Exhibit No.:	______________
Issue(s):	Response to Merger Impact
Witness/Type of Exhibit:	Azad/Rebuttal
Sponsoring Party:	Public Counsel
Case No.:	EM-2016-0213

REBUTTAL TESTIMONY

OF

ARA AZAD

Submitted on Behalf of the Office of the Public Counsel

THE EMPIRE DISTRICT ELECTRIC COMPANY, LIBERTY UTILITIES (CENTRAL) CO. AND LIBERTY SUB CORP.

CASE NO. EM-2016-0213

** **

Denotes Highly Confidential Information that has been Redacted

July 20, 2016

NP

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of The Empire District Electric Company, Liberty Utilities (Central) Co. And Liberty Sub Corp. Concerning an Agreement and Plan of Merger and Certain Related Transactions	)))))	**Case No. EM-2016-0213**

AFFIDAVIT OF ARA AZAD

STATE OF KANSAS)
) ss
COUNTY OF JOHNSON)

Ara Azad, of lawful age and being first duly sworn, deposes and states:

1. My name is Ara Azad. I am Managing Partner at AzP Consulting, LLC.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached affidavit are true and correct to the best of my knowledge and belief.

LUKE STUART
Notary Public
State of Kansas
My Commission Expires 8/20/19

Ara Azad

Ara Azad

Subscribed and sworn to me this 20th day of July 2016.

Luke Stuart

TABLE OF CONTENTS

REBUTTAL TESTIMONY

OF

ARA AZAD

EMPIRE DISTRICT ELECTRIC COMPANY (ELECTRIC)
EMPIRE DISTRIC GAS COMPANY, THE-INVESTOR (GAS)
LIBERTY UTILITIES (CENTRAL) CO. INVESTOR (ELECTRIC)
LIBERTY SUB CORP. INVESTOR (ELECTRIC)
CASE NO. EM-2016-0213

I. INTRODUCTION

Q. Please state your name, title and business address.

A. Ara Azad, Managing Partner, AzP Consulting, LLC ("AzP"), 11614 Tomahawk Creek Parkway, Suite I, Leawood, Kansas 66211.

Q. Please describe your education and employment background.

A. I received my Bachelor of Science degree in Molecular Biosciences from the University of Kansas and my Master of Science degree in Accounting from the University of Missouri-Kansas City. I began my career as a financial statement auditor with the international public accounting firm, PricewaterhouseCoopers. Prior to cofounding AzP, I was a Senior Consultant at the regulatory consulting firm, Overland Consulting.

Q. Do you have any professional designations?

A. Yes. I am a Certified Public Accountant licensed in the state of Missouri.

Q. Have you previously served as an expert consultant in a proposed utility merger review?

A. Yes. Most recently I served as an expert consultant assisting the Public Service Commission Technical Staffs of Maryland and Delaware in their review of the merger between Exelon Corporation ("Exelon") and Pepco Holdings, Inc. ("PHI").

Q. What party do you represent?

A. I provide this testimony on behalf of the Missouri Office of the Public Counsel ("OPC" or "Public Counsel").

Q. How is your testimony organized?

A. This testimony is organized into the following sections:

I. Introduction
II. Background of Merger
III. Detriments of the Proposed Acquisition and Proposed Mitigating Conditions
    A. Ratepayer Protections
        i. Accounting and Tax Issues
        ii. Transaction and Transition Costs
        iii. Energy Efficiency & Load Research
        iv. Costs of Empire's Customer Information System
    B. Employment in the State of Missouri
    C. Charitable Contributions and Community Support
    D. Affiliate Transaction and Cost Allocation Matters
    E. Most Favored Nation Provision
IV. Conclusion

Q. What is the purpose of your rebuttal testimony?

A. The purpose of this rebuttal testimony is to respond to the application and testimony filed in Case No. EM-2016-0213 seeking Commission approval of the proposed acquisition of The Empire District Electric Company ("Empire") by Liberty Utilities (Central) Co. ("LU Central") (together, "Applicants." LU Central acts as an indirect subsidiary of Algonquin Power Utilities Corporation ("APUC") (collectively, "the Applicants").

Q. What documents did you review in developing this analysis?

A. In addition to the merger application and direct testimonies filed by the Applicants, I reviewed data request responses provided in this proceeding, credit rating agency reports, news reports and press releases, testimonies and orders from other utility merger reviews, and the relevant statute.

Q. What is your position regarding the impact of this proposed merger within the areas under review in this testimony?

A. Based on the evidence in this proceeding, the Applicants have not provided a basis on which to base a finding of consistency with the public interest. In fact, the evidence clearly reveals that the Applicants have not performed the requisite balancing test to demonstrate the proposed merger will not be detrimental to the Missouri public.

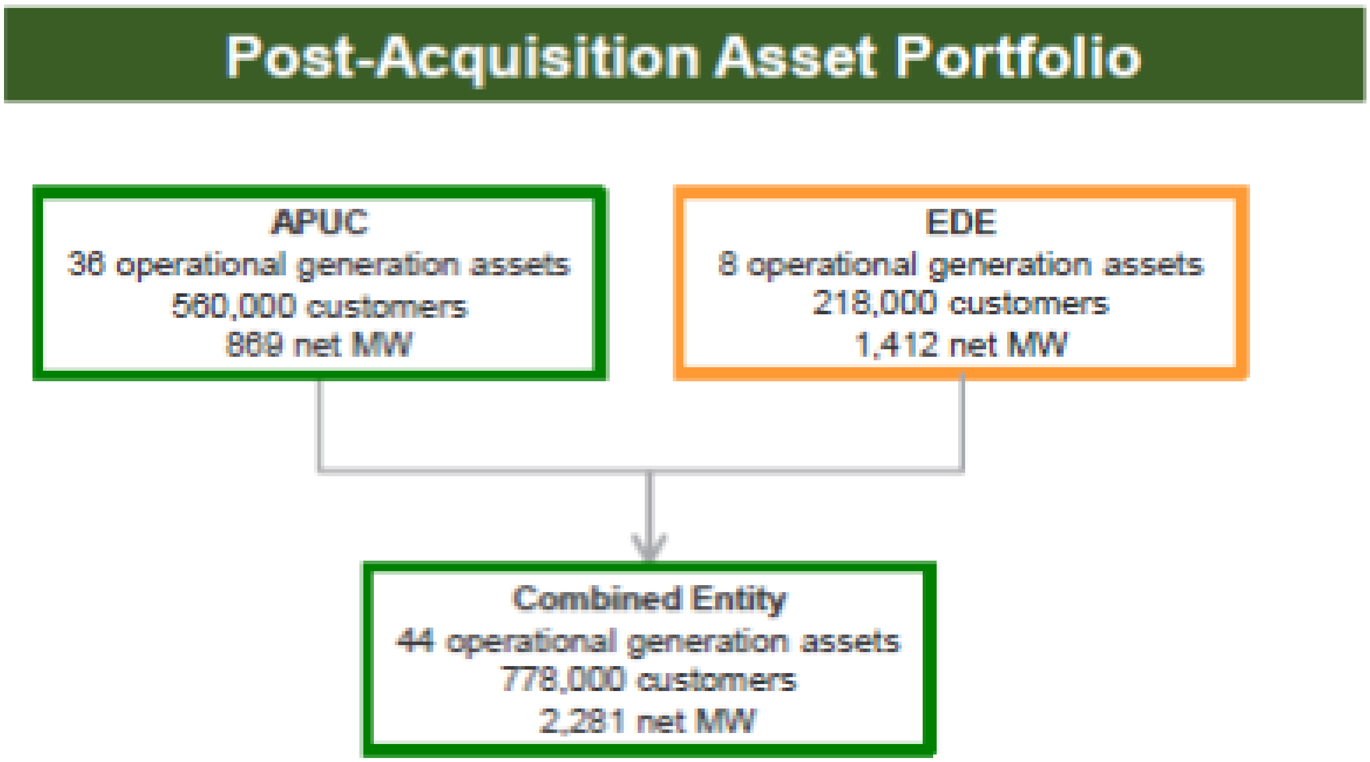
II. BACKGROUND OF MERGER

Q. Please provide a background for this proposed merger.

A. On February 9, 2016, the Applicants executed an Agreement and Plan of Merger (the "Agreement") and announced plans for the proposed acquisition of Empire by APUC. The merger, valued at $2.4 billion, represents a 50% premium over the unaffected Empire stock price of $22.65 as of December 10, 2015. The $2.4 billion dollars includes assumption of Empire debt totaling $0.9 billion.

In a February 9, 2016 presentation, *Algonquin Acquires the Empire District Electric Company*, the Applicants presented information pertaining to the proposed merger and the anticipated combined business function and performance of APUC and Empire. The combined companies are anticipated to serve approximately 780,000 customers, and possess net generation of nearly 2,300 MW with 44 generation assets as seen in Figure 1.

Figure 1 - Post-Acquisition Asset Portfolio of APUC and EDE[1]

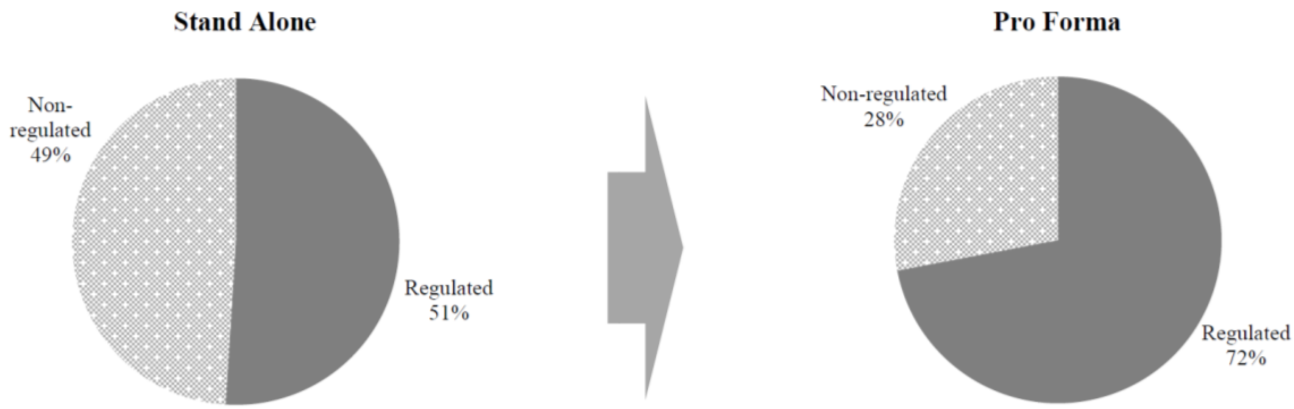


On March 14, 2016, Empire, LU Central, and Liberty Sub Corp. filed an application (the "Application") in Case No. EM-2016-0213 with the Missouri Public Service Commission ("Commission") seeking an order authorizing acquisition of all of the common stock of Empire by APUC. The Application was accompanied by testimony from four witnesses.

For the twelve months ended December 31, 2014, non-regulated assets contributed nearly half—49%—of APUC's earnings before interest, taxes, depreciation, and amortization ("EBITDA"). If the merger is completed, the combined company's regulated business mix, as a percentage of adjusted EBITDA would increase from 51 percent to 72 percent as seen in Figure 2.

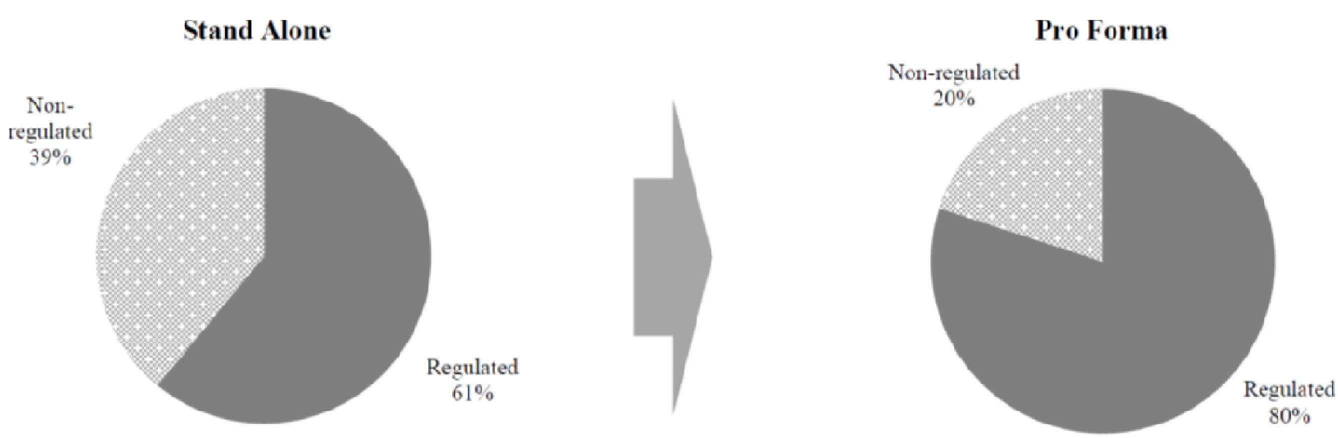
[1] See attachment AA-R1 - "Algonquin Acquires the Empire District Electric Company" PowerPoint presentation, dated February 9, 2016, p. 17.
http://investors.algonquinpower.com/Cache/1500080728.PDF?Y=&O=PDF&D=&FID=1500080728&T=&IID=4142273

<u>Figure 2 – Business Mix as a % of EBITDA for the twelve months ended December 31, 2014</u>[2]



This impact of the merger is even more pronounced when considered on the basis of net earnings and illustrates APUC's motivation for the acquisition, causing this significant shift toward the combined company's business mix toward regulated operations, from 61 percent to 80 percent as seen in Figure 3.

<u>Figure 3 - Business Mix as % of Net Earnings for the twelve months ended Dec. 31, 2014</u>[3]



[2] APUC Short Form Prospectus, February 22, 2016
[3] APUC Short Form Prospectus, February 22, 2016

Q. What does this illustrate regarding the impact of the proposed acquisition on the merging companies?

A. While this factor shows a significant benefit to APUC, it is potentially to the detriment of Empire as discussed below in the context of risk. Challenges of significantly increasing the concentration and influence of APUC in the region include added incentive for and greater power in and lobbying for regulation that is advantageous to the goals of the new company. These goals may be different than and potentially conflict with those of Empire's customers given the different business mix of the former versus the merged holding companies (50% non-regulated post-merger versus virtually zero at pre-merger Empire).

In early December 2015, following an Empire board of directors meeting, the Company's "exploration of strategic alternatives," including the potential sale of the company, became known to the public. On December 15, 2015, credit rating agency S&P issued a report (Empire District Electric Co. Outlook Revised To Developing On Possible Sale/Merger; Ratings Affirmed) in which it revised its outlook on Empire from 'stable' to 'developing'.

In that report, S&P stated:

> We could raise the ratings on Empire if the company is acquired by or merges with an entity with stronger credit quality and the combined company's consolidated group credit profile is 'bbb+' or higher. We could also raise the ratings if no transaction is announced and Empire's standalone Consolidated financial measures strengthen, reflecting FFO to debt that is consistently greater than 20% to 21%.[4]

[4] See Attachment AA-R2 - "Empire District Electric Co. Outlook Revised To Developing On Possible Sale/Merger; Ratings Affirmed", Standard & Poor's Ratings Services, dated December 15, 2015. http://www.alacrastore.com/s-

APUC's proposed $2.4 billion acquisition of Empire is to be completed with $1.5 billion in cash as well as assumption of debt in the amount of approximately $0.9 billion.

According to Ian Robertson, CEO of Algonquin Power & Utilities Corp., the debt will likely be financed through U.S. private placement bonds with maturities tied to fit the maturity ladder of the existing Empire District debt financings, (as indicated during a February 11, 2016 Analyst Call). The cash option is expected to be partially financed through $1 billion Canadian of convertible debentures. Certain features of the debentures, such as interest payments that cease on closing of acquisition, encourage holders to convert. S&P treats the debentures as debt until conversion occurs. The impact of this financing is reflected in the rating agency's outlook downgrade from 'stable' to 'negative'.[5]

S&P's threshold for ratings downgrade associated with adjusted funds from operations (AFFO)-to-debt is 14%. The FFO is considered a key credit metric by ratings agencies. The impact of the increase in company debt for APUC would result in an AFFO-to-debt ratio of approximately 10.5%, well below the rating agency's threshold for a ratings downgrade.

The rating agency views this factor as added risk and a potential for lower ratings as a result of limited ability to absorb weaker financial performance. As a result of this execution risk associated with the merger, S&P changed its outlook from 'stable' to 'negative' for APUC, as well as subsidiaries Algonquin Power Co. and Liberty Utilities Co.

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and-p-credit-research/Research-Update-Empire-District-Electric-Co-Outlook-Revised-To-Developing-On-Possible-Sale-Merger-Ratings-Affirmed-1552687

[5] See Attachment AA-R3 - The Empire District Electric Company, Schedule 14A, Transcript of The Empire District Electric Company analyst call on February 11, 2016. https://www.sec.gov/Archives/edgar/data/32689/000110465916096480/a16-3759_13defa14a.htm

For Empire, S&P revised its outlook from 'developing' to 'negative'. In its February 10, 2016 report, *Empire District Electric Co. Ratings Affirmed, Outlook Revised to Negative on Proposed Acquisition By Algonquin Power*, the ratings agency explains:

> The negative outlook [for Empire] reflects the potential for lower ratings on Empire driven by the company's proposed acquisition by Algonquin and the expectation of materially weaker credit measures at the combined enterprise when the transaction closes.[6]

This is due to Empire's credit rating, upon merger, becoming aligned with that of APUC, which the credit agency would view Empire as a core subsidiary. Consequently, the negative outlook is based on the negative outlook on APUC, reflecting the risk of weaker near-term credit measures associated with the transaction's timing and financing. S&P's negative outlook also reflects the execution risk associated with the additional equity and debt necessary to support the merger and to fund the company's ongoing development plans.

In addition to the impact of the merger on the combined company's key metrics, another important risk factor warrants attention. From a credit ratings standpoint, non-utility (i.e., non-regulated) operations—even with long-term contracts in place—are associated with a greater level of business risk than regulated businesses/utility operations.

Empire is projected to comprise approximately 45% of APUC's total EBITDA, with regulated operations comprising approximately 70% of total EBITDA. For APUC, this represents an improvement to its industry risk. For Empire, however, this is a shift in the opposite direction and the added risk to Empire must be considered in the review of the proposed transaction.

[6] See Attachment AA-R4 - Response to Discovery, OPC - AzP - 5064 - S&P Feb 2016

Q. Please summarize your understanding of Empire.

A. Empire is an investor-owned regulated utility company. The company's stock trades on the New York Stock Exchange (NYSE) under the ticker symbol EDE.

