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Issue: The Empire District Electric
Company –Merger Impact
Witness: Christopher D. Krygier
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Sponsoring Party: Liberty Utilities
File No.: EM-2016-0213

**Before the Public Service Commission
of the State of Missouri**

FILED

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Direct Testimony

Missouri Public
Service Commission

of

Christopher D. Krygier

Empire/
Liberty Exhibit No. 5
Date 8-30-16 Reporter KF
File No. EM-2016-0213

1 **I. POSITION AND QUALIFICATIONS**

2 **Q. Please state your name, business address and business affiliation.**

3 A. My name is Christopher D. Krygier, my business address is 2751 North High Street,
4 Jackson, Missouri 63755. I am testifying on behalf of the applicants, Liberty Utilities
5 (Central) Co. ("LU Central" or "Company") and Liberty Sub Corp. ("LSC"), wholly owned
6 subsidiaries of Liberty Utilities Co. ("Liberty Utilities").

7 **Q. Please describe your educational and professional experience.**

8 A. In 2006, I completed my Bachelor of Science in Economics from the W.P. Carey School
9 of Business at Arizona State University. In 2010, I completed my Master of Business
10 Administration with an emphasis in Finance also from Arizona State University. Finally,
11 I am a Certified Management Accountant as designated by the Institute of Management
12 Accountants.

13 I am employed by Liberty Utilities Services Corp. as its Director of Regulatory and
14 Government Affairs for its natural gas, water and wastewater utilities in Missouri, Iowa
15 and Illinois. I have been employed with Liberty Utilities since March 2012. Before
16 working for Liberty Utilities, I was employed by American Water Works, Inc. for
17 approximately six years in a variety of capacities, including Financial Planning and
18 Analysis, Rates, Regulatory Compliance and Capital Programs.

19 **Q. Have you previously testified before the Missouri Public Service Commission**
20 **("Commission")?**

21 A. Yes. I filed testimony in Commission Case No. GR-2014-0152 on behalf of Liberty
22 Utilities (Midstates Natural Gas) Corp.

23 **Q. Have you testified on matters before other state regulatory commissions?**

1 A. Yes. I have provided written and live testimony before the Arizona Corporation
2 Commission and I have also provided written testimony before the Hawaii Public Utilities
3 Commission and the Illinois Commerce Commission.

4 **II. PURPOSE OF TESTIMONY**

5 **Q. What is the purpose of your testimony in this case?**

6 A. The purpose of my testimony is to address certain aspects of this Commission's
7 regulatory responsibilities regarding the proposed transaction between LU Central and The
8 Empire District Electric Company ("Empire"), to provide some background regarding
9 Liberty Utilities existing regulated utility operations in the State of Missouri, and to discuss
10 key features of the proposed transaction that should be considered by the Commission as
11 it reviews the Joint Application, including the benefits of the transaction for customers.

12 **III. COMMISSION JURISDICTION AND STANDARD OF APPROVAL**

13 **Q. Are you familiar with the transaction that is the subject of the Joint Application**
14 **filed by the Joint Applicants in this case?**

15 A. Yes. Specifics of the transaction will be addressed in more detail by Company witnesses
16 David Pasieka and Peter Eichler; but, generally, LU Central has entered into an Agreement
17 and Plan of Merger whereby LU Central will acquire all of the capital stock of Empire
18 through a merger of LSC and Empire. After the merger, LSC will cease to exist. At the
19 close of the all cash transaction, Empire will become a wholly-owned subsidiary of LU
20 Central and Empire as well as its wholly owned subsidiary, The Empire District Gas
21 Company ("EDG"), will continue to be regulated by this Commission. Mr. Pasieka's
22 testimony includes an organization chart that depicts the relationship among LU Central,

1 Empire, The Empire District Gas Company (“EDG”), and the existing Liberty Utilities’
2 entities that are regulated by this Commission.

