discuss generally the process Liberty Utilities uses to allocate costs.

A. Liberty Utilities and its subsidiaries operate under a shared services model pursuant to which certain services are provided to the operating businesses from affiliates and charged to these utilities based on either a direct charge or defined cost allocation methodology (which methodology is structured pursuant to guidelines set by the National Association of Regulated Utility Commissioners). The majority of operating costs incurred by Liberty Utilities' regulated utilities are direct charges since such costs can be directly attributed to a particular business. In the case of labor costs, time sheets are maintained by all employees and the costs for each employee are charged to the business to which such employee is providing services. By utilizing direct charges whenever feasible, the shared services model has a significant level of transparency and simplicity that enables regulators to readily determine the costs attributable to parent level or affiliate services and whether those costs are appropriate. Costs that cannot be specifically attributed to a particular utility business are allocated across all businesses in proportions determined by a defined cost allocation methodology (again, based on guidelines set by the National Association of Regulated Utility Commissioners).

Q. Can you provide a high level overview of what costs will be allocated?

A. Yes. The cost allocations can be categorized into three distinct areas:

- Corporate Costs – These costs relate to the strategic management, capital markets costs, financial control costs, and head office administrative (rent, general office costs, etc.) which benefit all of Algonquin's subsidiaries including Liberty Utilities business. These costs are allocated based on a formulaic methodology that considers Net Plant, Number of Employees, Revenue and other factors depending on the type of cost.
- Business Services Costs – These costs relate to the overall administration of the business including regulated utilities owned by Liberty Utilities and are charged to the various Liberty Utilities subsidiaries using (a) direct charges or (b) allocated charges using a formulaic model. Business Services Costs include labor for services such as accounting, administration, corporate finance, human resources, information technology, rates and regulatory affairs, environment health, safety,

and security, customer service, procurement, risk management, legal and utility planning. The allocation methodology is similar to Corporate Costs, a driver based methodology that focuses on factors such as employees, square footage, capital expenditures and revenue among others.

- Labor Charges: Liberty Utilities Service Corp. is the legal employer of all U.S. based utility employees. The costs of these employees are charged to each of the operating utilities based on time sheets. As an example, Mr. Krygier charges the vast majority of his time to Missouri, Iowa or Illinois utilities and there are only charges made to other utilities based on his time sheets entries reflecting support for a specific project. Costs other than labor based time sheet costs are allocated to the various Liberty Utilities subsidiary business based on a formulaic allocation methodology similar to that used for allocating Corporate Costs and Business Services Costs.

Q. Will the Empire acquisition result in any redundant labor or duplication of efforts?

A. No. As discussed in the testimony of David Pasieka, we are currently beginning the transition planning process; however, one primary goal and objective is to ensure that there is no duplication of functions across Algonquin, Liberty Utilities, LU Central or each of the individual regulated utilities including Empire. Under the Liberty Utilities model, Empire will be charged for its fair share of the costs incurred by Algonquin, Liberty Utilities and LU Central. The structure of where services are performed (Algonquin, Liberty Utilities or regional entities such as LU Central) is still being determined but there will be no duplication of efforts.

Q. Overall, do you anticipate that the combination of Corporate Costs, Business Services Costs and Labor Costs attributed to Empire following the transaction will be less than the costs currently incurred by Empire today?

A. Yes.

Q. Please explain.

A. There are several reasons why the costs borne by Empire will be lower under the Liberty Utilities allocation methodology. The reasons include:

1) As discussed previously, one of the prevailing strategic rationales for the transaction is gaining efficacy of scale. In LU Central, there will be approximately 120,000 more customers than Empire serves today, allowing for the distribution of costs over a larger number of customers.

2) Certain costs will be saved by the business combination, such as the costs Empire currently incurs to remain a public reporting issuer. We anticipate there are approximately $2.3 million in costs saved by not requiring Empire to comply with all the requirements of being a public reporting issuer.

3) While there will be no involuntary job losses within the Empire group, it is anticipated that, through natural attrition, an additional $2.2 million in labor savings will emerge. This is supported by Empire's 2-6% rate of annual attrition through employee turnover and retirements.

When reflected in the Liberty Utilities allocation model, these savings are expected to reduce the total costs borne by Empire's ratepayers.

Q. How much is the savings expected to be?

A. Administration costs to serve Empire customers are estimated to be reduced by $704,000, a decrease of 1.4%. Of this decrease, approximately $556,000 is attributable to Missouri electric customers and $55,000 for Missouri gas customers. Please see Schedule PE-2. The reduced levels of allocations will be reflected in future rate cases.

Q. Has the cost allocation methodology utilized by Liberty Utilities been previously filed with the Commission?

A. Yes. Liberty Energy (Midstates Natural Gas) Corp. filed the CAM in Case No. GM-2012-0037 and in Docket No. GR-2014-0152. Thereafter, a complete copy of the CAM has been filed annually in March in accordance with the Stipulation and Agreement filed in Case No. GM-2012-0037.