Empire is a Kansas Corporation headquartered in Joplin, Missouri, where it conducts business in this state as well as the states of Kansas, Arkansas, and Oklahoma, serving approximately 218,000 customers.

A significant portion—89%–of Empire's retail regulated revenue is derived from its Missouri operations. The following table summarizes the company's distribution of revenues for fiscal year 2015 within its four service territories as seen in Empire's 2015 form 10-K, as illustrated in Figure 4.

Figure 4 - Empire's 2015 Retail Regulated Revenues by Jurisdiction[7]

2015 Retail Regulated Revenues by Jurisdiction

Missouri	89.0%
Kansas	4.8%
Oklahoma	2.8%
Arkansas	3.4%
Total	100.0%

Given the relatively substantial importance of Empire's Missouri operations to its overall consolidated performance, the impact of the proposed merger on the State of Missouri is particularly significant.

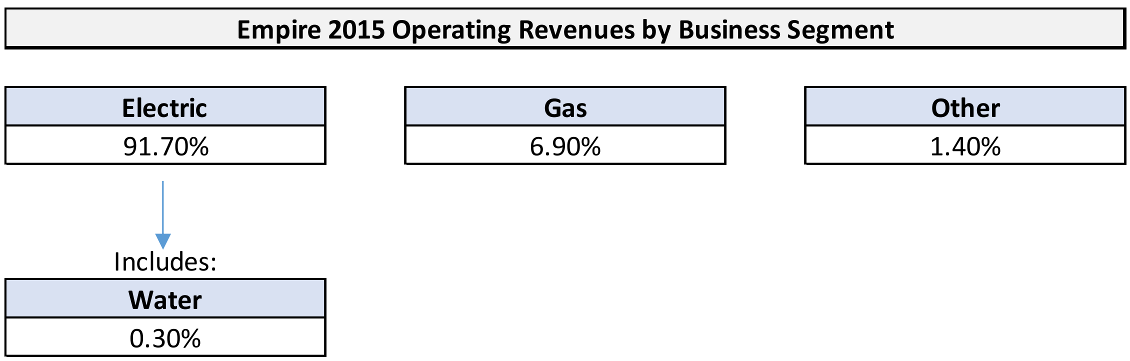
Empire's primary business is in the transmission, distribution, and sale of electric generation. It also provides water service in the state of Missouri and natural gas utility service in Missouri through its wholly-owned subsidiary, The Empire District Gas

[7] See Attachment AA-R5 - Empire District Electric Company, form 10K, 2015, p. 4.

Company ("EDG"). Empire also provides interexchange and private line telecommunications services in Missouri.

Empire's electric operating segment is its most dominant of all business segments, providing over 90% of its revenues as seen in Figure 5.

<u>Figure 4 - Empire's 2015 Operating Revenues by Business Segment</u>[8]



It has over 1,280 MW of capacity and 86 MW of purchased capacity.

Q. Please summarize your understanding of APUC.

A. APUC is a diversified generation, transmission, and distribution utility company. It has 66 power generation facilities with approximately 870 net MW of generation, and utilities in Canada and the United States and approximately 1,450 employees.

APUC stock is traded on the Toronto Stock Exchange (TSX) under the stock symbol AQN. Prior to the announcement of the merger (as of close of business on February 2, 2016), APUC stock was trading at $11.84 CAD. On April 14, 2016, AQN closed at $10.69.

APUC has been involved in a number of mergers and acquisitions as part of its growth strategy. It is the parent to a number of subsidiaries and holding companies. The

[8] Empire District Electric Company, form 10K, 2015, p. 64.

following chart is a partial corporate chart presented here to illustrate the relationship between APUC, Liberty Utilities Co., and Liberty Utilities (Sub) Corporation (a subsidiary of Liberty Utilities (Central) Co.).

Liberty Utilities (Central) Company ("LU Central") is a wholly-owned subsidiary of Liberty Utilities and an indirect subsidiary of APUC. LU Central is a Delaware Corporation formed for the purpose of acquiring the capital stock of Empire. Chart A, Appendix G to the Merger Application, and included as Figure 6, illustrates this portion of the APUC's corporate structure (with additional subsidiaries omitted for ease of illustration).

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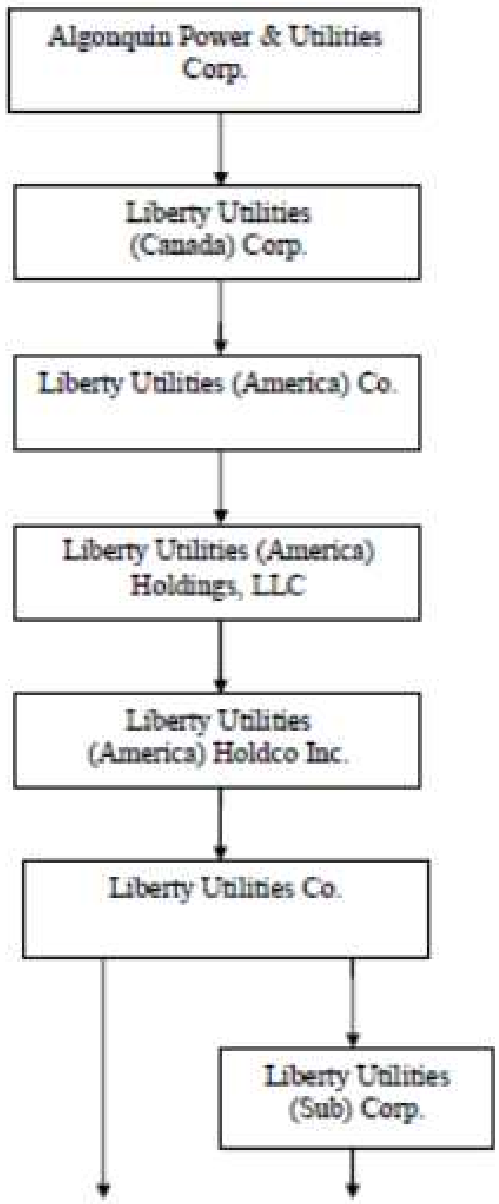
Figure 5 - APUC Partial Corporate Structure[9]



Algonquin's U.S.-based wholly-owned subsidiary, Liberty Utilities Co. ("Liberty Utilities"), serves approximately 560,000 utility customers through its regulated electric, natural gas, and water utilities. It owns natural gas local distribution properties in

[9] Merger Application (Chart A, Appendix G)

Missouri, Iowa, and Illinois, serving approximately 83,000 customers in the region. Liberty Utilities also owns regulated water distribution utilities in Missouri, Arkansas, and Texas where it serves approximately 43,000 customers. In the United States, it owns and operates utilities in eleven states within the United States: Arizona, Arkansas, California, Iowa, Illinois, Missouri, Georgia, Massachusetts, Montana, New Hampshire, and Texas.

If the merger is consummated, Empire would become an indirect subsidiary of Liberty Utilities. Liberty owns only water and gas utilities in Missouri and serves approximately 55,000 utility gas customers in Missouri. Liberty also owns some small water utilities in and around Branson and the Lake of the Ozarks.

Q. Please summarize what you deem as the primary differences of APUC and Empire.

A. As it stands today, Empire is an almost entirely rate-regulated entity. In fact, prior to the merger announcement, Empire marketed itself to investors as a "Pure-Play Regulated Electric and Gas Utility" with a "Low Risk Growth Plan."[10]

APUC, on the other hand, is approximately 50% non-regulated. Also, in contrast to Empire, APUC is a rapidly changing company that has what S&P has referred to as an "aggressive" growth appetite.[11] Over the last ten years, APUC has completed (or has pending completion of) **twenty-two** acquisitions.

[10] See Attachment AA-R6 - Response to Discovery, OPC - AzP - 5100 Analyst Presentation 3rd QTR 2015
[11] Standard & Poor's Ratings Services, *S&P on Algonquin Power & Utilities Corp*, October 22, 2012

III. DETRIMENTS OF THE PROPOSED ACQUISITION AND PROPOSED MITIGATING CONDITIONS

A. Ratepayer Protections

i. Accounting and Tax Issues

Q. How do the Applicants intend to account for the proposed transaction?

A. The Applicants have stated "adjustments to fair value will be recorded in accordance with U.S. GAAP…" This method of accounting is often referred to as "push-down" accounting. Under this method of accounting, Algonquin is required to record an adjustment to the assets and liabilities of Empire to reflect the fair value of these assets and liabilities as of the acquisition date. To the extent that the acquirer's (in the current proceeding, Algonquin's) purchase price exceeds the fair value of the target company's (in the current proceeding, Empire's) identifiable net assets, the excess is recorded as goodwill.

Q. Have the Applicants provided any additional clarification regarding the accounting of this transaction and its potential impacts on Empire's ratepayers?

A. Yes. The Applicants described their intended accounting, stating that "…these [fair value] adjustments will not be reflected on the regulatory and ratemaking records of Empire."[12] The Applicants also noted they would not seek rate recovery of the merger transaction premium.[13]

Q. Will the accounting for this merger have any impact on Empire's rate base?

A. Based on the Applicants' responses to discovery, the impacts of merger accounting on rate base are unclear. In multiple data requests, the Applicants discussed their expectations regarding rate impacts of various accounting issues. Below is the Applicants' data request

[12] See Attachment AA-R7 - Response to Discovery, OPC – AzP – No. 5105
[13] Direct Testimony of Peter Eichler, p. 8, 16-20.

response regarding the potential impact of the transaction on the balance of Accumulated deferred income taxes (ADIT) and Accumulated deferred investment tax credits (ADITC):

> "[the balances of] deferred taxes, investment tax credits and contributions is not **expected** to change as a result of the proposed merger and will remain on the books of Empire."[14] (emphasis added)

Q. Why should the Commission be concerned with the transaction's impact on ADITC and ADIT?

A. Both ADITC and ADIT are established through the normalization of federal and state income taxes. They represent customer-contributed, cost-free capital to the utility. ADITC are amortized, with an amortization period matching the life of the asset. ADIT balances are either deducted from rate base or treated as a zero cost element of the utility's capital structure. If the transaction is treated as a taxable transfer of assets, the IRS could view the ADITC and ADIT balances as "recaptured" for tax purposes, and, in future rate cases, the Applicants may argue that these ratepayer benefits are no longer available.

Q. Are there other possible harms related to the accounting for this merger?

A. Yes. Another possible harm is the creation of regulatory assets by the Applicants as an offset to certain fair value adjustments.

Q. Are you aware of any instance where merging utility holding companies attempted to establish a regulatory asset during the merger process?

A. Yes. In the Maryland Public Service Commission's review of the 2010 acquisition of Allegheny Energy by FirstEnergy, FirstEnergy attempted to establish a $31 million regulatory asset on the books of the utility (Potomac Edison) to offset the fair value

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[14] See Attachment AA-R8 - Response to Discovery, OPC – AzP – No. 5109

adjustment of the subject utility's long-term debt.[15] In its final order, the Maryland Public Service Commission deemed the creation of this regulatory asset as inappropriate and disallowed it in its entirety.[16]

Q. Are the Applicants intending to record a regulatory asset in this transaction?

A. According to the Applicants, "No regulatory assets and/or regulatory liabilities are **expected** to be established as a result of the merger." (emphasis added)

Q. Is the Applicants' response adequate to assure that there will be no negative impacts resulting from the accounting of this transaction?

A. No.

Q. Please explain why.

A. Based on the merger application and the Applicants' responses to discovery, it is clear the Applicants' assertions regarding potential accounting impacts on Empire's ratepayers are preliminary and subject to change. In fact, the Applicants have not corresponded with their financial statement auditors regarding the potential accounting impacts of the proposed transaction.[17]

Furthermore, the Applicants provide no commitment in their Application or direct testimonies that there will not be a negative rate impact due to the merger. As noted above, on multiple occasions in discovery, when specifically asked about the possibility of certain balances changing, the Applicants stated that the balances were not "expected" to change, leaving open the possibility of any modifications to the Applicants' expectations.

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[15] See the Reply Panel Testimony of Ryan Pfaff and Gregory Oetting, Case 9233, filed with the Maryland Public Service Commission on October 4, 2010.
http://webapp.psc.state.md.us/newIntranet/Casenum/CaseAction_new.cfm?CaseNumber=9233

[16] Case 9233, Maryland Public Service Commission Order number 83788, *In the Matter of the Application of the Merger of FirstEnergy Corp. And Allegheny Energy, Inc.*

[17] See Attachment AA-R9 - Response to Discovery, OPC – AzP – No. 5106

Q. Can the Commission mitigate the potential of detrimental accounting consequences related to this transaction?

A. Yes. Should the Commission choose to approve the merger, I recommend the Commission order the Applicants to ensure that the merger will be rate-neutral for Empire's customers. In ensuring that the transaction is rate-neutral, the Applicants should commit that the merger will not affect the ratemaking treatments of ADIT and ADITC balances, and commit that there will be no establishment of regulatory assets as part of the merger.

Q. Do you recommend any other conditions related to merger accounting and tax issues?

A. Yes. It is unclear how Empire's income taxes will be impacted by the proposed merger. In order to assure that there will not be a detriment to Empire's customers from Empire's consolidation into any future income tax filing, I recommend that if the Commission chooses to approve the merger, the approval be contingent Empire's parent company indemnifying Empire for any federal or local income tax liability in excess of Empire's standalone liability for any period in which Empire is included in a consolidated income tax filing.

Q. What is the intent for your recommended conditions regarding the accounting and tax issues in this merger proceeding?

A. These conditions are designed with the sole purpose of ensuring Empire's customers are not harmed by issues related to merger accounting and tax impacts of the merger. In other words, these conditions are meant as "hold-harmless" provisions and do not represent any "benefits" related to the proposed merger.

ii. Transaction and Transition Costs

Q. How do the Applicants define transaction costs?

A. Transaction costs, as the name implies, are the costs associated with closing the transaction. The Applicants' definition of transaction costs includes: legal and consulting fees associated with merger approvals, investment banking fees, HSR filings fees, and CFIUS filing fees.[18]

Q. Does this definition appear reasonable?

A. The definition appears incomplete and it should be expanded to include all one-time, merger-related temporary costs that do not create long-term or future benefits to ratepayers. This includes severance costs related to termination of employees as a direct result of this transaction and termination fees incurred in conjunction with the transaction.

Q. What are merger transition costs?

A. Transition costs are the costs incurred to achieve merger savings.

Q. Are the Applicants intending to attempt to recover the merger transition costs from ratepayers?

A. Yes.[19]

Q. Do you agree that the Applicants should be allowed to recover merger transition costs?

A. To the extent that these transition costs are offset by merger savings, yes. However, to the extent transition costs exceed merger savings, the public interest would be harmed and these costs should be disallowed.

[18] See Attachment AA-R10 - Response to Discovery, OPC – AzP – No. 5017
[19] See Attachment AA-R11 - Response to Discovery, OPC – AzP – No. 5129

Q. How can the Commission mitigate this risk?

A. If the Commission chooses to approve the merger, the approval should be conditioned on the Applicants agreeing that for any rate cases wherein Empire seeks recovery of merger transition costs, Empire must provide documentation that demonstrates whether, and the extent to which, these transition costs resulted in cost savings for Empire customers. Empire should commit to seek no recovery of merger transition costs except for those which are fully documented, justified, and supported by quantifiable cost savings.

Q. Are any other conditions necessary to enable the Commission to assess the implementation of this commitment?

A. Yes. It is essential to establish a clear definition of both merger Transaction Costs and merger Transition Costs, which combined, should include all costs associated with the merger. Both sets of costs must be completely segregated from one another and from all non-merger related costs. Otherwise, costs that should be non-recoverable may flow to ratepayers with no recourse and no way to assess whether and to what extent they are passed on to ratepayers above and beyond any offsetting benefits.

Q. Is there evidence to suggest merger-related costs will be passed on to ratepayers if the merger is approved?

A. Yes. For example, **the Applicants have stated they will not segregate or exempt from rate recovery costs associated with the merger transition process.**[20] Thus ratepayers **will** bear the burden of costs resulting from the proposed merger, if approved. In addition, without tracking, separating, and appropriately classifying these costs, they cannot be weighed against their benefits or savings, if any, to ensure that the merger is not completed at the expense of ratepayers.

[20] See Attachment AA-R12 - Response to Discovery, OPC-AzP-5019

The Applicants' current stipulation before the Arkansas Public Service Commission addresses the area of "Acquisition Premium, Transaction Costs, and Transition Costs" by stating that "**no costs of the proposed transaction will be borne by ratepayers**" (emphasis added).[21] However, Transition Costs, in that context, are defined as "one-time, temporary costs related to effecting the transaction that do not create a long lived or future benefit to ratepayers, severance costs related to termination of employees as a direct result of this transaction, or termination fees incurred in conjunction with the transaction."[22]

I recommend that this definition be included within Transition Costs in order to allow for the two categories of costs to be utilized and examined based on their function and recoverability.

Q. What is your position regarding the treatment of merger costs as discussed in the merger stipulation proposed for consideration by the Arkansas Public Service Commission?

A. I agree the costs of the merger should not be borne by ratepayers, but disagree that the proposed language in the Arkansas stipulation achieves this objective. Thus, I recommend that the definition of Transaction Costs be expanded to include all merger-related costs that are not to be passed on to customers. I further recommend the definition of Transition Costs include all merger-related costs that are anticipated to be incurred to produce financial savings or benefits to ratepayers; the costs that may be accounted for in rates only to the extent that they are offset by their corresponding financial benefits / savings. Both sets of costs should be fully segregated from one another and from non-merger related expenses in a manner that enables the Commission, Staff, and the OPC to review these costs, and if they

[21] Docket No. 16-013-U, In the Matter of the Joint Application of Liberty Utilities (Central) Co., Liberty Sub Corp., and the Empire District Electric Company for All Necessary Authorizations and Approvals for Liberty Sub Corp. to Merge with and into The Empire District Electric Company, Before the Arkansas Public Service Commission, Joint Motion to Approve Stipulation and Settlement Agreement and Request to Cancel Hearing, Exhibit 1, pp. 9-10
[22] Ibid, p. 10

deem appropriate, in Empire's next rate case proceeding, advocate that the costs be excluded from rates to the extent necessary.

iii. Energy Efficiency & Load Research

Q. Would you like the Commission to consider other specific rate-related impacts of the merger that may negatively impact Empire's ratepayers if the merger were approved?

A. Yes. In order to protect customers from the risks of carrying a disproportionate share of Empire's fixed costs, and to protect customers who take measures to use energy efficiently, the OPC recommends that if the merger is approved, it be conditioned on the following two commitments:

- Empire shall introduce an on-bill financing tariff for energy efficient upgrades for residential ratepayers in its next subsequent rate case.
- The Joint Applicants agree that Empire's load research will be updated to take into account both the summer and winter usage of the customers in each customer class before Empire's next subsequent rate case.

iv. Costs of Empire's Customer Information System

Q. In his direct testimony, Company Witness Pasieka states that there is an "opportunity to capture the benefit of scale is the potential combination of our respective needs for customer information systems ('CIS')." Do you consider the possibility of combining needs for CIS a benefit of the merger?