3 **Q. What is the basis of the Commission’s jurisdiction over the proposed transaction?**

4 A. My understanding is that the Commission has the authority to review and approve the
5 proposed transaction because the acquisition by LU Central of the capital stock of Empire
6 involves a merger of Empire and another corporation, LSC, which has been formed for the
7 sole purpose of this transaction.

8 **Q. Are you familiar with the standard for approval of the proposed transaction?**

9 A. Again, I am not an attorney, but it is my understanding that the Commission must approve
10 the transaction unless it can be shown to be detrimental to the public interest. Under this
11 standard, the joint applicants need not show that there is a positive benefit being derived
12 from the transaction, however, any such showing of benefit would certainly establish that
13 there will be no detrimental impact.

14 **Q. Does the transaction described in the Joint Application and in the testimony of the
15 supporting witnesses satisfy this standard?**

16 A. Yes it does. As explained further below, not only is the transaction not detrimental to the
17 public interest, it promotes the public interest in a number of ways.

18 **IV. LIBERTY UTILITIES’ EXISTING MISSOURI OPERATIONS**

19 **Q. Are you familiar with the regulation of public utilities in the State of Missouri?**

20 A. Yes. In my capacity as Liberty Utilities’ Director of Regulatory and Government Affairs,
21 I have become very familiar with the Commission’s practices and procedures by virtue of
22 my involvement with Liberty Utilities (Midstates Natural Gas) Corp.’s natural gas, water

1 and wastewater operations throughout the state. I also work closely with the Commission
2 Staff, Consumer Advocates, and other stakeholders in the state on a regular basis.

3 **Q. Please provide the Commission with the history of Liberty Utilities' acquisition of**
4 **utility operations in the State of Missouri.**

5 A. Liberty Utilities (Missouri Water), LLC, under its prior name, Algonquin Water
6 Resources of Missouri, LLC, purchased the water and sewer assets of Silverleaf Resorts,
7 Inc. in 2005, after obtaining this Commission's approval in Case No. WO-2005-0206. This
8 transaction resulted in the acquisition of the Timber Creek, Holiday Hills, and Ozark
9 Mountain service areas.

10 In 2011, Liberty Utilities (Missouri Water), LLC (then Algonquin Water Resources of
11 Missouri, LLC) received approval from this Commission in Case No. WO-2011-0328 to
12 purchase the water assets of Noel Water Co., Inc. Also, in 2011, Algonquin Water
13 Resources of Missouri, LLC received approval from this Commission in Case No. WO-
14 2011-0350 to purchase the water and sewer assets of KMB Utility Corporation.

15 In 2012, Liberty Utilities (Midstates Natural Gas) Corp., utilizing a prior name, Liberty
16 Energy (Midstates) Corp., received the approval of this Commission to purchase the
17 Missouri natural gas assets of the Atmos Energy Corporation in Case No. GM-2012-0037.
18 Each of these entities does business under the name "Liberty Utilities."

19 **Q. What water and sewer service does Liberty Utilities provide in Missouri?**

20 A. Liberty Utilities (Missouri Water), LLC provides water service to approximately 1,994
21 customers in Jefferson, Stone, Taney, McDonald, and Franklin Counties, Missouri and
22 sewer service to approximately 451 customers in Jefferson, Stone, and Cape Girardeau

1 Counties, Missouri. It is a “water corporation,” “sewer corporation,” and “public utility,”
2 as those terms are defined in Section 386.020, RSMo.

3 **Q. What Natural Gas Services Does Liberty Utilities Provide in Missouri?**

4 A. Liberty Utilities (Midstates Natural Gas) Corp. provides natural gas services to
5 approximately 55,000 customers in its West, Northeast, and Southeast Missouri, which
6 includes Pemiscot, Dunklin, New Madrid, Bates, Iron, Cape Girardeau, Clark, Adair,
7 Know, Lewis, Schuyler, Macon, Scotland, Henry, Stoddard, Ripley, Butler, Wayne, and
8 Marion Counties. It is a “gas corporation,” and “public utility,” as those terms are defined
9 in Section 386.020, RSMo.