Q. Will a revised CAM be filed with the Commission to reflect the Empire transaction?

A. Yes, the Company will provide the revised CAM within six months of closing the Empire transaction.

Q. What will be done by Empire and LU Central with regard to the Commission's supervision of affiliate transactions?

A. The utility business operated by Empire will continue to be under the direct regulation of the Commission. LU Central will commit to comply with the Commission's Affiliated Transaction, Marketing Affiliate Transaction and HVAC Services Affiliate Transactions rules, 4 CSR 240-40.015 – 40.017 and 4 CSR 240-20.015 - 20.017, by keeping such records and making such reports as are required by those rules. Moreover, LU Central shall make records of its affiliated entities available to the Commission's staff and the Office of the Public Counsel as required by those rules.

Q. What steps will be taken to insulate Empire from the financial risks associated with Liberty Utilities and the businesses of its other subsidiaries.

A. The businesses undertaken by Liberty Utilities are 'ring-fenced' separately and each operating entity is solely and only responsible for that portion of Liberty Utilities debt specifically related to such business. As a result, there is no cross subsidization, cross collateralization between any business, regulated or unregulated.

VI. <u>PUBLIC INTEREST CONSIDERATIONS</u>

Q. Do you believe that the proposed transaction will be detrimental to those customers receiving regulated utility services from Empire or its subsidiaries?

A. No. To the contrary, I believe the transaction will be beneficial to Empire's customers. From a purely financial perspective, Empire will become a part of a larger and more diversified utility business group. Empire will have the support of a larger balance sheet to meet the capital demands of its customers and it will benefit from the diversification of risk resulting from the geographic breadth of its North American operations. LU Central witnesses David Pasieka and Christopher Krygier will address other features and consequences of the proposed transaction that will demonstrate that it is not detrimental to the public interest.

Q. Does this conclude your direct testimony?

A. Yes.

Eichler - Regulatory Testimony History

	Docket Type	Description	Year	Jurisdiction	Subject Matter Supported	Docket Number
1	Rate Case	In the matter of Rio Rico Utilities Inc. request for increase in rates	2009	Arizona Corporation Commission	Corporate allocations, accounting and tax matters, organizational structure, compliance	WS-20676A-09
2	Rate Case	In the Matter of Bella Vista Company, Northern Sunrise, and Southern Sunrise Company Joint Application for Rate Increase	2009	Arizona Corporation Commission	Corporate allocations, accounting and tax matters, organizational structure, compliance	W-02465A-09
3	Rate Case	In the matter of Tall Timbers Utilities Inc. Application for Rate Increase	2010	Texas Commission on Environmental Quality	Rate increase, Revenue Requirement, Revenue Allocation, Cost Allocations, Capital Expenditures, etc.	20694
4	Eminent Domain	In the matter of the City of Tyler v Tall Timbers Utilities	2010	Special Judicial Subcommittee of the Texas Commission on	Utility valuation, operations	N/A
5	Acquisition	Joint Petition of Liberty Utilities and National Grid to acquire Granite State Electric Co. and EnergyNorth Natural Gas Inc.	2011	New Hampshire Public Utilities Commission	Corporate philosophy, financing, rates and ratemaking, corporate allocations	DG 11-040
6	Acquisition	Request to acquire Atmos Energy's Illinois assets	2011	Illinois Corporation Commission	Corporate philosophy, financing, rates and ratemaking, corporate allocations	IL 11-0559
7	Acquisition	Request to acquire Atmos Energy's Iowa assets	2011	Iowa Utilities Board	Corporate philosophy, financing, rates and ratemaking, corporate allocations	SPU-2011-0008
8	Acquisition	Request to acquire Atmos Energy's Missouri assets	2011	Missouri Public Service Commission	Corporate philosophy, financing, rates and ratemaking, corporate allocations	GM-2012-0037
9	Rate Case	In the matter of California Pacific Electric Company request for Rate Increase	2012	California Public Utilities Commission	Corporate allocations, accounting and tax matters, organizational structure, compliance	A-12-02-014
10	Financing	Request to enter in to an intercompany loan arrangement	2012	Illinois Corporation Commission	Approval of financing, merger of entities	IL 12-0326
11	Rate Case	In the matter of Granite State Electric request for Rate Increase	2013	New Hampshire Public Utilities Commission	Corporate allocations, accounting and tax matters, organizational structure, compliance	DE 13-063
12	Acquisition	Request to acquire United Water Arkansas	2013	Arkansas Public Service Commission	Corporate philosophy, financing, rates and ratemaking, corporate allocations	12-061-U
13	Acquisition	Request to acquire Atmos Energy's Georgia assets	2013	Georgia Public Service Commission	Corporate philosophy, financing, rates and ratemaking, corporate allocations	DN 36278
14	Acquisition	Request to acquire New England Gas Co.	2013	Massachusetts Department of Public Utilities	Corporate philosophy, financing, rates and ratemaking, corporate allocations, tax matters	DPU 13-009