A. No. When asked in discovery to provide an anticipated date when this new CIS would be implemented, the Applicants stated that "a study to evaluate a news (sic) CIS system is expected within the next 5 years."[23] Given that the Applicants have not even performed a study to evaluate the feasibility of a new CIS, any purported benefit is highly speculative.

Q. Do you believe a new CIS may actually be detrimental to Empire's ratepayers?

A. Yes. Empire has recently upgraded its CIS.[24] If a new CIS is implemented before Empire's current CIS is fully utilized, Empire's customers will effectively be paying for two systems.

Q. How can the Commission mitigate this risk?

A. If the merger were to be approved, it should be on the condition that the billing and customer information system platform at Empire be in use for their expected useful lives, which will be at least as long as their scheduled depreciation period. If, for any reason, the use of Empire's billing or customer information system platform are terminated before the end of its scheduled depreciation period, ratepayers shall not be responsible for any un-depreciated costs or lease payment obligations remaining after the date upon which use is terminated.

B. Employment in the State of Missouri

Q. Have the Applicants proposed any commitments to Empire's employees in the State of Missouri?

A. The Merger Agreement, Section 6.10 addresses *Employee Matters*. In this section the Applicants state the following will apply from the closing of the merger and ending on the two-year anniversary of the merger closing. The merged company will provide employees with:

> (i) a base salary or wage rate that is no less favorable than that provided to the Company Employee immediately prior to the Effective Time,

[23] See Attachment AA-R13 - Response to Discovery, OPC – AzP – No. 5030
[24] See Attachment AA-R14 - Response to Discovery, OPC – AzP – No. 5034

> (ii) aggregate incentive compensation opportunities that are substantially comparable, in the aggregate, to those provided to the Company Employee immediately prior to the Effective Time and
>
> (iii) employee benefits that are substantially comparable, in the aggregate, to those provided to the Company Employee immediately prior to the Effective Time.

For the three-year period that follows (years three through five) the merged company will:

> Treat Company Employees with respect to the payment of base salary or wage rate, incentive compensation opportunities, employee benefits and severance benefits no less favorably in the aggregate than similarly situated employees of the Parent and its Affiliates. Prior to the third anniversary of the Closing Date, Parent shall not, and shall cause the Surviving Corporation to not, terminate or amend in any manner that is materially adverse to the participants therein.

However, Merger Agreement, Section 6.10, *Employee Matters*, paragraph (f) also explicitly states that the provisions of this section of the Agreement are "solely for the benefit of the parties to this Agreement, and … no Company Personnel or any other individual associated therewith shall be regarded for any purpose as a third-party beneficiary of this Agreement or have the right to enforce the provisions hereof including in respect of continued employment (or resumed employment)."[25]

For this reason, I propose that should the Commission choose to approve the proposed merger, the approval be conditioned on the following employment-related conditions:

[25] Agreement and Plan of Merger, by and among The Empire District Electric Company, Liberty Utilities (Central) Co. and Liberty Sub Corp., Dated as of February 9, 2016, pp. 40-42.

- Empire will continue to provide each Company Employee (each individual who is employed by the Empire or its subsidiary immediately prior to the merger and who remains employed thereafter by the surviving corporation, parent or any of their affiliates):

  (i) a base salary or wage rate that is no less favorable than that provided to the company employee immediately prior to the merger,

  (ii) aggregate incentive compensation opportunities that are substantially comparable, in the aggregate, to those provided to the company employee immediately prior to the merger, and

  (iii) employee benefits that are substantially comparable, in the aggregate, to those provided to the company employee immediately prior to the merger.

In addition, for the three-year period that follows (years three through five) the merged company will:

  Treat employees with respect to the payment of base salary or wage rate, incentive compensation opportunities, employee benefits and severance benefits no less favorably in the aggregate than similarly situated employees of the Parent and its Affiliates. Prior to the third anniversary of the merger, the parent shall not, and shall cause the surviving corporation to not, terminate or amend in any manner that is materially adverse to the participants therein.

- For a period of five years following the merger, there shall be no net reduction in employment levels of Missouri-based employees (Empire employees who reside and/or work in the State of Missouri) at Empire resulting from involuntary attrition. "Involuntary attrition," for purposes of this commitment, includes but is not limited to transfer-or-quit offers where an employee is given the option to quit rather than be transferred to a work location outside of the State of Missouri or to accept a position that is not substantially similar to the employee's current position.

- Empire will file annual reports with the Commission that detail all job losses and job gains at Empire for a period of ten years following the merger. This report will include descriptions for all job losses, including title, department, reason, and a statement regarding whether the job loss was involuntary or voluntary, as well as the Company's definition of "voluntary attrition" and "involuntary attrition" (to include, but not be limited to transfer-or-quit offers where an employee is given the option to quit rather than be transferred to a work location outside of the State of Missouri or to accept a position that is not substantially similar to the employee's current position). In the event that a "substantially similar" position is offered to an employee who elects to resign rather than accept the position, Empire will provide a description of the job offered, including details of the major characteristics of the position, including but not limited to salary and benefits, title, office location, and reporting and supervision duties.

- In this report, the Applicants will also provide a detailed analysis of all costs associated with any new positions resulting from the merger for which costs are directly charged and/or indirectly allocated to utility customers in Missouri.

- In this report, the Applicants will provide an analysis of the changes to the positions of current Empire Missouri employees, in sufficient detail to ascertain whether and the extent to which duties of employees expanded as a result of making Empire's headquarters a regional headquarter (Liberty Central). The intention of this analysis and resulting information is to address whether employees are anticipated to significantly increase their duties to an extent that may jeopardize the quality of their services in a manner that is detrimental to the public interest.

Q. Aside from the Merger Agreement, have the Applicants addressed the issue of employment elsewhere in their Application or accompanying testimonies?

A. Yes. Company Witness Krygier has testified "this transaction is not about cutting jobs," and that "there will be no involuntary workforce reductions associated with this transaction."[26] The Applicants have also stated in response to discovery, that "should the Commission desire to verify that continued offers of employment have been made to members of management who desire to stay with the company, it will be able to verify the management team have (sic) been offered positions to continue employment." and that these employment commitments "apply to both the management team and employees."[27]

Q. Assuming the Applicants' assertion that there will be "no involuntary workforce reductions associated with this transaction" is true, should the Commission conclude that the transaction will have no negative impact on employment?

A. No because Empire's total workforce may be reduced by either involuntary attrition (i.e., layoffs) or voluntary attrition (e.g., retirements).

While the Applicants have indicated that labor synergies are not a major objective of this merger, in their savings analysis, the Applicants assume merger-related labor savings resulting from the forgone rehiring of approximately 16 employees annually.[28] While the

[26] Direct Testimony of Christopher Krygier, p. 8: 1-3.
[27] See Attachment AA-R15 - Response to discovery, OPC–AzP-No. 5001
[28] Response to discovery, OPC-AzP-No. 5028 – Labor Savings Workpaper

Applicants' calculation is flawed in several respects as discussed below, it does indicate that the Applicants have considered potential labor synergies resulting from the merger and that a potential reduction in Empire's employment levels should be considered.

Q. Are you suggesting that the merger may be in the public interest only if it does not result in job losses?

A. No. Utility mergers often produce efficiencies by combining contiguous service areas and reducing costs through elimination of duplicated functions. While these savings would be achieved at the expense of some employees and the related negative economic impact to the state, it is certainly possible for the related benefits—in the form of lower costs to consumers—to offset these costs.

Q. Would a commitment to no involuntary attrition prevent a detrimental reduction in Empire's workforce?

A. No. While such a commitment would provide some assurance, it would not be sufficient to prevent a detrimental reduction in workforce resulting from the merger.

Q. Have the Applicants identified what they consider voluntary versus involuntary attrition? For example, if an Empire employee performing functions at the Joplin headquarters is provided the option to either relocate or resign, under which condition the employee elects to not relocate, does Empire designate this event as an "involuntary attrition" in the level of Employment?

A. The Applicants have made no commitment to deem a job loss under this circumstance an "involuntary attrition," which they define as "a situation where employment in current (or similar) position is no longer offered to an employee against his or her will."[29] The Applicants have further indicated that "[n]o estimate exists at this time"[30] with regard to

[29] See Attachment AA-R16 - Response to discovery, OPC-AzP-No. 5003
[30] See Attachment AA-R16 - Response to discovery, OPC-AzP-No. 5003

the company's workforce-related assumptions, and that "the transition team will work on this to have in place before 'Day 1.'"[31]

Q. What is the relevance of this consideration in the context of "public interest" and what do you propose for the Commission's consideration?

A. As indicated in the introduction to this testimony, I propose that the Commission deny the Applicants' request for approval of the proposed merger on the basis that the Applicants have not met the burden of proof in demonstrating that the proposed merger will not be detrimental to the public interest. The Applicants appear to have approached this proceeding and the implications of the merger with a "we will consider these issues after the Commission approves the merger" approach.

Q. The Applicants have quantified synergy savings that consider, among other factors, labor savings, have they not?

A. Yes, they have. In his direct testimony, Company Witness Eichler claims "costs borne by Empire would be lower under Liberty Utilities allocation methodology."[32] He continues to explain this is a result of several factors[33] which include "labor savings", though "there will be no involuntary job losses within the Empire group."[34]

Q. It appears the Applicants are claiming they will achieve labor savings with no involuntary job reductions. What then do you suggest is a problem with achieving savings without detriments?

A. The Applicants' analysis of the potential detrimental impacts of the merger on employment as well as any associated savings that should be reasonably anticipated are

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[31] See Attachment AA-R16 - Response to discovery, OPC-AzP-No. 5003

[32] Direct Testimony of Peter Eichler, p. 12 at lines 6 through 22 and p. 13 at lines 1 through 4.

[33] In addition to the labor-related assumptions addressed in this section, these factors include purported savings of $2.3 million in regulatory costs, which are overstated as explained in greater detail in the rebuttal testimony of OPC Witness Pfaff.

[34] Direct testimony of Peter Eichler, p. 12 at 16-19.

misleading for several reasons: 1) They ignore the fact that to the extent forgone positions become vacant as a result of normal attrition would be a change resulting from the merger, they lead to fewer positions at Empire in the State of Missouri. They fail to treat this as a cost. 2) The Applicants' calculation contains errors that undervalue related benefits.[35] Further, as indicated in discovery, their analysis is not based on an actual projection, but appears to serve more as a hypothetical example.[36] It should not be viewed as a reliable projection of a measure of benefits resulting from the merger. To the extent it is viewed at all as an indication of potential for benefits, any related costs or detriments should also be considered. 3) The assumptions underlying the labor synergy analysis conflict with the Applicants' response to AzP-OPC- 5010, where the Applicants suggest the number of employees may in fact potentially increase, in which case no such labor synergies would exist or to the extent they would be offset by additional labor, they should be netted against the cost to increase Empire's labor force.

Even if the increase were to take place in Missouri, outside of Empire, proposed labor synergies from electing to not fill positions that become vacant through normal attrition would have to be netted against any labor costs allocated to Empire Missouri from the estimated increase in labor. The Applicants purport conflicting "benefits" without committing to any (i.e., the "benefit" of savings from labor synergies resulting from the merger while also having the potential to have a net increase in the level of employment resulting from the merger).

There can be either a net increase or a net decrease in Empire Missouri costs associated with labor after the merger but not both. In addition, to the extent that the Applicants commit to either "benefit" (and they have not committed to any), the associated costs must be projected as well and netted against the potential benefits in providing the

[35] See Attachment AA-R17 - Response to discovery, OPC-AzP-No. 5117; in the Applicants' "Labor Savings Workpaper", which serves as a basis for one of few quantified assertions made by the Applicants, the "Average Cost of An Employee" is understated. The Applicants indicated that Empire's current employees total 749, but calculated average cost of an employee using 760 employees.

[36] See Attachment AA-R17 - Response to discovery, OPC-AzP-No. 5117

requisite "balancing test" for the Commission's consideration. The associated costs include: in case of labor synergies, lost (or forgone) jobs that would have existed absent the merger. In case of increased employment, the costs would be the additional financial costs incurred and passed onto ratepayer to hire new employees.

Q. What detriments may be associated with the employment impacts of the proposed merger?

A. Approximately 97%—725 employees—of Empire's total employees, work in Missouri.[37] Clearly, to the extent that Empire's overall employee count is reduced, the impact on Missouri will be significant.

Q. Can you provide any recent examples where employment levels in a state declined after a utility merger?

A. Yes. In 2012, Exelon Corporation acquired Constellation Energy Group. At the time, Constellation was headquartered in Baltimore, Maryland, and maintained 938 service company employees in Maryland. Within three years of the merger with Exelon, the number of service company employees located in Maryland declined to 648 employees, a decrease of 31%.[38]

Q. You noted previously that, in the Exelon proceeding, the shared services functions declined substantially. What was the reasoning for this substantial decline?

A. The area's most often impacted by employment reductions as a result of a utility merger are those in shared services, such as accounting, finance, and human resources. The reason for this is that these types of functions can be relocated and centralized. It is

[37] See Attachment AA-R18 - Response to Discovery, OPC – AzP – No. 5005 and OPC – AzP – No. 5006
[38] Prepared Reply Panel Testimony of Steven A. Ostrover and Ryan J. Pfaff, In the Matter of the Merger of Exelon Corporation and Pepco Holdings, Inc. http://webapp.psc.state.md.us/newIntranet/casenum/submit_new.cfm?DirPath=C:\Casenum\9300-9399\9361\Item_89\&CaseN=9361\Item_89

relatively easy to centralize the tax preparation function of several utilities in one remote location.

Other functions—those that require workers to physically be in the relevant service territory—are less apt to be reduced as part of a utility merger because these functions cannot be centralized. An example of this would be a crew used to repair power lines. Obviously, this crew must be physically present at the location of the power line.

Q. Given the potential impact on employees who perform shared services, can you provide some additional context regarding the level of these employees at both APUC and Empire in Missouri?

A. Yes. Algonquin currently has 127 employees working in Missouri. Of these individuals, 21 perform functions in shared services including Finance, Human Resources, Regulatory, Executive, and EHSS divisions.[39] Currently at Empire, ** **.[40]

Q. The Applicants have stated that after the merger, the "hiring process is anticipated to continue to evaluate each position as it becomes vacant and determine what is best for the business, a process each of the Applicants does today."[41] If the Applicants share in their dedication to continue this practice after the merger, why is this not sufficient evidence that the merger will not have a detrimental impact on employment?

A. As indicated earlier, Empire currently employs 725 individuals in Missouri. The Applicants have indicated that "the company does not plan to relocate any positions,"[42]

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[39] See Attachment AA-R19 - Response to Discovery, OPC-AzP-No. 5009
[40] See Attachment AA-R20 - Response to Discovery, OPC-AzP-5007 Attachment - HIGHLY CONFIDENTIAL
[41] See Attachment AA-R21 - Response to Discovery, OPC-AzP-5004
[42] See Attachment AA-R22 - Response to Discovery, OPC-AzP-5010

and that "the only positions expected to be eliminated are on account of duplicated functions…or positions that may not be refilled with natural attrition."[43]

One would reasonably anticipate that if the merger were consummated, the combined company would make efforts to eliminate functions that are not needed or are duplicated within the combined company in order to avoid inefficiencies.

The Applicants have indicated their transition team currently has neither a plan in place nor an estimate as to whether or the extent to which the workforce-related implications of the merger would actually impact Empire's workforce or the State of Missouri.[44] For example, if an Empire employee working in Missouri were provided the option to either relocate or resign, or if an employee were offered a different position than the role in which he or she served absent the merger, and the employee found the new role unsatisfactory and elected to leave Empire, it is not clear whether Empire would categorize these situations as "voluntary attrition." The Applicants only define involuntary turnover as "a situation where employment in their current (or similar) position is no longer offered to an employee against his or her will."[45] The Applicants have indicated they have not determined how many individuals would be offered "similar" positions or the mechanism by which a position would be deemed "similar".

As I noted earlier, the Applicants have stated that "no involuntary job losses are anticipated as continued employment is being offered to all employees and it is assumed all employees will continue working."[46] Thus the employment-related conditions I propose represent modest protections for Empire employees in a manner that is measurable and enforceable and is consistent with what appear to be the Applicants' current expectation based on the assertions in their Application and supporting testimonies.

[43] See Attachment AA-R22 - Response to Discovery, OPC-AzP-5010
[44] See Attachment AA-R16 - Response to discovery, OPC-AzP-No. 5003
[45] See Attachment AA-R16 - Response to discovery, OPC-AzP-No. 5003
[46] See Attachment AA-R23 - Response to Discovery, OPC-AzP-5084

Q. Please summarize your overall conclusions regarding the potential of employment changes at Empire as a result of the merger.

A. The following three primary findings should be considered regarding the potential of employment changes at Empire as a result of the merger:

- The Applicants have not performed sufficient analysis to provide the Commission with an adequate basis on which to assess whether, and the extent to which, Empire's employment levels will be impacted.
- When addressing potential "labor synergies" the Applicants, specifically Company Witnesses Eichler and Krygier, make reference only to the "benefits" of fewer employees without acknowledging the offsetting negative economic impact to the state of fewer Missouri-based jobs.
- The Applicants' employment "commitments" are vague. For these commitments to have any value, the Commission must order language that is precise.

C. Charitable Contributions and Community Support

Q. In his Direct Testimony, Company Witness Krygier states that after the closing "LU Central has committed to the same level of charitable contributions …Empire currently does today." Do you believe this commitment is a benefit of the merger?

A. No. A stated "commitment" to continue the status quo has no value certainly not in the manner that the Applicants have proposed. However, if structured appropriately, this commitment would provide the Commission the ability to enforce a base level of charitable contributions in the future.[47]

[47] As recently noted in the Maryland Public Service Commission's order regarding the Exelon-PHI merger wherein a similar commitment was proffered, "Although would not constitute a benefit in the sense that Maryland charities

Q. How might this commitment be structured appropriately?

A. As noted above in the excerpt from Company Witness Krygier's testimony, the Applicants claim they are committing to maintain current level charitable contributions. Fundamental questions for the Commission to consider, therefore, are:

- What is the specific dollar value of charitable contributions that the Commission could enforce after the merger? In other words, what is the specific dollar value of charitable contributions that the Applicants are committing to contribute in Missouri?

- How long can the Commission enforce this condition? Stated another way, for how many years are the Applicants committing to provide this base level of charitable contributions?