10 **Q. Can you please summarize Liberty Utilities’ operating experience in Missouri?**

11 A. Yes. All of the Liberty Utilities’ entities have operated successfully in Missouri, some for
12 over ten years. Liberty Utilities has demonstrated that it has the managerial, operational
13 and financial wherewithal to provide safe, affordable and reliable service to its customers,
14 all in compliance with applicable rules and regulations of the Commission, across the
15 modalities in which it operates. In addition, we believe we have developed a positive,
16 constructive relationship with the Commission’s staff and other stakeholders. We are
17 proud of the successes of our Missouri businesses and in the positive experience those
18 successes have meant for our customers.

19 **Q. Will the companies in Missouri be consolidated in one entity?**

20 A. No. While Mr. Pasieka describes the new LU Central structure, all the utilities within LU
21 Central will continue to operate in the same fashion as they are today. Simply put, we are
22 not consolidating the assets of the regulated entities and envision that each entity will
23 continue to operate under its own tariffs.

1 **V. BENEFITS OF THE TRANSACTION**

2 **Q. Do you believe that the proposed transaction will be detrimental to the customers of**
3 **Liberty Utilities or those of Empire?**

4 A. No. I believe that the proposed transaction will not be detrimental but instead will
5 positively benefit both Liberty Utilities' and Empire's customers in Missouri.

6 **Q. Please explain the benefits of the transaction.**

7 A. This transaction has many benefits, which include:

8 1) **Efficacy of scale** – This transaction represents an opportunity to increase the size of the
9 respective organizations to nearly 800,000 combined customers providing service across
10 13 states with expertise in water, gas, and electric distribution utilities. This scale is
11 expected to result in greater management expertise, access to broader management
12 capabilities, and an ability to capitalize on greater opportunities for future efficiencies.

13 2) **Increased Management Capability** – By combining the expertise of both companies, a
14 joint entity will now enjoy expertise in:

15 a. Electric utility operations of over 270,000 customers including vertical integration
16 with utility owned and developed renewable energy and conventional generation
17 fleet.

18 b. Gas utility operations of over 330,000 customers with expertise in the development
19 of distribution utility best practices, service territory expansion, alternate fuel
20 procurement, and investment in gas transmission infrastructure.

21 c. Distribution utility expertise of running large water operations in excess of 175,000
22 customers, including in drought prone areas.

1 d. Access to renewable energy development expertise that has already proven to be
2 beneficial to Liberty’s electric utilities it owns in other jurisdictions with
3 investments in utility owned solar generation that is expected to reduce overall
4 customer energy costs.

5 **3) Enhanced regional senior leadership support** – By reorganizing Liberty Utilities’
6 operations under East, Central, and West regional divisions, each utility will now have
7 closer access to senior level leadership. Through the Empire acquisition, Liberty’s
8 operations in Missouri, Arkansas, Illinois, Iowa, and Texas will now have access to the
9 diverse and talented management team based in Joplin, Missouri. This means that senior
10 management of the utilities will be even closer to the service territory, ensuring
11 responsiveness to the local community and expeditious responsiveness to emerging issues
12 within each community.

13 **4) Board of Directors for LU Central** – A regional board of directors will be established
14 consisting of senior business and community leaders. This board is expected to provide
15 governance and guidance on local issues to ensure that the combined entity will enhance
16 its understanding of local operating conditions and be able to better serve the needs of
17 customers. The board will have commensurate fiduciary duties, and all existing board
18 members of Empire will be offered a position on the board.

19 **5) Enhanced financial capabilities** – Combining the financial strength of two organizations
20 with a BBB credit rating will ensure stronger access to financial markets and provide
21 enhanced momentum to work towards enhancing the credit rating in the future by providing
22 increased diversification of modality, geography, and ultimately further diversifying the
23 risks of both organizations.