Empire Net Savings				2017	2018	2019
Current EDE Allocations	USD		1	$ 52,105,155	$ 53,668,310	$ 55,278,359
Less: Inter-Mid States Allocations post acquisition	USD		2	$ 40,667,940	$ 41,887,978	$ 43,144,618
Net: Business Services/Corporate Costs/Labor	CAD		3	$ 15,026,357	$ 15,762,728	$ 16,716,864
Conversion Rate			4	1.4	1.4	1.4
Allocs in USD	USD		3/4=5	$ 10,733,112	$ 11,259,091	$ 11,940,617
Net Benefit/(Detriment)	USD		1-2-5=6	$ 704,103	$ 521,240	$ 193,124
EDE 4 Factor:						
Electric		91%		$ 640,781	$ 474,364	$ 175,756
Water		1%		$ 7,551	$ 5,590	$ 2,071
Gas		8%		$ 55,770	$ 41,286	$ 15,297
EDE 4 Factor Subtotal:		100%		$ 704,103	$ 521,240	$ 193,124
Check				$ -	$ -	$ -
EDE Electric Jurisdictional:						
Missouri		86.90%		$ 556,839	$ 412,222	$ 152,732
Kansas		5.53%		$ 35,435	$ 26,232	$ 9,719
FERC		2.70%		$ 17,301	$ 12,808	$ 4,745
Arkansas		2.58%		$ 16,532	$ 12,239	$ 4,535
Oklahoma		2.29%		$ 14,674	$ 10,863	$ 4,025
EDE Electric Jurisdictional Subtotal:		100.00%		$ 640,781	$ 474,364	$ 175,756

Algonquin Power & Utilities Corp
Unaudited Pro Forma Consolidated Balance Sheet
September 30, 2015
(in millions of Canadian dollars)

	APUC	Empire	Pro Forma Adjustments	Pro forma Consolidated
Assets				
Currents assets:				
Cash and cash equivalents	$52	$2	$(1941) 3(b)	$56
			1000 3(c)	
			(40) 3(c)	
			(50) 3(c)	
			1078 3(d)	
			(13) 3(d)	
			(34) 3(e)	
Accounts receivable, net	146	124		270
Natural gas in storage	28	43		71
Supplies and consumables inventory	16	37		53
Regulatory assets	27	10		36
Prepaid expenses	15	42		56
Long-term investments	35			35
Deferred income taxes	23		11 3(c)	47
			13 3(c)	
Income taxes receivable	1			1
Derivative instruments	12	3		15
Other current assets	16	6		22
Total current assets	369	268	24	661
Property, plant and equipment, net	3718	2656		6374
Intangible assets, net	80			80
Goodwill	107	53	(53) 3(b)	1029
			923 3(b)	
Regulatory assets	208	270		477
Derivative instruments	76			76
Long-term investments	146			146
Deferred income taxes	38			38
Other assets	18	4		23
Total assets	4759	3251	894	8903
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	19	58		77
Accrued liabilities	139	61		200
Dividends payable	37			37
Regulatory liabilities	35	8		44
Long-term liabilities	22	22		44
Pension and other post-employment benefits				
Other long-term liabilities	43	20		63
Derivative instruments	7	6		12
Preferred shares, Series C	1			1
Income taxes liability	5			5
Deferred income taxes				
Total current liabilities	308	175	.	483
Long-term liabilities	1592	1140	1078 3(d)	3809
Regulatory liabilities	116	182		298
Deferred income taxes	201	546		747
Derivative instruments	90	4		94
Pension and other post-employment benefits	154	100		254
Other long-term liabilities	185	33		218
Preferred shares, Series C	18			18
Redeemable non-controlling interest	11			11
Shareholders' equity:				.
Preferred shares	214			214
Common shares	1654	58	(58) 3(g)	2625
			1000 3(c)	
			(29) 3(c)	
Subscription receipts	111			111
Additional paid-in capital	37	875	(875) 3(g)	37
Deficit	(524)	137	(137) 3(g)	(608)
			(34) 3(e)	
			(37) 3(c)	
			(13) 3(d)	
Accumulated other comprehensive income	238			238
	1729	1071	(184)	2616
Non-controlling interest	356			356
Total stockholders' equity	2084	1071	(184)	2971
Total liabilities and shareholders equity	$4759	$3251	$894	$8903

See accompanying notes to unaudited pro forma consolidated financial statements

Algonquin Power & Utilities Corp
Unaudited Pro Foma Consolidated Statement of Operations
For the year ended December 31, 2014
(in millions of Canadian dollars)