In responses to data requests, the Applicants noted there is <u>no</u> specific dollar amount associated with this commitment only approximate amounts. Furthermore, the Applicants admitted there is no time period associated with this commitment. <u>**In summary, the Applicants have neither committed to a time period nor a dollar amount for this commitment**</u>. The ability of the Commission to enforce such a vague commitment is practically nonexistent. This "commitment" as currently structured is, therefore, meaningless.

Q. How can the Commission ensure that this commitment is substantive and that the Applicants truly continue their community support to Missouri charities into the future?

A. I recommend that if the Commission approves the merger, it be conditioned on Empire maintaining, at a minimum, an annual level of charitable contributions and traditional local community support in the State of Missouri at or above ** ** during the five-year period following the Merger. This amount was calculated using Empire's 2011-2015 five-

are no better off post-merger, we recognize that including this commitment in its Application provides the Commission with the authority to enforce the existing level of contributions, if necessary."

year average of charitable contributions, and allocating the total amount to Missouri based on an 86.89% allocation to Missouri.[48] The costs related to charitable contributions should be borne by Empire's shareholders and not recovered in rates.[49]

D. Affiliate Transactions and Cost Allocation Matters

Q. Have the Applicants considered the cost allocation procedures currently in place at Empire and how they compare to those of Algonquin's regulated utilities?

A. The Applicants have responded in discovery that they have not reviewed whether and to what extent material differences exist between the cost allocation methodology of Empire and Algonquin and its subsidiaries.[50] The Applicants state that if the Commission approves the merger, they would file a revised CAM within six months of the merger closing.[51] Thus, the Applicants will not be providing an analysis involving cost allocation impacts of the merger for the Commission to review *prior* to issuing a decision as to whether the merger is in the public interest.

Q. What categories of shared services or common costs currently incurred by Algonquin and its subsidiaries are anticipated to be allocated to Empire's Missouri operation following the merger?

A. Current categories of Algonquin common costs that the Applicants have indicated may be allocated to Empire if the merger were completed include, but are not limited to:[52]

- Legal Costs
- Tax Services
- Audit

[48] Allocation factor obtained from OPC - AzP - 5028 - Workpaper - EDE - $0.7 million
[49] See Attachment AA-R24 - Response to Discovery, OPC-AzP-5093
[50] See Attachment AA-R25 - Response to Discovery, OPC-AzP-5024
[51] See Attachment AA-R25 - Response to Discovery, OPC-AzP-5024
[52] See Attachment AA-R26 - Response to Discovery, OPC-AzP-5026 - Cost Allocation Manual 2015

- Investor Relations
- Director Fees and Insurance
- Licenses, Fees and Permits
- Escrow and Transfer Agent Fees
- Other Professional Services
- Office Administration, Executives
- Information Technology
- Human Resources
- Training
- Facilities and Building Rent
- Environment, Health, Safety and Security
- Procurement
- Financial Reporting
- Treasury
- Internal Audit
- Customer Care and Billing

Q. Where are shared services presently performed for the current (*i.e.*, non-Empire) Liberty Utilities Companies?

A. Shared services provided to Liberty Utilities Co. distribution companies are provided by Algonquin Power & Utilities (Canada) Corp., and Liberty Utilities Service Corp.[53]

Q. Where are shared services and common costs currently performed and incurred at Empire?

A. These services are performed at Empire, by Empire employees, and costs are incurred at the respective departments within Empire.

[53] See Attachment AA-R27 - Response to Discovery, OPC-AzP-5123

Q. What are major considerations regarding cost allocation methodology associated with this proposed Merger?

A. The main consideration with respect to cost allocation is whether the Commission can be assured that the costs borne by Empire customers are allocated appropriately if the merger is approved. Currently, Empire operates as a relatively easy to understand, vertically integrated utility. Thus, a review of cost allocations at Empire would also be relatively straightforward, given the structure of the organization and limited number of affiliates. If the merger were approved, Empire's relationship with its affiliates would become significantly more complex and pose considerable complication for the Commission, its Staff, and the OPC in regulating Empire. To provide context in which to consider the dramatic change in the organizational complexity that will occur if the merger is consummated, below is a description of the operating subsidiaries of Liberty Utilities.[54] If the merger is approved, each of these companies would become an affiliate of Empire.

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[54] See Attachment AA-R28 - Response to Discovery, OPC-AzP-5080 – Supplemental Attachment - HIGHLY CONFIDENTIAL

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Q. How do you recommend that the Commission mitigate the additional regulatory complexity that would result if Empire and Algonquin were to merge?

A. The Commission can mitigate this risk by conditioning approval of this merger on the funding of a detailed third-party audit to review the cost allocation procedures developed for Empire post-merger. The scope of this audit, and the selection of the auditor, should be agreed upon by OPC and Staff to ensure independence. This audit will also help ensure the financial benefits achieved through the merger as a result of changes to Empire's operation are shared with ratepayers appropriately. This is particularly important given that the Applicants have not performed any substantive analysis[55] to date and a great deal of information remains to be determined "on Day One" or after.

Q. Do you recommend any other conditions for the Commission to adopt as a condition for approval of this merger?

A. Yes. I consider the following three conditions as basic, fundamental conditions necessary to protect the public interest. These conditions would help ensure that issues related to Empire's shared services costs are specifically addressed in Empire's next rate case, and that the Missouri Public Service Commission is kept informed of future cost investigations into the cost allocation practices of the Applicants:

- Shared services costs shall be directly charged. In its next base rate proceeding in Missouri, Empire shall file testimony addressing shared services charges and the bases for such charges. Empire's testimony shall also explain any changes in allocation procedures since its last base rate proceeding.

- Empire shall provide copies to Staff and OPC of the portions of any external audit reports performed for Algonquin and Liberty's shared services pertaining directly or indirectly to determinations of direct billings and cost allocations to Empire. Such material shall be provided no later than thirty (30) days after the final report is completed.

- Empire shall notify the Commission, Staff, and the OPC in writing if/when it receives a notice that Liberty Utilities cost allocation practices are under audit in any jurisdiction.

[55] As discussed earlier, the analysis performed by the Applicants contains errors and lacks underlying support.

Empire shall make any such audit reports available to the Commission, its Staff, and the OPC upon request.

Q. If the conditions you propose are imposed, would they be adequate to ensure that the costs allocated to Empire and its ratepayers after the merger are not greater than the costs that would be allocated to Empire for the same services absent the merger?

A. No. The conditions I propose above mitigate or partly mitigate the detriments noted above. However, if the merger is approved, going forward, the company would only have to allocate the cost of shared services based on a commission-approved reasonable cause-driven basis, but this in itself may result in higher allocation of shared services costs to Empire.

Q. Following consummation of the merger and thereafter, what changes do the Applicants anticipate to the cost allocation methodologies in place currently at Empire?

A. The Applicants have indicated that they have not completed a detailed analysis at this time, but that they do anticipate the following two changes:[56]

- Allocation of costs to Liberty Utilities Co. regulated affiliates located in the new LU Central Region
- Allocations for services currently performed at Empire that will be allocated to all Liberty Utilities Co. regulated affiliates in other states

The first change entails costs from Algonquin affiliates being allocated to Empire. The second change assumes that Empire's shared services will begin to provide services not only to Empire or Missouri affiliates, but also to affiliates in other states.

[56] See Attachment AA-R29 - Response to Discovery, OPC-AzP-5025

Given that the Applicants have not performed analysis or projections of when, where, and the extent to which this could be feasibly done, a number of questions remain to be addressed and corresponding costs remain to be identified, quantified, and weighed against any potential cost savings.

Q. What questions or costs remain to be addressed?

A. Currently, one would assume that Empire's operations are maintained efficiently, such that Empire's costs are not funding idle capacity—costs in excess of those needed to perform Empire's shared functions. Whether Empire has the capacity to perform additional functions for other companies, whether a plan for Empire to do so would require increased capacity and corresponding increased costs that Empire would incur to extend services to Algonquin companies, and the time frame within which this event may take place are all considerations that should be evaluated and estimated. This is necessary in order to evaluate the potential net detriment or benefit of this merger on Empire's shared services, affiliate transactions, and allocated costs. This is particularly important as the Applicants have identified the two changes noted earlier.

Q. What evidence may suggest that Empire's shared service or allocated costs would be higher as a result of the merger?

A. Empire is a stand-alone, fully functional company as it stands today. It has all the functionality of such a company, including its own Human Resources, Executives, Billing, Information Technology, and other functions necessary to operate the business of generation, transmission, and distribution. If, following the merger, Empire is allocated Algonquin and Algonquin subsidiary shared services costs, in effect, Empire and its customers would be charged twice for these functions.

The Applicants have already indicated on multiple occasions this merger is not about achieving synergies and that they don't anticipate involuntarily terminating employees in an effort to achieve such synergies. It would follow, then, that Empire will continue to maintain and pass on to ratepayers its own cost of maintaining and operating shared service departments, *and* be allocated "its share" of the parent company and affiliate costs Algonquin deems allocable to Empire consistent with the new Cost Allocation Manual. Thus Empire's allocated shared service costs likely *would increase* as a result of the merger—a merger detriment at the expense of Empire's ratepayers.

Q. What is the significance of this and what is your recommendation regarding the issue?

A. This is another of many examples of the Applicants' failure to perform a cost-benefit analysis that meets their burden for showing that the proposed merger is not detrimental to the public interest. The Applicants should perform the necessary analyses to make reasonable projections upon which potential amount and timing of costs and savings (if any) can be examined by the parties in this proceeding and considered by the Commission in its decision as to whether the merger detriments may be adequately offset for the proposed transaction to be deemed in the public interest.

E. Most Favored Nation Provision

Q. Earlier in your testimony, you noted that the Applicants must obtain the approval of the respective state commissions of Arkansas, Kansas, and Oklahoma, as well as Missouri. Are there any safeguards in the merger application that will ensure Missouri receives an equitable level of merger benefits when compared to other jurisdictions?

A. No.

Q. How can the Commission ensure that Missouri is protected in the event that another jurisdiction receives benefits in excess of those achieved in Missouri?

A. I recommend that the Commission order the adoption of a Most Favored Nation provision that will ensure Missouri is provided benefits and protections at least as beneficial as those received in other jurisdictions. Specifically, the Commission should use the following condition language: Missouri will be provided protections and benefits at a level at least as beneficial as any other jurisdiction in which Empire operates. This provision will not, under any circumstance, cause the benefits or conditions committed to be provided in the state of Missouri to be reduced or diminished.

IV. CONCLUSION

Q. Please provide a listing of your proposed conditions.

A. The conditions listing attachment to the rebuttal testimony of OPC Witness Pfaff contains my recommended merger conditions.

Q. Why do you believe adoption of these conditions is critical to protecting the public interest?

A. As I noted previously, I do not believe the Applicants have met their burden of proof and this merger should be denied as a result. However, if the Commission deems it appropriate to approve this merger, my recommended conditions should be viewed as the minimum level of merger conditions required to protect the public interest.

Q. Does this conclude your testimony?

A. Yes, it does.

Algonquin Power & Utilities Corp.

EMPIRE
SERVICES YOU COUNT ON

Algonquin Acquires The Empire District Electric Company

Continuing the Evolution of our Utility Business

February 9th, 2016

Important note and forward looking information

Algonquin Power & Utilities Corp. ("Algonquin") includes forward-looking information in these materials within the meaning of applicable securities laws in Canada ("forward looking information"), including forward-looking statements regarding, among other things, the proposed acquisition of The Empire District Electric Company ("Empire"); the transformation of Algonquin to a North American energy leader; the acceleration of financial goals, including estimated dividend growth and dividend growth targets, earnings per share and cash accretions, increases in regulated earnings and strengthening credit quality; new growth platforms and opportunities including expansion into LDC business; scale and diversifications; common and preferred equity, debt and other financings; and cash flows; target ROE; industry and geographic trends and forecasts; pro forma capital investment profiles; stakeholder commitments; and timeliness to obtain regulatory approvals and acquisition closing. The purpose of the forward-looking information is to provide management's expectations regarding the contemplated acquisition and Algonquin's future growth, results of operations, performance, business prospects and opportunities, and it may not be appropriate for other purposes. All forward-looking information is given pursuant to the safe harbour provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "targets", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on assumptions developed using information currently available to Algonquin's management in respect of each of Algonquin and the acquisition target. Although Algonquin believes that the forward-looking statements are based on information and assumptions which are current, reasonable and complete, these statements are necessarily subject to a variety of risks and uncertainties including, but not limited to the ability to obtain shareholder, regulatory and other approvals and to satisfy conditions to closing and the ability to realize the expected benefits of the acquisition. For additional information on risk factors that have the potential to affect Algonquin, the contemplated acquisition and the proposed offering, reference should be made to Algonquin's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, including the disclosure under the heading "Enterprise Risk Management" in Algonquin's Annual Information Form and its annual and interim Management Discussion and Analysis, and the disclosure under the heading "Risk Factors" in the short form prospectus to be filed with securities regulators in Canada in connection with the proposed offering. Except as required by law, Algonquin undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date of this material. Nothing in this document should be construed as an offer or sale of securities of Algonquin or any other person.

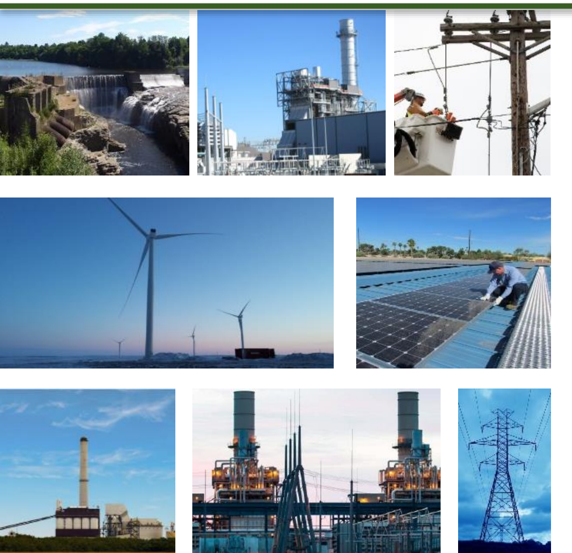
The pro forma information set forth in these materials should not be considered to be what the actual financial position or other results of operations would have necessarily been had the Empire acquisition and related financing activities been completed, as, at, or for the periods stated. Algonquin uses financial measures regarding itself and Empire in these materials, such as EBITDA, that do not have standardized meaning under U.S. GAAP and may not be comparable to similar measures presented by other entities ("non-GAAP measures"). Algonquin calculates the non-GAAP measures by adjusting certain U.S. GAAP measures for specific items that Algonquin believes are significant, but not reflective of underlying operations in the applicable period.

Further information relating to non-GAAP measures, is set out in Algonquin's annual and interim Management Discussion and Analysis under the heading "Non-GAAP Financial Measures" and will be set out in the short form prospectus to be filed with securities regulators in Canada in connection with the proposed offering.

Unless otherwise specified, all references to "$" or "C$ in this presentation are to Canadian dollars and all references to "US$" in this presentation are to United States dollars.

Agenda

Introductory Remarks	**Chris Jarratt** *Vice Chairman – Algonquin Power and Utilities Corp.*
Transaction Highlights **Strategic Alignment and Commentary**	**Ian Robertson** *CEO – Algonquin Power and Utilities Corp.*
The Empire District Electric Company Profile	**Brad Beecher** *President and CEO - Empire District Electric Company*
Financing Overview **Timeline for Transaction**	**David Bronicheski** CFO – Algonquin Power and Utilities Corp.
Combined Business Profile **Concluding Thoughts**	**Ian Robertson** *CEO – Algonquin Power and Utilities Corp.*



Transaction Highlights and Strategic Rationale

Transaction Highlights

Purchase Price	▪ **Algonquin to acquire Empire for US$34.00 per Empire share in cash** ▪ **Represents** a reasonable 21% premium to the last close of US$28.04

Transaction Drivers	▪ **Strategically aligned with Algonquin's disciplined approach to growth**
	▪ **Enterprise value of US$2.4B and equity purchase price of US$1.5B**
	  ▪ TEV / '17E EBITDA multiple of 9.2x(1)
	  ▪ TEV / '16E Rate Base multiple of 1.49x(2)
	▪ **Accretive to Algonquin EPS and FFO per share (3 year average annual accretion of 7% – 9% and 12% – 14%, respectively post-closing); supports 10% annual dividend growth objectives**

Financing Plan	▪ **US$1.6B fully committed bridge facility from CIBC, J.P. Morgan, Scotiabank and Wells Fargo** ▪ **Concurrent C$1B convertible debenture offering via instalment receipts** ▪ Intended to address Algonquin's common equity needs for the transaction ▪ **Structured to be consistent with Algonquin's current credit profile**
Transaction Timing & Approvals	▪ **Empire shareholder approval vote expected within Q2/Q3 2016** ▪ **Final regulatory approval and transaction closing expected in Q1 2017**

(1) Based on APUC internal estimates of 2017 Empire EBITDA
(2) Excludes EV of small non-regulated fiber optics business

Strategic alignment of the Transaction

Increased scale and diversity for Algonquin

- Transaction increases Algonquin's scale – 78% growth in enterprise value
- Increases EBITDA contribution from regulated operations from 51% to 72%(1)
- Well run, high quality ~100% regulated electric, gas, and water utility operations increase Algonquin's customer, geographic, and generation diversity
- Significant growth while remaining consistent with Algonquin's strategic themes

Provides growth opportunities across Algonquin's business units

- Identified pipeline of regulator-supported CapEx projects will provide steady growth within distribution and transmission businesses
- Reduction in coal generation reliance for compliance with EPA Clean Power Plan is expected to deliver significant renewable generation investment opportunities

Capitalizes on existing relationships in improving regulatory jurisdictions

- Current Missouri legislative initiative to reduce regulatory lag and improve ratemaking constructs provides opportunity for additional upside
- Algonquin's constructive regulatory relationships expected to facilitate transaction approvals in Missouri and Arkansas

Opportunity to add management depth and pursue efficiencies

- Allows Algonquin to fortify its mid-states leadership with a deep Empire management team
- Opportunity to consolidate Algonquin's mid-States utility operations under Empire's senior management team
- Compatible company cultures will ease integration process
- Larger enterprise will enable talent retention and recruiting

(1) Based on APUC internal estimates of 2017 EBITDA

Consistent with Algonquin's growth strategy

Continues successful track record of regulated acquisitions - *9 acquisitions since 2009*

Apr 2009
California electric utility

Dec 2010
New Hampshire electric and gas utilities

Apr 2011
Missouri water utilities

Aug 2012
Georgia gas utility

Feb 2013
Arkansas water utility & Massachusetts gas utility

May 2013
Missouri, Iowa, & Illinois gas utilities

Sep 2014
California & Montana water utilities

Feb 2016
EMPIRE
SERVICES YOU COUNT ON

2009 2010 2011 2012 2013 2014 2015 2016

Pro forma utility platform will enhance Algonquin's regional management focus

Liberty Utilities - West	Liberty Utilities - Central	Liberty Utilities - East
~ 189,000 customers	~338,000 customers	~251,000 customers
Arizona, California, and Montana	Arkansas, Illinois, Iowa, Kansas, Missouri, Oklahoma, and Texas	Georgia, Massachusetts and New Hampshire