1 6) **Maintains jobs** – This transaction is not about cutting jobs. Rather, the rationale of the
2 transaction is to enhance the capabilities of both organizations and as such, there will be
3 no involuntary workforce reductions associated with this transaction.

4 7) **Seamless transition** – Over the last 5 years, Liberty Utilities has completed 7 major
5 transitions that have been seamless from a customer perspective and has developed a core
6 competence in merging utility operations in to its own. With the Empire transaction, this
7 capability will be enhanced as the acquisition is of a fully functioning standalone utility
8 operation which will allow optimal staging of transition activities.

9 These benefits are further explained in the testimony of David Pasieka.

10 **Q. What does the transaction mean for Liberty Utilities’ current operations in**
11 **Missouri?**

12 A. Liberty Utilities’ operations in Missouri will be enhanced by becoming a subsidiary of LU
13 Central in several ways. First, the acquisition allows for access to a senior management
14 team with significant utility expertise in gas, water, and electric utility operations based
15 closer to its operations in Joplin, Missouri. This closeness will allow for enhanced
16 responsiveness and enhanced skillsets to respond to utility operating requirements. In
17 addition, through a regional board, the management team in Missouri will have
18 opportunities to receive guidance and counsel from local business and community leaders
19 who can provide insight to the emerging issues within the service territory. Further, the
20 efficacy of scale will allow these utilities to now be a part of a region with approximately
21 340,000 customers in a company with nearly 800,000 customers. This scale will allow
22 future opportunities to capitalize on efficiencies as they emerge.

1 Q. You mentioned an LU Central board of directors, but state that each entity will
2 continue to operate separately. Can you reconcile these statements?

3 A. Certainly. The LU Central board of directors will oversee each entity within the division.

4 Q. Will the proposed acquisition result in any adverse rate impacts on Empire's retail
5 customers?

6 A. No. The proposed transaction will not result in any change in the rates currently charged
7 to Empire's retail customers. Empire and EDG will continue to utilize the rates, rules,
8 regulations and other tariff provisions on file with and approved by the Commission, and
9 will continue to provide service to their customers under those rates, rules and regulations,
10 and other tariff provisions until such time as they may be modified according to applicable
11 law. Further, as I discuss later in my testimony, LU Central hereby commits not to seek
12 any merger related adjustments for acquisition costs or any premiums paid above book
13 value.

14 Q. What about ongoing regulatory conditions or commitments to which Empire or
15 EDG may be subject?

16 A. Empire will continue to comply with any ongoing regulatory commitments that are
17 currently in place with respect to its electric, water and natural gas operations. I discuss
18 the specifics below.

19 Q. Does LU Central intend to maintain Empire's performance regarding customer
20 service?

21 A. Yes. There will be no change to Empire's customer service standards or to its excellent
22 customer service record. The fact that Empire's customer service staff will be retained, as
23 discussed below, should provide assurance of a seamless transition where customer service

1 is concerned. I will address Liberty Utilities' customer service philosophy and how well
2 it dovetails with that of Empire below.

3 **Q. Is Liberty Utilities able to make any other or additional commitments to show the**
4 **Commission that the proposed transaction will benefit customers of Empire and**
5 **EDG customers?**

6 A. Yes. The Company plans to keep all of Empire's employees, including the management
7 team and those handling field and customer service operations, so there will be no
8 disruption whatsoever in the continued provision of good service to the customers of
9 Empire and EDG. The Merger Agreement also provides certain protections to current
10 Empire employees regarding their pay and benefits after the closing of the transaction.