		APUC	Empire	Pro Forma Adjustments			Pro Forma Consolidate
Revenue							
Regulated electricity distribution		$207	$652				$859
Regulated gas distribution		446	57				503
Regulated water reclamation and distribution		66	2				69
Non-regulated energy sales		202					202
Other revenue		22	9				31
		944	720				1664
Expenses							
Operating		236	147				383
Regulated fuel & electricity purchased		121	238				358
Regulated gas purchased		261	30				291
Non-regulated energy purchased		39					39
Administrative expenses		35	71				106
Depreciation of property, plant and equipment		109	80				189
Amortization of intangible assets		5					5
Other amortization			1				1
Gain on foreign exchange		(1)					(1)
		804	567				1371
Operating income from continuing operations		139	154				293
Interest expense		62	41	20	**3(d)**		124
Interest, dividend income and other income		(8)	(5)				(12)
Loss (gain) on sale of assets		-					-
Acquisition-related costs		3					3
Write-down of long-lived assets		8					8
		67	37	20			123
Earnings (loss) from operations before income taxes		72	117	(20)			170
Income tax expense (recovery)							
Current		4	(3)				1
Deferred		13	46	(8)	**3(d)**		52
		17	43	(8)			52
Earnings from continuing operations		56	74	(13)			117
Loss from discontinued operations, net of tax		(2)					(2)
Net earnings (loss)		54	74	(13)			115
Net earnings attributable to the non controlling interest		(22)					(22)
Net earnings (loss) attributable to Algonquin Power & Utilities Corp		$76	$74	$(13)			$137
Weighted average shares of common stock outstanding (in millions)							
Basic		214		94	**3(h)**		308
Diluted		216		94	**3(h)**		311
Basic net earnings per share from continuing operations	$	0.32				$	0.42
Basic net earnings per share	$	0.31				$	0.41
Diluted net earnings per share from continuing operations	$	0.32				$	0.42
Diluted net earnings per share	$	0.31				$	0.41

See accompanying notes to unaudited pro forma consolidated financial statements

Algonquin Power & Utilities Corp
Unaudited Pro Forma Consolidated Statement of Operations
Nine month period ended September 30, 2015
(in millions of Canadian dollars)

	APUC	Empire	Pro Forma Adjustments		Pro Forma Consolidated
Revenue					
Regulated electricity distribution	$170	$542			$711
Regulated gas distribution	350	39			389
Regulated water reclamation and distribution	58	2			60
Non-regulated energy sales	160				160
Other revenue	31	8			39
	768	591			1358
Expenses					
Operating	211	136			347
Regulated electricity purchased	101	169			269
Regulated gas purchased	168	19			187
Non-regulated energy purchased	23				23
Administrative expenses	27	59			87
Depreciation of property, plant and equipment	100	76			176
Amortization of intangible assets	4				4
Other amortization	4				4
Gain on foreign exchange	(3)				(3)
	635	458			1093
Operating income from continuing operations	132	133			265
Interest expense	49	39	15	3(d)	103
Interest, dividend income and other income	(6)	-			(7)
Loss (gain) on sale of assets	(3)				(3)
Acquisition-related costs	1				1
Write-down of long-lived assets	2				2
Loss (gain) on derivative financial instruments	(2)				(2)
	40	39	15		94
Earnings (loss) from operations before income taxes	92	94	(15)		171
Income tax expense (recovery)					
Current	7	-			6
Deferred	25	36	(6)	3(d)	55
	32	35	(6)		62
Earnings from continuing operations	60	59	(9)		110
Loss from discontinued operations, net of tax	(1)				(1)
Net earnings (loss)	59	59	(9)		109
Net earnings attributable to the non controlling interest	(20)				(20)
Net earnings (loss) attributable to Algonquin Power & Utilities Corp.	$79	$59	$(9)		$129
Weighted average shares of common stock outstanding (in millions)					
Basic	252		94	3(h)	346
Diluted	255		94	3(h)	349
Basic net earnings per share from continuing operations	$ 0.29				$ 0.35
Basic net earnings per share	$ 0.29				$ 0.35
Diluted net earnings per share from continuing operations	$ 0.28				$ 0.35
Diluted net earnings per share	$ 0.28				$ 0.35

See accompanying notes to unaudited pro forma consolidated financial statements

VERIFICATION

PROVINCE ONTRAIO)
) ss:
CANADA)

I, Peter Eichler, being first duly sworn on oath, depose and state that I am the witness identified in the foregoing Direct Testimony of Peter Eichler; that I have read the testimony and am familiar with its contents; and that the facts set forth therein are true and correct.

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SUBSCRIBED AND SWORN to before me this 16 day of March, 2016.

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Notary Public

Commission/Appointment Expires: Does not expire