The Empire District Electric Company - Profile

Empire operates in transparent regulatory jurisdictions

~100% regulated utility with total rate base expected at closing of US$1.6B

- Identified CapEx program driving rate base growth
- Operates in existing Algonquin markets of Missouri and Arkansas
- Operations in Kansas and Oklahoma provide foothold in new states

Electric utility (91% of LTM revenue)[1]

- Serves 169,500 customers in AR, KS, MO and OK
- Owns eight rate base generating facilities with aggregate capacity of 1,326 MW
- 8,200 mile T&D system

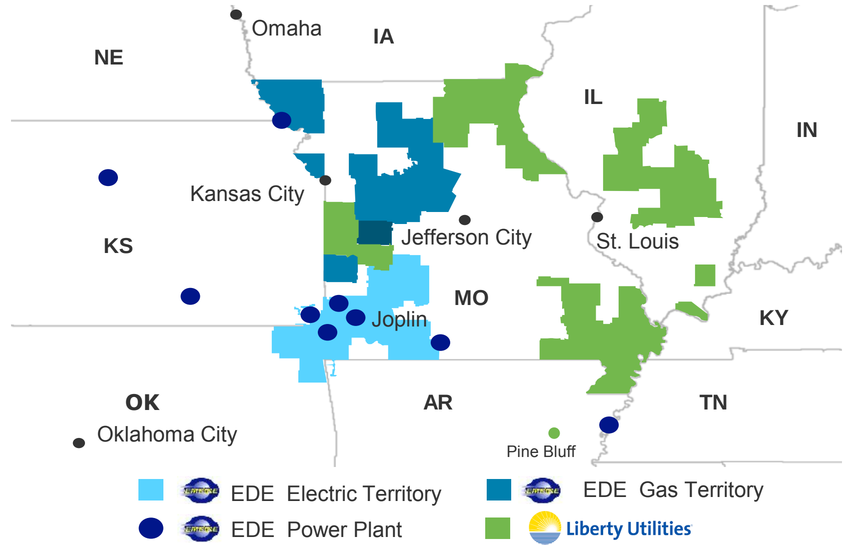
Gas utility (8% of LTM revenue)[1]

- Serves 43,500 customers in MO with 1,262 mile T&D system

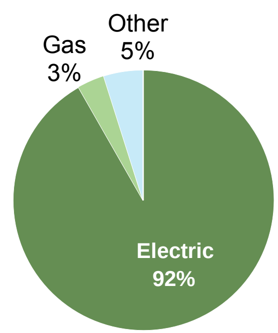
Water distribution utility

- Serves 4,500 customers in MO

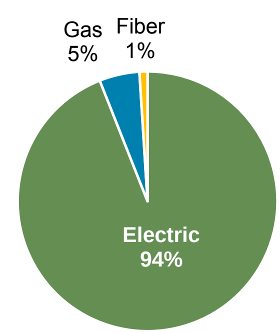
Empire's service area complements Algonquin's



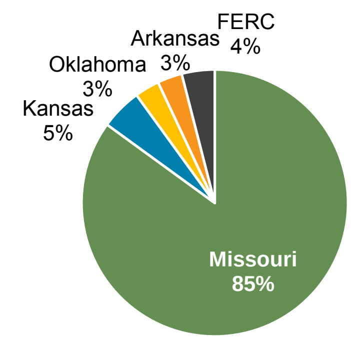
Business mix



Net Income
US$58M[2]



Total assets
US$2.46B[2]



Rate base
US$1.6[3]

(1) Based on revenue for the twelve months ended September 30, 2015.
(2) As of September 30, 2015. Business mix is before eliminations.
(3) Forecast as of December 31, 2016

Reliable, efficient, rate-based electric generation fleet

Quality generation fleet, poised for growth

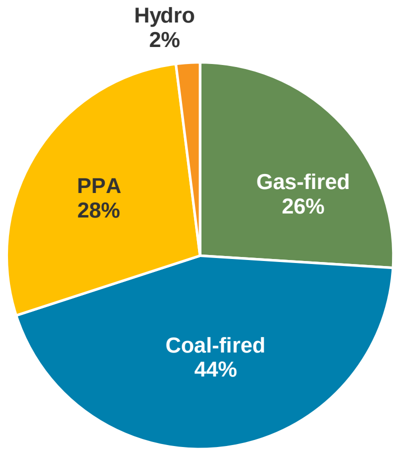
- Generation fleet is well structured to meet environmental standards
- EPA Clean Power Plan likely to provide opportunities for new rate base eligible clean generating assets
- Algonquin core expertise in developing wind and solar generation can be leveraged to pursue these opportunities

Expanding rate base with new generation

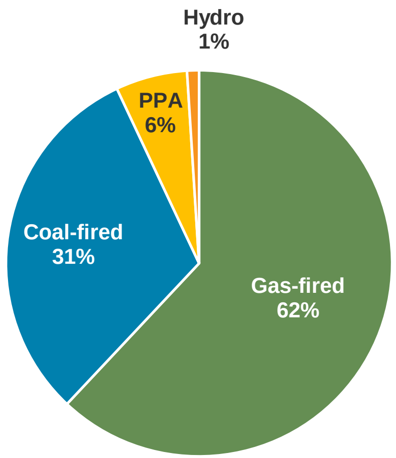
- Riverton Unit 12 gas-fired CCGT conversion expected to be completed early to mid 2016
  - Total related capex of approximately US$165 – 175M
  - 2015 Missouri rate case with requested revenue requirement increase of $33.4M expected to be finalized in mid-2016, with rates becoming effective in Q3 2016
- Coal-fired plants are environmentally compliant generating facilities
  - Potential for medium term conversion of coal plants to natural gas and renewable generation

Increasingly "green" generation fleet

2000 generation mix

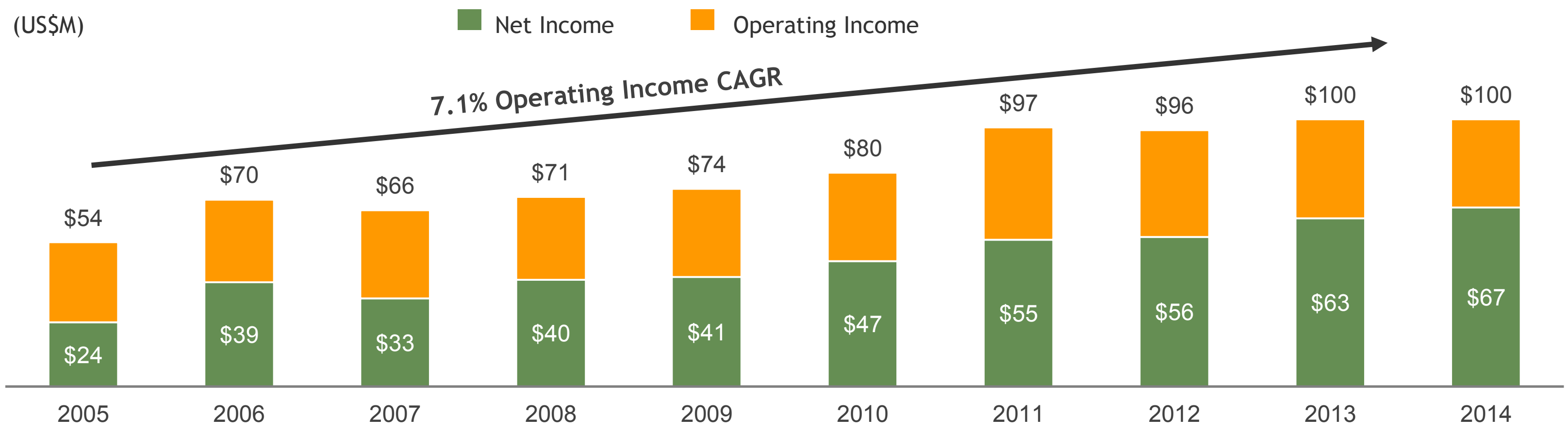


2014 generation mix

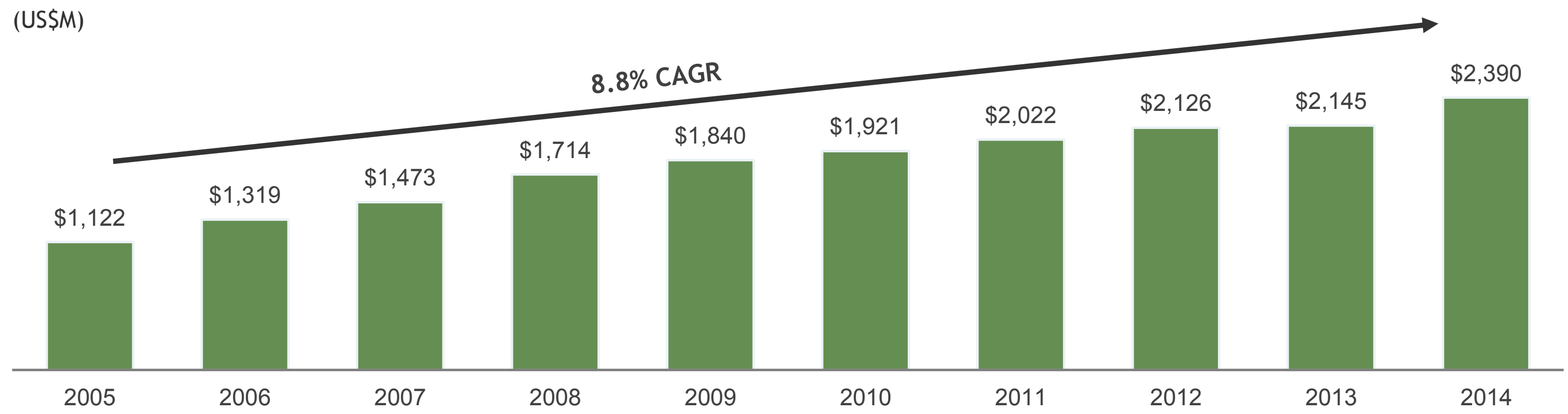


Steady growth in net income and asset base

Strong historical operating and net income CAGR



Robust historical asset base growth



Attractive, predictable earnings growth from expanding asset base

Financing Overview and Transaction Timeline

Financially compelling acquisition

Immediate and material accretion

- Immediately accretive to EPS and FFO per share
  - average annual EPS accretion of 7% – 9%, for the first three years post-closing
  - average annual FFO per share accretion of 12% – 14%, for the first three years post-closing
- Accretion remains robust notwithstanding strengthening Canadian dollar FX scenario

Reinforces strong investment grade balance sheet

- Increases contribution from utilities business to 72% from 51%(1)
- Acquisition financing plan structured to preserve credit quality
- Long term credit metrics and capital structure targets remain unchanged

Supports current growth guidance

- Accretion to earnings and cash flows underpins Algonquin's targeted 10% annual growth rate in dividends through 2020
- Expanded platform allows greater flexibility to pursue additional organic growth
- Multiple expansion paths – renewable generation development / tuck-in utility acquisitions / electric transmission development

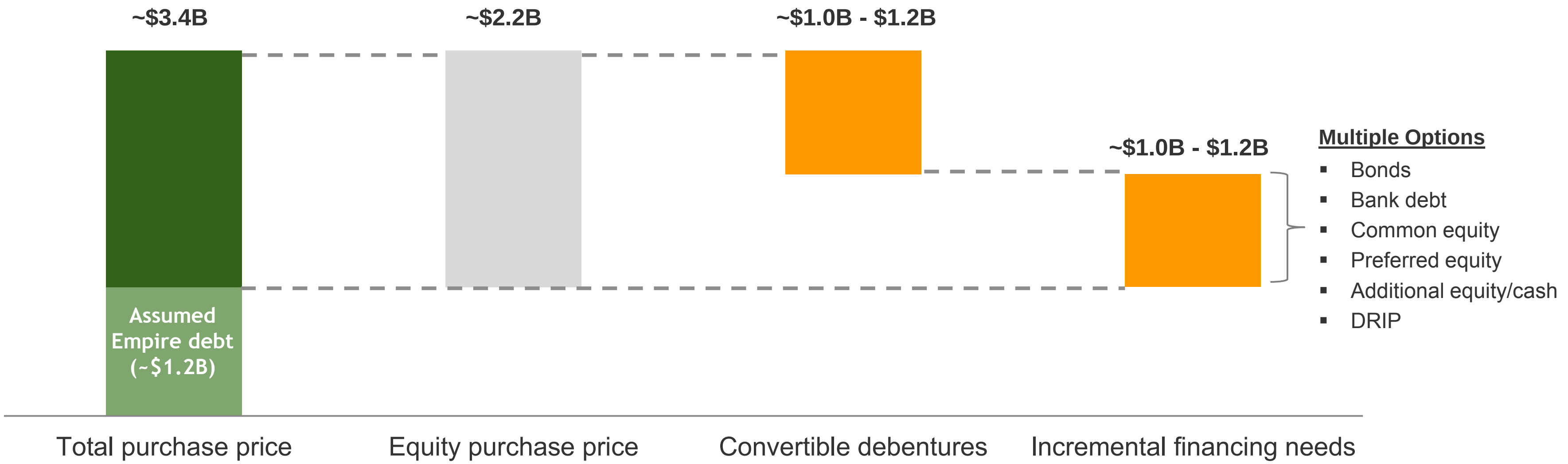
(1) Based on EBITDA for the 12 months ended September 30th, 2015, calculated with a 1.4 C$ to US$ exchange rate.

Sound financing plan

Long-term financing plan structured to maintain current BBB credit profile

- Successful concurrent convertible debenture financing addresses Algonquin's common equity requirements
- Flexibility to fulfill remaining financing needs by combination of bonds and bank debt, at or before acquisition close
- US debt issuance to provide natural currency hedge

Indicative financing plan (C$B)



Indicative timeline for transaction

Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017

2/9/2016 - Announced transaction and debenture financing

Commence regulatory filings with U.S. Federal + State Regulatory Agencies

Secure approvals from FERC, CFIUS(1), and State Commissions in MO, AR, KS & OK

File Preliminary Proxy Statement

Empire Shareholders Meeting for transaction approval

Develop and initiate transition and integration plans

Expected transaction close

(1) The Committee on Foreign Investment in the United States

Combined Business Profile and Concluding Remarks

Major increase in scale and diversification

Company Overview

- Following the acquisition, APUC will have a portfolio comprised of:
  - Power generation infrastructure totaling approximately 2,281 MW of net generating capacity
  - Additional secured generation capacity of 86 MW through contracted PPAs
  - Utility assets serving 778,000 customers in the U.S.
- The acquisition will increase the number of APUC's operating power generation assets to 44

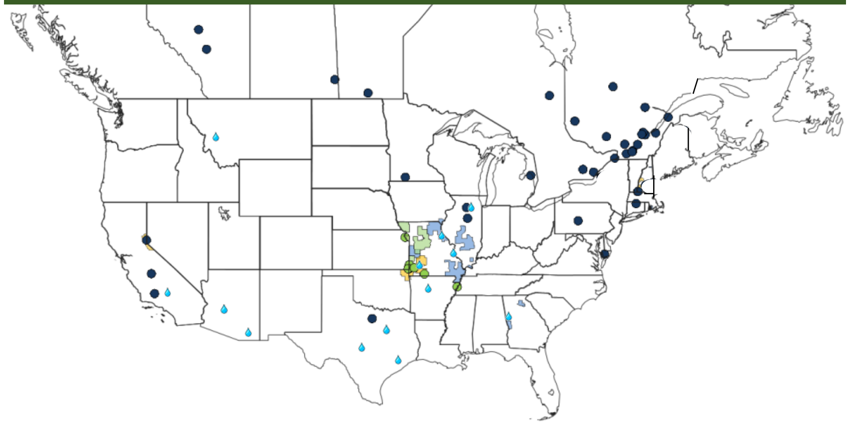
Post-Acquisition Asset Portfolio

APUC
36 operational generation assets
560,000 customers
869 net MW

EDE
8 operational generation assets
218,000 customers
1,412 net MW

Combined Entity
44 operational generation assets
778,000 customers
2,281 net MW

Portfolio Diversity



APUC Power Plant
APUC Electric Territory
APUC Gas Territory
EDE Power Plant
EDE Electric Territory
EDE Gas Territory
APUC Water Utility

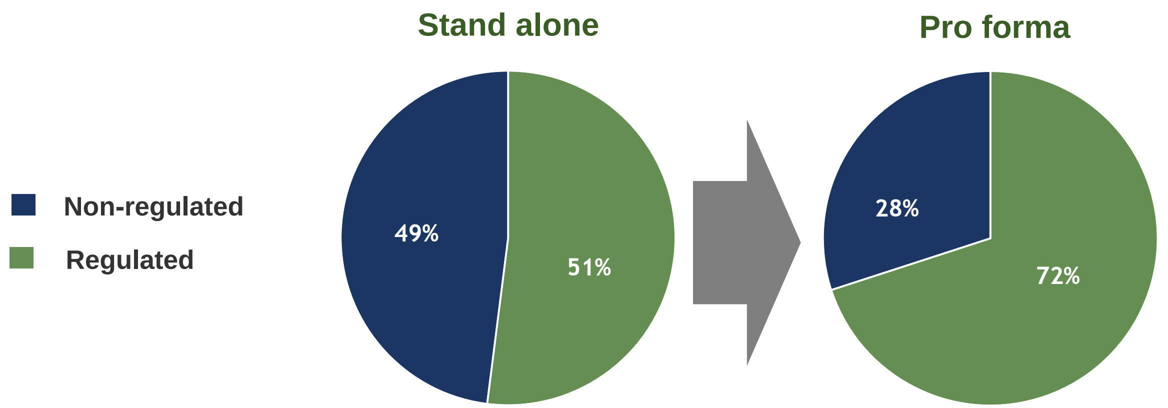
Key Metrics[1]

Metric	Pre-Acquisition	Delta		Post-Acquisition
Net Capacity (MW)	869	1,412	162%	2,281
Customers	560,000	218,000	39%	778,000
Enterprise Value (C$ in billions)	$4.6	$3.5	76%	$8.0
Market Cap (C$ in billions)	$3.1	$1.2	40%	$4.3

[1] Market data as of February 5, 2016

Significantly more regulated earnings

Business mix, as % of EBITDA



Improves liquidity, credit, capital access

	ALGONQUIN Power & Utilities Corp.	EMPIRE	EMPIRE ALGONQUIN Power & Utilities Corp.	% Increase
Rate base (C$B)	$1.8	$2.3	$4.1	127%
Total customers	560,000	218,000	778,000	39%