11 **Q. What about the long-term impact of the proposed transaction on access to capital**
12 **markets?**

13 A. Company witness Peter Eichler testifies that LU Central will have ready access to capital
14 at a reasonable cost through the corporate structure and will maintain a strong balance
15 sheet. Liberty Utilities also anticipates attracting debt or equity capital to meet the ongoing
16 needs of Empire at rates at least as favorable as they are attained today. With the increased
17 economies of scale of the combined entities and maintenance of investment grade credit
18 ratings, we expect long term costs of borrowing to be at least the same if not more
19 competitive than on a standalone basis.

20 **Q. Is there not a new or increased risk of inappropriate affiliate transactions if Empire**
21 **becomes a subsidiary operating company in a larger holding company structure?**

22 A. No. Mr. Eichler also testifies to the fact that the Company already has in place a cost
23 allocation manual that sets forth a cost allocation methodology to be used by all regulated

1 utility entities, including those already operating in Missouri, based largely on the
2 guidelines established by National Association of Regulatory Utility Commissioners.
3 Liberty Utilities will revise or modify its current cost allocation manual, as needed, to
4 reflect the acquisition of Empire within six (6) months following the closing of the
5 transaction.

6 **Q. Are there any other matters the Commission should consider regarding the public
7 interest?**

8 A. The Company believes that the Commission also should take into account the local impact
9 of the proposed transaction when it considers the public interest. We believe that it is
10 significant that the Company plans to retain Empire's headquarters in Joplin, Missouri.
11 Doing so is good for the local economy, the many surrounding communities and the
12 Southwest region of the state. I will address the Company's commitment to continued
13 community involvement below.

14 **Q. Does the purchase price announced contain a premium over market?**

15 A. Yes. The purchase price of \$34 per common share represents a 21% premium to the
16 closing price of Empire's stock on February 8, 2016.

17 **Q. Does LU Central propose to recover any part of the premium over book value in the
18 rates charged to Empire?**

19 A. No. The Company will not seek any recovery of the amount of the premium over book
20 value or recovery of any acquisition premium relating to the net book value of the assets
21 in Empire's rate base in future Empire rate cases.

22 **Q. Will any of the regulated entities seek to recover any transaction costs associated
23 with the proposed transaction?**

1 A. No. None of the Empire or Liberty Utilities regulated utilities will seek to recover in rates
2 of the transaction costs associated with the acquisition.

3 **VI. CUSTOMER SERVICE AND COMMITMENT TO COMMUNITY**

4 **Q. What is Liberty Utilities' philosophy regarding customer service?**

5 A. As mentioned by Mr. Pasieka in his testimony, Liberty Utilities focuses on providing high
6 quality customer service. We achieve this by delivering our service in the utility service
7 territory compared to outsourcing, distributing timely information to our customers in a
8 medium they prefer and giving local management teams the authority and autonomy to
9 best determine local customer needs.

10 **Q. Will this approach change with this acquisition?**

11 A. Absolutely not. One of the important aspects of this acquisition is the shared customer
12 service philosophy by Empire. While they don't always use the same words that Liberty
13 Utilities does to describe customer service, it is clear through the successful results that
14 being customer centric is integral to their success.

15 **Q. Will any Empire customer contact walk-in centers be closed as part of the
16 acquisition?**

17 A. No. Maintaining Empire's local approach is important and the walk-in centers located in
18 Branson, Missouri and Joplin, Missouri will remain open after the transaction.
19 Furthermore, after the acquisition closes, potential future expansion of walk-in center
20 availability is possible if it makes sense for customers and the Company.

21 **Q. Will any Empire customer contact centers be closed as part of the acquisition?**

22 A. No. Similar to the walk-in centers, the contact centers located in Joplin, Missouri and
23 Ozark, Missouri will remain open.

1 **Q. Will any Empire payment centers or pay stations be closed because of the**
2 **acquisition?**

3 A. No. All pay stations that exist today will remain open after the acquisition.

4 **Q. Will the Company maintain Empire's current contact center metrics post**
5 **acquisition?**

6 A. Yes. Empire currently employs a number of customer contact center metrics including an
7 average speed of answer, abandoned call rate, and average handle time, among others.
8 None of these reporting metrics will change as a result of the acquisition.

9 **Q. Will the customer service monthly reporting requirements change?**

10 A. No. Empire will continue providing the same monthly information to Commission Staff
11 and the Office of the Public Counsel.

12 **Q. Will Empire's community involvement in Joplin or surrounding areas change as**
13 **part of the transaction?**

14 A. No. Empire's community commitment and involvement is a shared philosophy of LU
15 Central. We are building on that shared philosophy by creating a regional board, which
16 will provide guidance and counsel to ensure that the combined entity will enhance its
17 understanding of local operating conditions and be able to better serve the needs of
18 customers. Additionally, after the closing, LU Central has committed to the same level of
19 charitable contributions through Empire closes as Empire currently does today.

20 **Q. Will customer reliability be impacted by the transaction?**

21 A. Customer reliability will be maintained through this transaction. . As stated above, Empire
22 management and employees are being retained as part of the transaction and therefore the
23 engineering, operational and other expertise necessary to continue the provision of safe,

1 reliable service is intact. Additionally, in order to strive to continuously improve customer
2 reliability, the shared knowledge of both companies will be used to utilize best practices
3 for Empire's customers, one of the many benefits of the transaction.

4 **Q. Does Empire have any ongoing regulatory commitments with respect to its existing**
5 **Missouri operations?**

6 A. Yes, Empire has ongoing regulatory commitments relative to its Missouri operations.

7 **Q. Will the proposed transaction necessitate any change to those commitments?**

8 A. No.

9 **Q. Has Empire filed a general rate increase request with the Commission?**

10 A. Yes. In October of 2015, Empire filed proposed changes to its tariffs and rate schedules
11 seeking to increase rates by \$33.4 million dollars or 7.3%.

12 **Q. How will the Commission's approval the proposed transaction impact Empire's**
13 **pending rate increase request?**

14 A. As mentioned by Empire witness Brad Beecher, the acquisition will have no impact on the
15 pending rate case, it is "business as usual" for Empire.

16 **Q. Do any of Liberty Utilities' Missouri regulated utilities have dockets pending with**
17 **this Commission?**

18 A. Yes. Liberty Utilities (Midstates Natural Gas) Corp. has several dockets pending before
19 the Commission. Case No. GO-2016-0206 is the current ISRS filing. In addition, there
20 are two pending PGA/ACA dockets, those being Case Nos. GR-2015-0095 and GR-2016-
21 0075.

22 **Q. How will the Commission's approval the proposed transaction impact these**
23 **dockets?**

- 1 A. This approval will have no impact on those dockets and it will be the same “business as
2 usual” approach that Empire is maintaining with respect to ongoing regulatory filings.
- 3 **Q. How will the Commission’s approval the proposed transaction impact ongoing
4 regulatory commitments that affiliated regulated utilities have?**
- 5 A. None. Those utilities will continue with their ongoing regulatory commitments without
6 interruption or change.
- 7 **Q. Will the proposed transaction require any relocation of Empire’s books and
8 records?**
- 9 A. No.
- 10 **Q. As far as records kept by LU Central or its various subsidiaries concerning
11 Empire’s operations, please address the availability of those records for review by
12 the Commission or its Staff.**
- 13 A. LU Central will ensure that appropriate access to Empire’s books and records are provided
14 to the Commission and its Staff.
- 15 **Q. Does this conclude your direct testimony?**
- 16 A. Yes.

VERIFICATION

STATE OF MISSOURI)
) ss:
COUNTY OF Cape Girardeau)

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

Chris Krygier 3/14/16

SUBSCRIBED AND SWORN to before me this 14th day of March, 2016.

Tiffany Shasserre
Notary Public

Commission/Appointment Expires: 5/6/2018



TIFFANY SHASSERRE
My Commission Expires
May 6, 2018
Cape Girardeau County
Commission #14613101