Pro forma regulated utility structure

Liberty Utilities

The Empire District Electric Company

Segment	% of Total Assets
Electricity	95%
Natural Gas	3%
Other	2%

Total Assets C$3.3B

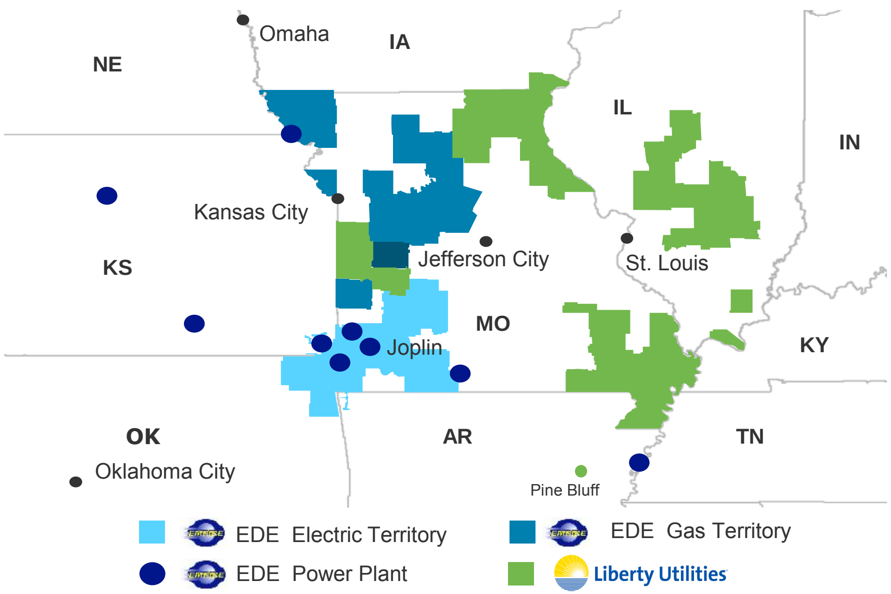
Existing Regulated Utilities

Segment	% of Total Assets
Electricity	25%
Natural Gas	56%
Water and Wastewater	19%

Total Assets C$2.4B

Complementary service areas and regulatory jurisdictions

Creates Increased Critical Mass



Capitalizes on Existing Strong Relationships

- Transaction capitalizes on Algonquin's existing positive regulatory presence in Missouri and Arkansas
- Algonquin's commitment to preserve Empire structure expected to facilitate approval process

Missouri:

- Experiencing an improving economic environment
- Transparent and established regulatory regime; Empire's recent positive Missouri regulatory rate case outcome consistent with Algonquin's historic experience
- "21st Century Grid Modernization and Stabilization Act" legislative initiative expected to reduce regulatory lag and implement volumetric decoupling, possible implementation in 2017

Arkansas

- Formula rates legislation (House Bill 1655), was passed and became effective in 2015 – provided greater clarity to rate making constructs

Other

- Empire's established rate reciprocity agreement between Missouri and Oklahoma reduces regulatory burden

Growth opportunities leverage Algonquin strengths

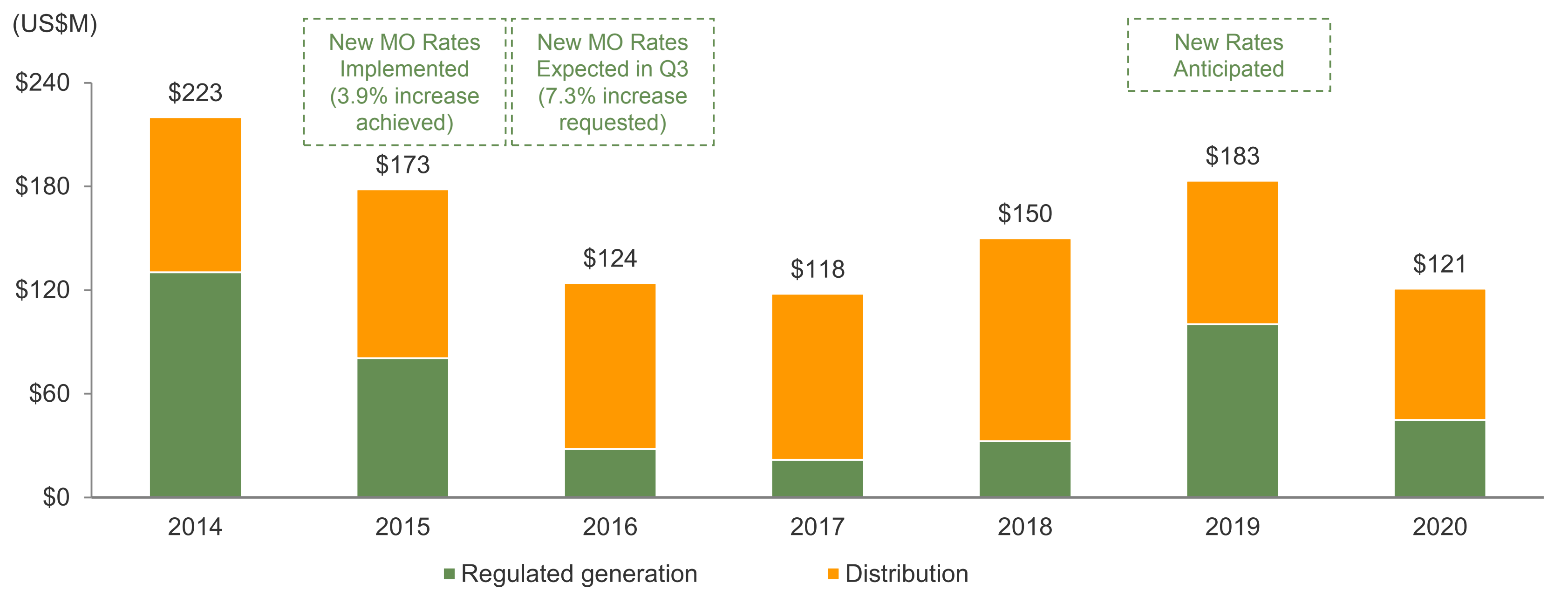
Capital expansion, greening the fleet within rate base

- Opportunities relate to tightening environmental standards, gas pipe upgrades, and system reliability
- Foothold in new states of Kansas and Oklahoma allows for further regional utility consolidation

Generation development and operational skillsets can also be leveraged

- Potential project partnerships and acquisition opportunities in current Empire jurisdictions as well as surrounding states
- Increasing RPS and GHG reduction goals are driving additional generation and transmission development

Forecasted capital expenditures within Empire



Combined entity remains committed to Empire customers, employees, and communities

Customers

- No rate impact on account of acquisition
- Continue to provide reliable local, responsive service through Empire
- Empire water and gas customers will have access to Algonquin's broader platform, knowledge, and expertise
- Leverage best practices and scale of Algonquin and Empire to enhance service offering

Management and employees

- No changes to management or operations – leverage Empire's local expertise and Algonquin's entrepreneurship
- Commitment to Empire employees – greater opportunities through broader Algonquin platform
- Strong alignment with Algonquin's philosophies of safety, reliability, customer care and efficiency

Community

- Foster continued Empire community involvement consistent with Algonquin's operating philosophy
- Access to Algonquin's renewable energy expertise for the long-term as historical fossil-fueled fleet rolls over into cleaner generation formats
- Maintain Empire's head office and presence in Joplin, Missouri

Why are Algonquin and Empire Better Off Together?

Increased scale and diversification provides operational and financial efficacy

- ✓ Combined entity enjoys increased operational effectiveness in its mid-west utility operations and the transaction provides a low risk, cost effective way to bring "best-in-class" utility management
- ✓ Increased financial scale of the combined entity ensures it is able to capitalize on the entire Algonquin and Empire growth opportunity set including the potential to build additional renewable generation in rate base occasioned by RPS and CPP
- ✓ Improved cost of capital through larger scale and strengthened credit metrics based on the greater percentage of EBITDA generated from regulated operations (72% vs current 51%) will enhance competitiveness of both regulated utility business groups and non-regulated generation business group

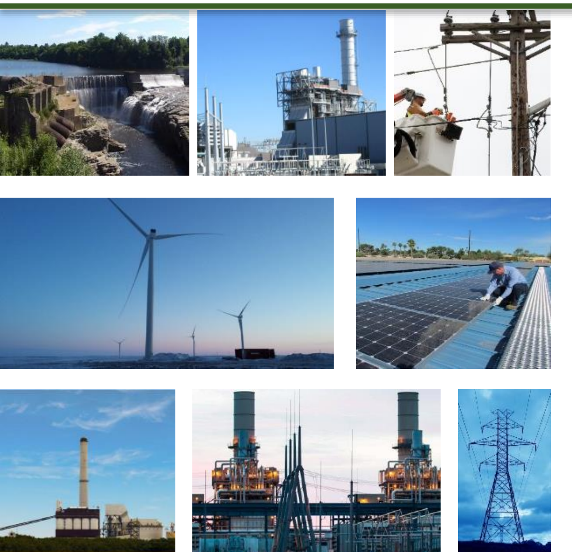
Surfaces growth opportunities across Generation, Transmission and Distribution business units

- ✓ Algonquin's entrepreneurial spirit can help unlock value in Empire's pipeline of regulator-supported capex projects, transmission investment opportunities required to serve additional renewable energy projects and the development of clean energy projects associated with the growing focus on "greening" Empire's generation fleet

Opportunity creates compelling shareholder value for both Algonquin and Empire

- ✓ Balance sheet value unlocked through a utility transaction with attractive valuation metrics of 9.2x EV/2017E EBITDA(1) and 1.49x EV/2016E rate base(2). Expected to be accretive to EPS and FFO per share post closing, with 3 year average annual accretion of 7% – 9% and 12% – 14%, respectively.
- ✓ Generates increased per share earnings and cash flows further supporting Algonquin's targeted 10% annual dividend growth

(1) Based on APUC management estimate of Empire 2017 EBITDA
(2) Excludes EV of small non-regulated fiber optics business

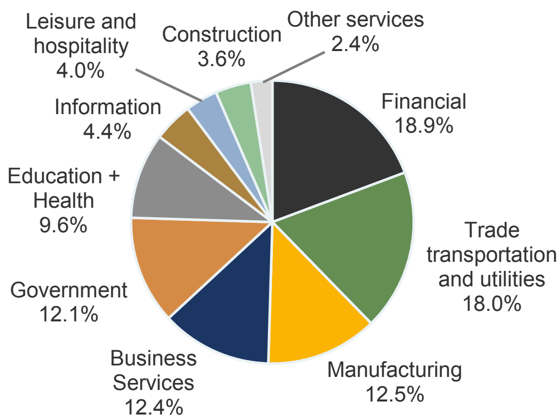


Appendix

Missouri – keeping pace with improving U.S. economy

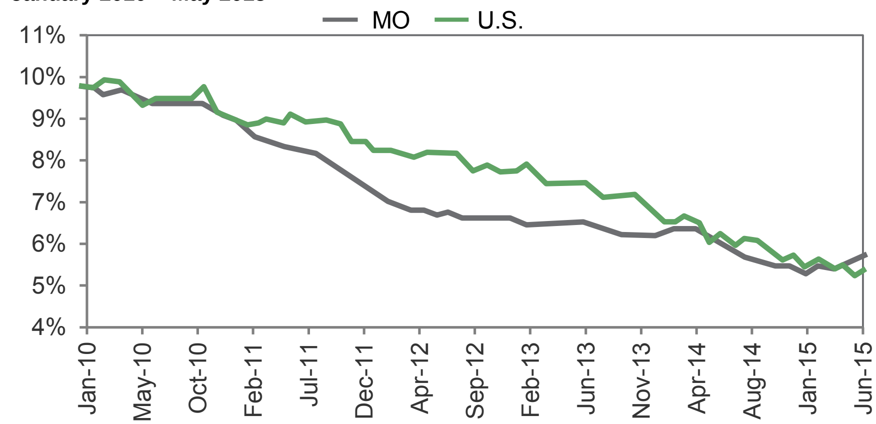
Key Industries

By percentage of gross domestic product, 2014



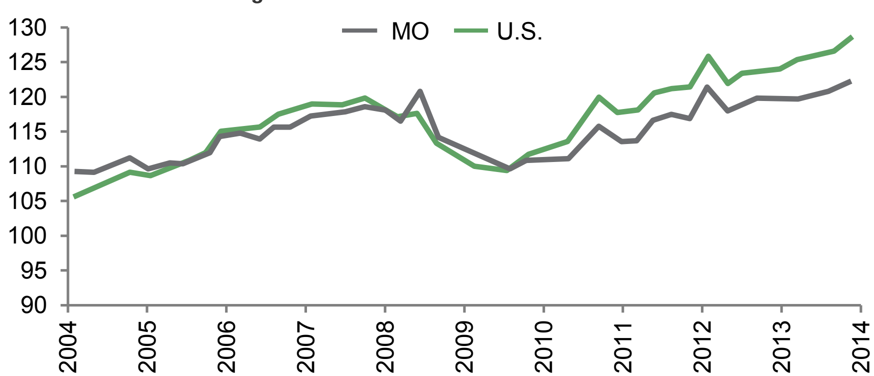
Unemployment Rate(1)

January 2010 – May 2015

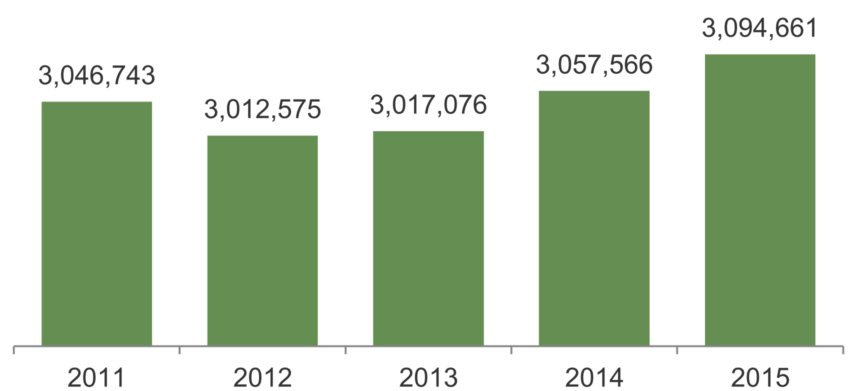


Real Personal Income(2)

Index: 2005 annual average=100



Total Labor Force(3)



Source: Missouri Economic Research and Information Center – 2015 publication
(1) Seasonally adjusted rates
(2) Less transfer payments. 2009 dollars
(3) Bureau of Labor Statistics

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McGRAW HILL FINANCIAL

Empire District Electric Co. Outlook Revised To Developing On Possible Sale/Merger; Ratings Affirmed

15-Dec-2015 16:39 EST

View Analyst Contact Information

Empire District Electric Co. announced that it is exploring strategic alternatives. Such alternatives could include, among other options, the sale of the company.

We are affirming our issuer and debt issue ratings on Empire and revising the outlook to developing from stable.

The developing outlook reflects the possibility that Empire could enter into a merger transaction over the next 12 to 18 months with either a weaker or stronger counterparty, which could result in either a lower or higher credit rating.

NEW YORK (Standard & Poor's) Dec. 15, 2015--Standard & Poor's Ratings Services said today it revised its rating outlook on Empire District Electric Co. to developing from stable. At the same time, we affirmed our ratings on the company, including the 'BBB' issuer credit rating.

We base the developing outlook on Empire's announcement that it is exploring strategic alternatives.

"Because such alternatives could result in a merger or acquisition transaction of Empire with a weaker or stronger entity, the ratings on the company could move lower or higher," said Standard & Poor's credit analyst Dimitri Nikas.

We expect to analyze the impact of any such transaction on the company's credit profile when any transaction details are announced.

The ratings on Empire account for the company's "strong" business and "significant" financial risk profiles as defined by our criteria.

The developing outlook on Empire reflects the potential for lower or higher ratings over the next 12 to 18 months, depending on the strategic alternatives that the company decides to pursue.

We could lower the ratings on Empire if the company is acquired by or merges with an entity with weaker credit quality and the combined company's consolidated group credit profile is lower than 'bbb'. We could also lower the ratings if no transaction is announced and Empire's stand-alone consolidated financial measures consistently weaken, reflecting FFO to debt below 14%.

We could raise the ratings on Empire if the company is acquired by or merges with an entity with stronger credit quality and the combined company's consolidated group credit profile is 'bbb+' or higher. We could also raise the ratings if no transaction is announced and Empire's stand-alone consolidated financial measures strengthen, reflecting FFO to debt that is consistently greater than 20% to 21%.

RELATED CRITERIA AND RESEARCH

Related Criteria

Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
Corporate Methodology, Nov. 19, 2013
Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
General Criteria: Methodology: Industry Risk, Nov. 19, 2013
Group Rating Methodology, Nov. 19, 2013
Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
Collateral Coverage and Issue Notching Rules for '1+' and '1' Recovery Ratings on Senior Bonds Secured by Utility Real Property, Feb. 14, 2013
Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
Notching Of U.S. Investment-Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery, Nov. 10, 2008

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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Proxy Statement Pursuant to Section 14(a) of
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☐ Preliminary Proxy Statement
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THE EMPIRE DISTRICT ELECTRIC COMPANY

(Name of Registrant as Specified In Its Charter)

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Under the Securities Exchange Act of 1934
Subject Company: The Empire District Electric Company
Commission File No.: 1-3368

The following is a transcript of The Empire District Electric Company analyst call that occurred on February 11, 2016:

Empire District Electric Company
Acquisition by Algonquin Analyst Call
February 11, 2016 at 1:00 PM Eastern

CORPORATE PARTICIPANTS
Dale Harrington - *Secretary and Director of Investor Relations*
Brad Beecher - *President and Chief Executive Officer*
Laurie Delano - *Vice President, Finance and Chief Financial Officer*
Ian Robertson - *Chief Executive Officer, Algonquin Power & Utilities Corp.*

PRESENTATION

Operator

Good afternoon and welcome to the Empire District Electric Company Analyst Conference Call and Webcast. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by 0. After today's presentation there will be an opportunity to ask questions. To ask a question you may press star then 1 on a touch-tone phone. To withdraw your question, please press star then 2. Please note this event is being recorded.

I'd now like to turn the conference over to Mr. Dale Harrington, Secretary and Director of Investor Relations. Please go ahead.

Dale Harrington

Thank you Nan, and good afternoon everyone. Welcome to today's conference call where we will be discussing Algonquin Power and Utilities Corporation's acquisition of Empire. Our joint press releases announcing the transaction were issued Tuesday of this week. Our press release and a live webcast of this call including our accompanying slide presentation are available on our website at www.empiredistrict.com and a replay of the call will be available on our website through February 18 of 2016.

I am pleased to have Brad Beecher, Empire's President and Chief Executive Officer, and Ian Robertson, Chief Executive Officer of Algonquin Power and Utilities Corporation, who will be participating on today's call. Also in the room with us is Laurie Delano, our Vice President of Finance and Chief Financial Officer.

In a few moments, Brad and Ian will be providing an overview of the transaction, but before we begin, let me inform you that our discussion today includes forward-looking statements and the use of non-GAAP financial measures. Slide 2 of our accompanying slide deck presents a list of some of the risks and other factors that could affect the proposed transaction. Additional risks and uncertainties will be discussed in a proxy statement and other materials that we will file with the SEC in connection with this proposed transaction. I'll caution you that these lists are not exhaustive and that statements made in our discussion today are subject to risks and uncertainties that are difficult to predict. Our SEC filings are, of course, available upon request or may be obtained from our website or from the SEC.

With that I will turn the call over to our CEO, Brad Beecher.

Brad Beecher

Good afternoon, everyone. Thank you for joining us. As I'm sure you're all aware, on Tuesday of this week both Empire and Algonquin announced a subsidiary of Liberty Utilities Company, which is Algonquin's wholly-owned regulated utility business, has entered into an agreement and plan a merger pursuant to which Liberty Utilities will indirectly acquire Empire and its subsidiaries. Empire shareholders will receive $34 per common share in cash upon closing of the merger. The aggregate purchase price of approximately $2.4 billion includes the assumption of approximately $0.9 billion of Empire's debt. The purchase price represents a 50% premium to the unaffected closing stock price of $22.65 on December 10, 2015.

We are pleased that we are able to secure a transaction that will not only benefit our shareholders but our employees, customers and communities. This transaction builds on Empire's financial strength and operating expertise.

On Slide 3 of your slide deck provide some of the key factors of this transaction, a few of which I have already mentioned. The $34 purchase price representing a 50% premium to the December 10 unaffected closing price and a 21% premium to Tuesday's closing share price. Joplin will be the headquarters for Liberty Utilities Central Region or the Liberty Central Operations. Liberty Central will be a subsidiary of Liberty Utilities, which will cover utility operations in Arkansas, Iowa, Illinois, Kansas, Missouri, Oklahoma, Texas, serving approximately 338,000 customers after the close of the transaction.

Empire's senior leadership will lead the Liberty Central Regional Operations. I will assume the role of President and CEO of Liberty Central upon closing of the transaction.

Liberty and Algonquin are committed to retaining Empire employees. The Empire brand will be maintained for no less than five years after close. Current Empire rates will remain unaffected, and finally, the level of support and involvement Empire currently provides our local communities and charitable organizations will continue.

Most of you are familiar with Oakville, Ontario-based Algonquin. Their business model has been acquiring small regulated utilities and keeping them in place. You may not be as familiar with Liberty Utilities. Liberty Utilities is Algonquin's U.S. distribution group, which operates regulated water, electric and natural gas utilities, and currently serves around $560,000 customers in 11 states. Liberty Utilities employs about 1450 individuals.

Liberty Central will become the largest operating segment of this group. Empire's addition will bring an additional 218,000 regulated electric, gas and water customers and add around 750 employees.

As you can see on Slide 4, Empire's addition is very complementary to Liberty's existing presence in the Central Region. Expected benefits to Algonquin and Empire of this strategic alignment, to name just a few, include increased scale and growth opportunities across Algonquin's business units, increased operating efficiencies and additional depth and management of its mid-States operations.

As was communicated in our joint press release Tuesday, the closing of this transaction is subject to approval of Empire's common shareholders and certain state and federal regulatory and government agencies. We have laid out a timeline for the various approvals needed on Slide 5.

Keep in mind during this time period Empire is also prosecuting a general rate case in Missouri to recover, among other items, the cost of our Riverton 12 combined cycle conversion. During the next couple of months we will begin regulatory filings in Missouri, Kansas, Oklahoma and Arkansas, as well as FERC and a few other regulatory agencies, seeking approval of the transaction. Regulatory approvals can take from 9 to 18 months to secure; however we have targeted and expect closing time in the first quarter of 2017.

Each of our state regulatory commission applies slightly different criteria to the review and subsequent approval or disapproval of merger and acquisition transactions. The overriding standard for approval of merger transactions in Missouri, Oklahoma and Arkansas requires that such a transaction is not detrimental to customers or is in the public interest. The state of Kansas applies a net benefit standard in reviewing and approving merger transactions.

On the shareholder side, a proxy statement describing the transaction in greater detail and recommending shareholders vote in favor of the merger will be filed with the SEC in approximately 60 days. A shareholder vote will follow shortly thereafter.

Once all approvals are in place, a closing date will be established and Empire shares will be purchased at $34 per share on that date. We expect to continue to pay our regular dividend, currently $1.04 per share on an annualized basis, until such time as the acquisition closes.

I would now like to introduce Ian Robertson, CEO of Algonquin Power and Utilities Corp. for some additional remarks from Algonquin.

Ian Robertson

Brad, thanks very much. Appreciate the opportunity to join your earnings call. Just for a reference, I'm going to speak to Slide 6 in that slide deck. In summary, Algonquin's obviously thrilled to be adding such a well-run quality set of assets to the Liberty Utilities family and as we spent time today speaking to all the Empire District Company employees it feels as much like we're adding Liberty Utilities to Empire as much as adding Empire to Liberty Utilities. There's obviously a great deal of alignment between our two businesses. Our approach to running our regulated distribution businesses are eerily similar.

On Slide 6 I confirm that Algonquin and Liberty Utilities have been through the regulatory process in Missouri, in Arkansas. We're active in both those states now and have been in Missouri since 2005, so I think we're highly confident we understand the standards that Brad just articulated in terms of the approval process.

The bottom part of that slide sets out the thesis behind Liberty Utilities Central Region and unto itself we think that Liberty Utilities Central will enjoy greater economies of scale, purchasing power, the ability to deliver customer care, perhaps better than Liberty Utilities and Empire District could do on their own, so we're obviously optimistic about the prospects for Liberty Utilities Central.

In summary, Brad, I'd say that we obviously believe that the combination with Empire makes a lot of sense and we're obviously optimistic about what the future holds for our two organizations. Brad?

Brad Beecher

Thank you, Ian. We believe we've found a partner who shares our values, is dedicated to continuing to serve our customers and communities at a high level and is committed to maintaining a strong working relationship that we've developed with the regulator agencies. So now we'll get to probably the most important part of this call and that is, I will turn it back over to the Operator for your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We'll now begin the question and answer session. To ask a question you may press star, then 1 on your touch-tone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw that question, please press star, then 2. At this time, we will pause momentarily to assemble our roster.

Our first call comes from Brian Russo of Ladenburg Thalmann. Please go ahead.

Brad Beecher
Hello Brian.

Brian Russo
I'm just curious, based on the implied enterprise value to EBITDA of 9.2, you can almost back into what the APUC assumed EBITDA is for Empire in 2017 and it implies - correct me if I'm wrong - that you can earn pretty close to your allowed ROE. So my question is, is that the result of greater scale and scope and the operating efficiencies, or is that tied to pending Missouri legislation to reduce lag? Just want to get your thoughts on that.

Ian Robertson
Sure. It's Ian Robertson speaking. Obviously, as we've thought about the business, thought about Empire, they're obviously fresh into a rate case which we think will get settled up sometime this year and we're hoping that that rate case gets settled up in advance of the merger. So we look at 2017 basically as the fresh year off of that rate case. We think as we look forward with the obvious savings to Empire of not having to be a public company, which clearly there's some obvious savings there, we think about the business combination with Liberty Utilities, I think that perhaps we've attributed all of those benefits to Empire in the context of that 9.2 times EV to EBITDA. That's the basis on which that number is premised.

Brad Beecher
Brian, this is Brad. I'll just add that 2017 is very similar to 2014 at Empire. It's a year where we get a full year of rate case benefits without the drag of a big capital project dragging us with depreciation, so in that

respect 2017 is very similar to 2014, where we did come closer to earning our allowed ROE.

Brian Russo
Okay, great. Then, Brad, maybe you could characterize the strategic review process. Were there a handful of interested parties or was this just discussions between you and Liberty given your history together and the complementary footprint?

Brad Beecher
After our October board meeting, our board set out on a strategic exercise to determine the value of the company and post the December 10 leak we embarked on what I would describe as a pretty typical process where we had interested parties, so pretty typical Phase I, Phase 2-type process. We filled data rooms, we asked questions, we made management presentations, so a pretty typical process. And it was initiated by our board.

Brian Russo
Why was the process initiated by the board? What motivated you to pursue strategic alternatives?

Brad Beecher
Well, we've talked. There isn't any one single silver bullet that says why we pursued this. We've all talked about Empire's size through the years and at 218,000 customers if you looked at the whole scale of the electric IOU universe, we were one of the bottom one or two or three in size and so that gives us some challenges with scale. It gives us challenges with geographic diversity. When have storms like the Joplin tornado come through, we just don't have that many other places to spread things across. We have geographic risk with weather, when we have

mild winters like we had in the fourth quarter. We've got challenges, quite frankly, ahead of us as we look at Clean Power Plan and how we're going to run coal less and how do we replace it with renewable assets. This is a place where Algonquin's other competency, the other side of their firm can really help us as we try to develop a least-cost plan for customers as really we burn less coal as we go into the future. So it was really a combination of all those things that led our board to pursue and look at this kind of alternative.

Brian Russo
Just curious, in Missouri and the ratemaking process with maybe Liberty Utilities, is the ratemaking process based on the cap structure of the subsidiary or based on the cap structure of the parent?

Ian Robertson
It's Ian Robertson speaking. In general, Missouri is one of the states that applies a look-through approach. They generally look up to the next rated entity. So in our case I think our belief is that they will look through to the Liberty Utilities rated entity which is about a 50/50 debt to total cap, or 50/50 debt-to-equity capitalized entity. So I think that you don't really get much opco/holdco benefit in Missouri. That's just the way that they, from a ratemaking perspective, and that's how we thought of the world going forward, that that's how our expectation is that the MPSC will be viewing Empire going forward.

Brian Russo
Got it. Okay. Then just lastly, on Slide 6 when we look at the pro forma Liberty footprint, West, Central, East and think about future growth opportunities, is there any one region that you think you might be more opportunistic than others?

Ian Robertson
No. I think we obviously look at three or four factors that go into our thoughts as we think about any particular utility. We obviously want to be in regulatorily constructive environments. We want to be in environments that have socioeconomic dynamics that are positive. We want to have regions in with the Liberty Utilities brand will resonate. But I'm saying I think we're a little bit agnostic as to for us to be able to say, "Oh gosh, we've got to invest in Nevada."

We are absolutely committed - I will point out we are absolutely committed to continue fully the cap needs of all of our existing utilities and there are no losers or winners in the Liberty Utilities family when it comes to capital. But I'm not sure I could go as far as to say, "Oh gosh, we're going to chase that Nevada utility to the exclusion of any of the other particular regions."

Brian Russo
Okay, great. Thank you very much.

Brad Beecher
Thank you, Brian. Talk to you soon.

Dale Harrington
Appreciate the time.

Operator
Our next question comes from Paul Ridzon from KeyBanc. Please go ahead.

Paul Ridzon
Good afternoon and congratulations.

Brad Beecher
Thank you Paul. How are you?

Paul Ridzon
Well, thank you. Can you just review the extent to which you may have vetted this transaction with the four regulators?

Brad Beecher
We have not vetted the specifics of this transaction with any of our regulators. Ian and I and Kelly Walters traversed to Jeff City yesterday and met with staff and chairman of the Commission and outlined really the press release but we're really constrained by what we can tell regulators until we file our merger application so that will be next. We also had conference calls with the Arkansas staff and we're working on trips to both Topeka and Oklahoma City yet tomorrow.

Ian Robertson
It's Ian Robertson speaking. Maybe just to add to that, it is very nice to have gone into, have met with the regulators and to have a regulatory history both in Missouri and in Arkansas, and so it's not like we're having to introduce who Liberty Utilities is or, Lord knows, Brad having to introduce who Empire is. We think of it as two known quantities sitting across the table from a regulator which we've dealt with for a decade and which obviously Empire has dealt with for multiples of decades. So it was a comforting feeling from my perspective.

Paul Ridzon
Ian, could you give a description of how you view your relationship with the regulators?

Ian Robertson
Well, it's obviously different in different states. In most states we very much strive to have a constructive relationship. We are in to see the regulator on a regular basis, but in some respects it's the regulator that sets the

tone in terms of how much involvement and how open that dialogue is. Some states are quite different than others and we try to be responsive and reflective of that. We strive for constructiveness, but as I said, in some respects it's up to the regulator in terms of how much they're prepared to accept.

Paul Ridzon
Thank you very much.

Operator
Our next question comes from Paul Zimbardo of UBS. Please go ahead.

Paul Zimbardo
Hi. Good afternoon and congratulations.

Brad Beecher
Thank you, Paul.

Paul Zimbardo
First question, just on the transaction approval timeline. Just hoping you could comment on specifically Missouri in terms of if there's risk there between your rate case, the merger

application. Ameren has filed that they might potentially have a rate case. Do you think there's enough bandwidth for the timeline?

Brad Beecher
First, it's our belief that the revenue requirement in our rate case will not in any way overlap with our merger application. Our rate case hearings are already set. We use a historical test here in Missouri, as you know, so we would expect, while there will be questions in the rate case, we really do not think there will be any impact on the revenue requirement.

Obviously, there's staff constraints at both Missouri staff and then also our own and Algonquin's own as we try to do this four times at once as we do it in Arkansas, Kansas, Oklahoma and Missouri. So we think that 12-month timeframe is a pretty good estimate of where we could land when we get through it.

Paul Zimbardo
Okay, great. Then a follow-up. Looking at the slides that went out with Algonquin's presentation, it looks like capex moved around a little bit out in the later years. Just hoping if you could give a little more detail on what that pickup in regulated generation is in '19, and also I know you commented previously that you didn't see much of an impact from bonus in the early years - bonus depreciation that is - but if you could quantify what that is once you go out a little bit further. Thank you.

Brad Beecher
I don't have Algonquin's slides in front of me but I can tell you our capex is as it was reported in our 10-Q from October. There might be some difference maybe between how they're doing net salvage or …

Laurie Delano
Yes, the cash for the retirement might have changed a little bit but really no significant change from what we published in October.

Paul Zimbardo

Okay. I think it was more just that it called out generation versus distribution and there was a step up in the generation component in '19.

Laurie Delano
Okay, I think I know what you're talking about, Paul. Yes, I think in our filings we didn't have it separated that way so we got more visibility to what the pieces were…

Ian Robertson
And to be frank, we might have, I'm going to say interpreting it, into our slides. I don't want to say taken liberties because at the end of the day, to be frank, we're a little bit agnostic as to whether it's distribution or generation-related capital. I'm going to say if our slides, the split between them is a little bit off, I think it's really about what's the total quantum, to be frank.

Paul Zimbardo
Sure. Just curious if that's to mean new load, retirement, kind of that kind of color, not to nail you down on the number.

Ian Robertson
As I said, it might have been interpretive from our perspective in terms of those various bits and

pieces, but we are confident that it's really about total capex from our point of view.

Paul Zimbardo
Okay, great. Thank you and congratulations again.

Brad Beecher
Thank you, Paul.

Ian Robertson
Thanks much.

Operator
Our next question comes from Tim Winter from Gabelli and Company. Please go ahead.

Tim Winter
Good morning guys, and Brad and Laurie, congratulations.

Brad Beecher
Thank you, Tim.

Tim Winter
Good to see you'll keep the Empire name for at least five years. I wanted to ask a question on the subject of the EBITDA growth in '17 for Empire and potential synergies that you guys talked about. What specifically does Liberty own in Missouri as far as electric, gas, water, what rate base and what ROEs are they earning?

Brad Beecher
Liberty bought the Atmos properties, I believe in 2012 in Missouri, and so out of Jackson, Missouri which is just north of Cape Gerardo, they operate, really, those Atmos properties and there are about 55,000 Liberty Utilities gas customers in Missouri, but they butt up next to 22,000 Liberty Gas customers in Iowa and about 4,000 in Illinois - or switch them around; 22,000 in Illinois and 4,000 in Iowa.

Tim Winter
Okay. So it's all gas customers.

Ian Robertson
No. Sorry.

Brad Beecher
Go ahead.

Ian Robertson
In addition - it's Ian speaking - we own a number of small water utilities in and around the Branson, Lake of the Ozarks area serving towns like Noel, so we're in the water and gas business. We don't have any electric operations in Missouri or Arkansas. It's all water and gas.

Tim Winter
Okay, great. Did the Clean Power Plan have any influence on the decision to go with Algonquin? Is there any fit for the combination?

Brad Beecher

You know, I listed off a litany of reasons and it was not an all-inclusive list of reasons that our board pursued this kind of strategic transaction, and certainly environmental compliance is one of the things that we considered. But, no it was not a determining factor in choosing Algonquin.

Tim Winter
Okay. Thank you and congratulations again, Brad.

Brad Beecher
Thank you. Take care, Tim.

Ian Robertson
Thanks, Tim.

Operator
Our next question comes from Paul Patterson of Glenrock and Associates. Please go ahead.

Brad Beecher
Hello Paul.

Operator
Mr. Patterson, are you on the line?

Paul Patterson
Can you hear me?

Brad Beecher
We got you now, Paul.

Paul Patterson
Sorry about that. Congratulations and good afternoon. I just wanted to follow up quickly on some of Brian's questions. In terms of the - first of all, before that, I'm sorry if I missed this, how is the equity, the acquisition of Empire District Electric's equity being financed?

Ian Robertson
From Algonquin's perspective, we completed a $1.0 billion convertible debenture mandatorily convertible into equity debenture on contemporaneously with the signing of the merger agreement on Tuesday night. That offering to our knowledge was fully subscribed actually with the exercise of the 15% greenshoe; that's to our knowledge. So the equity part from our perspective of the investment is well taken care of. The balance of it would be a laddering of likely U.S. private placement bonds with maturities tied to fit into the maturity ladder of the existing Empire District debt financings. So it would be a combination of 5-, 10-, 15-, 20-, maybe some 30-year bonds. The equity part has been taken care of; the debt financing obviously will take place closer to transaction close.

Paul Patterson
Will the debt be at the Liberty level? Will it be at some mezzanine? Where will the debt reside?

Ian Robertson
It'll reside at the Liberty level. We have a bond platform at the Liberty level but, to be frank and as I mentioned earlier, Missouri is what we call a look-through jurisdiction and so I'm not sure it

really matters because from a consolidate leverage perspective Missouri looks at the next rated entity, which in this case would be Liberty Utilities Co., and so we would take advantage of the synergies and economies of our existing bond platform. It's done very well for us and I think we've been pleased with the results of it so I would expect that that bond financing will take place at the Liberty Co. level.

Paul Patterson
Okay, and then the 50/50 debt-equity, is there a component of goodwill to that? How much good will is there at Liberty?

Ian Robertson
Well, post the transaction the goodwill that exists on Empire's books comes off and the goodwill from our perspective goes on. I think to my knowledge and recollection, at the end of it there's about $600 million collectively of goodwill that will exist - maybe 650 - exist on Liberty's books after the transaction.

Paul Patterson
Okay, and that's part of the calculation for 50/50 debt-equity effect.

Ian Robertson
Sure.

Paul Patterson
Okay. The rest of my questions have been asked and answered. Thanks so much and congratulations again.

Brad Beecher
Thank you, Paul.

Ian Robertson
Appreciate it. Thanks, Paul.

Operator
Our next question comes from Michael Rhodes, a private investor. Please go ahead.

Michael Rhodes
Good afternoon. I represent a small group of Empire retirees and that question that is buzzing around the coffee table with these individuals is will there be changes to the retiree pension and health benefit plan under the merger?

Ian Robertson
Michael, it's a timely question, one that actually we met with a group of the retirees yesterday for lunch and the unequivocal answer which we gave to them yesterday and which I'll repeat today is that no, we are committed to maintaining, obviously the pension goes without saying. It's governed under our federal legislation, but the retiree medical and benefits program is something which is institutionalized within the regulatory jurisdiction here in Missouri with a tracker mechanism and so while we confirmed to those retirees that life would certainly continue on because we're contractually committed to it for the next three years. Given the regulatory constructs here in Missouri there is no reason for that to change that post the three years. So we provided that answer yesterday and hopefully it's as satisfactory to you today as it was to the retirees we spoke to yesterday.

Michael Rhodes
Thank you very much. Appreciate the answer.

Ian Robertson
Thanks, Michael.

Brad Beecher
Thank you.

Operator
Again, if anyone has a question, please press star, then 1.

Our next question comes from Paul Ridzon from KeyBanc. Please go ahead.

Paul Ridzon
Brad, there was some press releases about a different offer from across the pond. Is there a go-shop provision in your agreement, or how have you dealt with that? Cover your ears, Ian.

Brad Beecher
There is a go-shop provision in the agreement.

Paul Ridzon
Could you describe it?

Brad Beecher
The entire merger agreement is filed on the SEC website so I would suggest you go read it yourself.

Ian Robertson
It’s a pretty conventional. We obviously respect all the fiduciary outs that the board has. It’s Ian speaking. But agreed, certainly in detail we’ve posted it on the web.

Paul Ridzon
Thank you very much again.

Brad Beecher
Thank you, Paul.

Ian Robertson
Thanks, Paul.

Operator
This concludes our question and answer session. I’d now like to turn the conference back over to Mr. Brad Beecher for closing remarks.

CONCLUSION

Brad Beecher
Thank you. In closing, we will work diligently with Algonquin, our state regulatory commissions, as well as our federal and other governing bodies to ensure a successful and timely closing of

this transaction, and we will continue to serve our customers with the high level of professionalism and integrity they have come to know and expect from Empire. Thank you for your time today and enjoy the rest of your week.

Operator
The conference has now concluded. Thank you for attending today’s presentation. You may now disconnect your line.

Additional Information and Where to Find It

*The proposed transaction will be submitted to shareholders of Empire for their consideration. In connection with the transaction, Empire will file a proxy statement and other materials with the U.S. Securities and Exchange Commission (the "**SEC**"). This communication is not a substitute for the proxy statement or any other document that Empire may send to its shareholders in connection with the proposed transaction. EMPIRE SHAREHOLDERS ARE ADVISED TO READ THE PROXY STATEMENT FOR THE PROPOSED TRANSACTION WHEN IT IS FILED, AND ANY AMENDMENT OR SUPPLEMENT THERETO THAT MAY BE FILED, WITH THE SEC BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT EMPIRE AND THE TRANSACTION. All such documents, when filed, are available free of charge at the SEC's website at www.sec.gov, at Empire's website at www.empiredistrict.com or by sending a written request to Corporate Secretary, The Empire District Electric Company, 602 S. Joplin Avenue, Joplin, Missouri 64801.*

Participants in the Solicitation

Empire and its directors and executive officers are deemed to be participants in any solicitation of Empire shareholders in connection with the proposed transaction. Information about Empire's directors and executive officers is available in Empire's definitive proxy statement, filed on March 18, 2015, in connection with its 2015 annual meeting of shareholders, and in Empire's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

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Research

Research Update:

Empire District Electric Co. Ratings Affirmed, Outlook Revised To Negative On Proposed Acquisition By Algonquin Power

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Table Of Contents

Research Update:

Empire District Electric Co. Ratings Affirmed, Outlook Revised To Negative On Proposed Acquisition By Algonquin Power

Overview

- Empire District Electric Co. has agreed to be acquired by Algonquin Power & Utilities Corp.
- We are affirming our issuer and debt issue ratings on Empire and revising the outlook to negative from developing.
- The negative outlook reflects the potential for lower ratings on Empire driven by the company's proposed acquisition by Algonquin and the expectation of materially weaker credit measures at the combined enterprise when the transaction closes.

Rating Action

On Feb. 10, 2016, Standard & Poor's Ratings Services revised its rating outlook on Empire District Electric Co. to negative from developing. At the same time, we affirmed our ratings on the company, including the 'BBB' issuer credit rating.

Rationale

We base the negative outlook on Empire's announcement that it has entered into an agreement to be acquired by Algonquin Power & Utilities Corp. When the transaction closes, we would view Empire as a core subsidiary of Algonquin, leading to an issuer credit rating for Empire that is aligned with that of Algonquin. We base this assessment on the following factors:

- We project that Empire will form a meaningful part of the merged entity, contributing about 40% of Algonquin's total EBITDA.
- Empire operates in lines of business that are integral to the overall group strategy (regulated utility operations).
- We expect Algonquin's management will be strongly committed to Empire given Algonquin's emphasis on maintaining the size and scope of its regulated utility operations relative to nonutility operations.
- Empire will enhance Algonquin's presence in common service territories, especially Missouri, facilitating growth and cost-reduction opportunities.

Because of our view of Empire's core group status, the negative outlook on Empire is in line with the negative outlook on Algonquin, which reflects the risk of weaker near-term credit measures associated with the transaction's timing and financing.

The ratings on Empire are based on the company's strong business and significant financial risk profiles.

We assess Empire District's business risk profile as strong, reflecting the company's historically effective management of regulatory risk, limited service territory that lacks scale and regulatory and operating diversity, and efficient operations. Although the regulatory framework has been somewhat challenging in the past, especially in terms of rate-case lag that affects the company's ability to earn its authorized return, Empire has nonetheless endeavored to reach constructive regulatory outcomes, thus supporting its overall credit profile.

We view Empire's financial risk profile as significant based on the medial volatility financial ratio benchmarks. We expect that Empire's capital spending will decline as the company completes major construction projects and that the company's financial performance will benefit primarily from rate case filings that will allow it to recover costs of completed investments.

Under our base case scenario, we project that Empire will achieve funds from operations (FFO) to debt of 18% to 20% and debt to EBITDA of 3.5x to 4x.

Liquidity

We assess Empire's liquidity as adequate to cover its needs over the next 12 to 18 months. We expect the company's liquidity sources to exceed uses by 1.1x or more, the minimum threshold for an adequate designation under our criteria, and that the company will also meet our other requirements for such a designation. Empire's liquidity benefits from stable cash flow generation, ample availability under the revolving credit facilities, and modest debt maturities over the next few years.

Empire has a $200 million revolving credit facility maturing in October 2019 that backstops the company's $150 million commercial paper program.

Principal liquidity sources:

- FFO of $190 million to $200 million
- Revolving credit facility totaling $200 million

Principal liquidity uses:

- $125 million to $150 million in capital spending
- Dividends of about $45 million annually
- Debt maturities of about $45 million, including outstanding commercial paper

Outlook

The negative outlook on Empire reflects the prospect for lower ratings due to the company's agreement to be acquired by Algonquin. The negative outlook on Algonquin reflects our expectation that the company's credit measures will materially weaken in 2016 due to the issuance of convertible debentures to partly finance the cash purchase of Empire. Although we expect that the debentures will have a very high likelihood of conversion in 2017 when the transaction closes, in the meantime we expect that credit measures will be weak for the rating, eliminating any financial cushion at the current rating level. The negative outlook also reflects the execution risk associated with the additional equity and debt necessary to support the transaction and to fund the company's ongoing development plans.

Downside scenario

We could lower the ratings on Empire, aligning our credit ratings on Empire with those of Algonquin, if Algonquin cannot execute its development projects and acquisitions with financing arrangements of debt and equity that lead to FFO/debt of less than 14% by 2017.

Upside scenario

Without regulatory or structural insulation measures that would protect Empire from Algonquin after the transaction closes, we could affirm the existing ratings on Empire if the acquisition does not materialize. We could also affirm the ratings on Empire if we affirm the ratings on Algonquin if the planned equity issuance occurs as contemplated and Algonquin consistently achieves FFO/debt of 14%.

Ratings Score Snapshot

Corporate Credit Rating: BBB/Negative/A-2

Business risk: Strong
- Country risk: Very low
- Industry risk: Very low
- Competitive position: Satisfactory

Financial risk: Significant
- Cash flow/Leverage: Significant

Anchor: bbb

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb
- Group credit profile: bbb

Recovery Analysis

- We assign recovery ratings to first-mortgage bonds (FMB) issued by U.S. utilities, which can result in issue ratings being notched above the corporate credit rating on a utility depending on the rating category and the extent of the collateral coverage.
- The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualify for a recovery rating under our criteria.
- The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist in the future.
- Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed the corporate credit rating on a utility by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories depending on the calculated ratio. We do not notch FMB ratings for companies with corporate credit ratings in the 'AA' category.
- Empire's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating two notches above the corporate credit rating.

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Collateral Coverage and Issue Notching Rules for '1+' and '1' Recovery Ratings on Senior Bonds Secured by Utility Real Property, Feb. 14, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Notching Of U.S. Investment-Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery, Nov. 10, 2008

Ratings List

Ratings Affirmed; Outlook Revised To Negative

	To	From
Empire District Electric Co.		
Corporate credit rating	BBB/Negative/A-2	BBB/Developing/A-2
Senior secured	A-	
Recovery rating	1+	
Senior unsecured	BBB	
Commercial paper	A-2	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Attachment AA-R5
1/2

10-K 1 a2227419z10-k.htm 10-K

Use these links to rapidly review the document
TABLE OF CONTENTS
PART IV

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2015

or

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to .

Commission file number: 1-3368

THE EMPIRE DISTRICT ELECTRIC COMPANY
(Exact name of registrant as specified in its charter)

Kansas	**44-0236370**
(State of Incorporation)	(I.R.S. Employer Identification No.)
602 S. Joplin Avenue, Joplin, Missouri	**64801**
(Address of principal executive offices)	(zip code)

Registrant's telephone number: (417) 625-5100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock ($1 par value)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☒ No ☐

PART I

ITEM 1. BUSINESS

General

We operate our businesses as three segments: electric, gas and other. The Empire District Electric Company (EDE), a Kansas corporation organized in 1909, is an operating public utility engaged in the generation, purchase, transmission, distribution and sale of electricity in parts of Missouri, Kansas, Oklahoma and Arkansas. As part of our electric segment, we also provide water service to three towns in Missouri. The Empire District Gas Company (EDG) is our wholly owned subsidiary engaged in the distribution of natural gas in Missouri. Our other segment consists of our fiber optics business.

Our gross operating revenues in 2015 were derived as follows:

Electric segment sales*		91.7%
On-system revenues	86.6%	
SPP IM revenues	2.5	
Other revenues	2.3	
Gas segment sales		6.9
Other segment sales		1.4

* Sales from our electric segment include 0.3% from the sale of water.

On-system electric revenues consist of residential, commercial, industrial, wholesale on-system and other (which includes street lighting, other public authorities and interdepartmental usage).

The territory served by our electric operations embraces an area of about 10,000 square miles, located principally in southwestern Missouri, and also includes smaller areas in southeastern Kansas, northeastern Oklahoma and northwestern Arkansas. The principal economic activities of these areas include light industry, agriculture and tourism. As of December 31, 2015, our electric operations served approximately 170,000 customers.

Our retail electric revenues for 2015 by jurisdiction were derived as follows:

Missouri	89.0%
Kansas	4.8
Oklahoma	2.8
Arkansas	3.4

We supply electric service at retail to 119 incorporated communities as of December 31, 2015, and to various unincorporated areas and at wholesale to four municipally owned distribution systems. The largest urban area we serve is the city of Joplin, Missouri, and its immediate vicinity, with a population of approximately 160,000. We operate under franchises having original terms of twenty years or longer in virtually all of the incorporated communities. Approximately 39% of our electric operating revenues in 2015 were derived from incorporated communities with franchises having at least ten years remaining and approximately 31% were derived from incorporated communities in which our franchises have remaining terms of ten years or less. Although our franchises contain no renewal provisions, in recent years we have obtained renewals of all of our expiring electric franchises prior to the expiration dates.

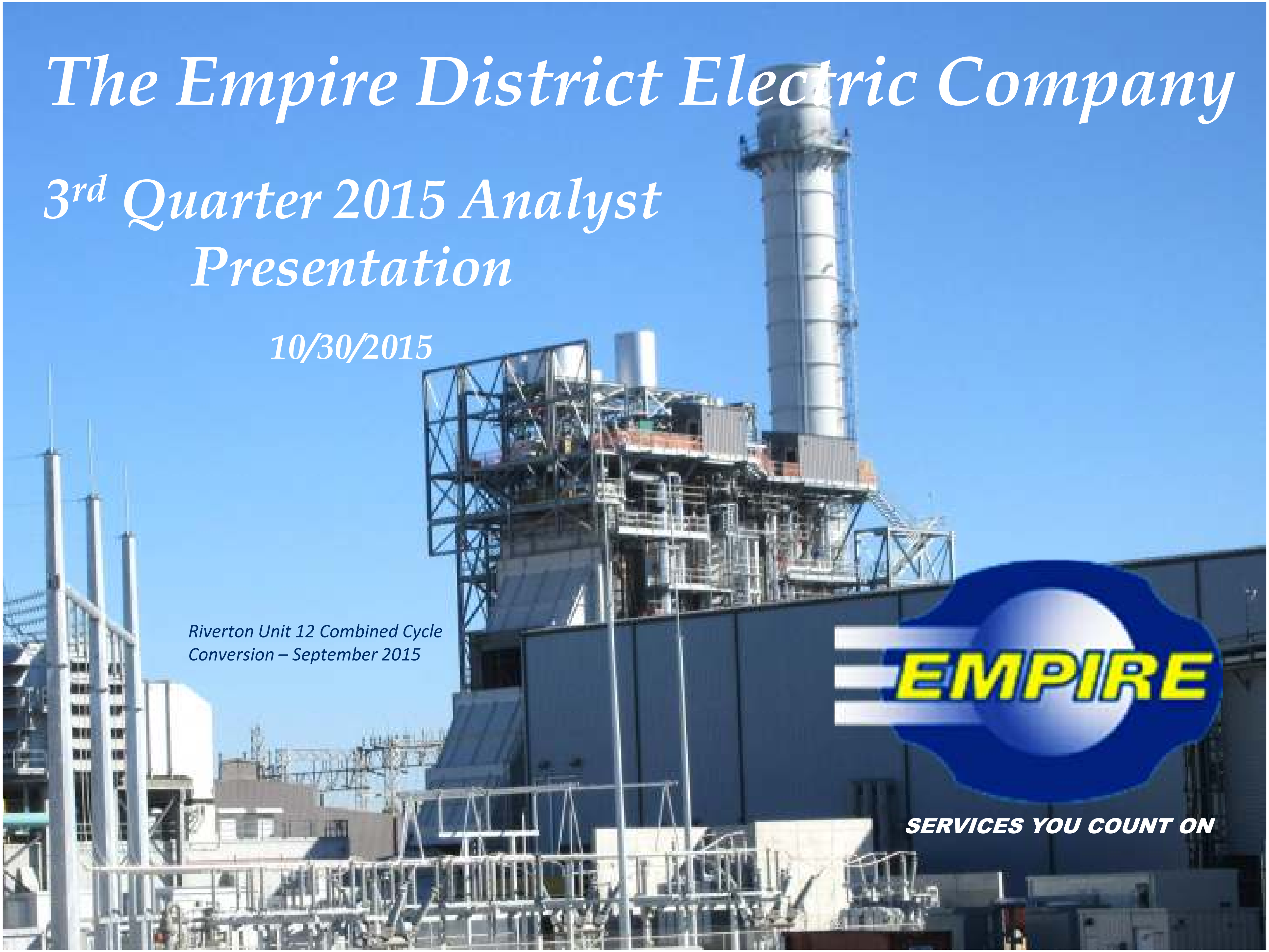
Our three largest classes of on-system customers are residential, commercial and industrial, which provided 41.7%, 31.1%, and 15.9%, respectively, of our electric operating revenues in 2015.

Our largest single on-system wholesale customer is the city of Monett, Missouri, which in 2015 accounted for approximately 2.4% of electric revenues. No single retail customer accounted for more than 1.9% of electric revenues in 2015.

The Empire District Electric Company

3rd Quarter 2015 Analyst Presentation

10/30/2015



Riverton Unit 12 Combined Cycle Conversion – September 2015

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Forward Looking Statements

This presentation discusses various matters that are "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Such statements address or may address future plans, objectives, expectations and events or conditions concerning various matters such as capital expenditures, earnings, pension and other costs, competition, litigation, our construction program, our generation plans, our financing plans, potential acquisitions, rate and other regulatory matters, liquidity and capital resources and accounting matters. Forward-looking statements may contain words like "anticipate," "believe," "expect," "project," "objective" or similar expressions to identify them as forward-looking statements. Factors that could cause actual results to differ materially from those currently anticipated in such statements include:

- weather, business and economic conditions and other factors which may impact sales volumes and customer growth;
- the impact of energy efficiency and alternative energy sources, including solar;
- the costs and other impacts resulting from natural disasters, such as tornados and ice storms;
- the amount, terms and timing of rate relief we seek and related matters;
- the results of prudency and similar reviews by regulators of costs we incur, including capital expenditures and fuel and purchased power costs, including any regulatory disallowances that could result from prudency reviews;
- unauthorized physical or virtual access to our facilities and systems and acts of terrorism, including, but not limited to, cyber-terrorism;
- legislation and regulation, including environmental regulation (such as NOx, SO_2, mercury, ash and CO_2) and health care regulation;
- the periodic revision of our construction and capital expenditure plans and cost and timing estimates
- costs and activities associated with markets and transmission, including the Southwest Power Pool (SPP) regional transmission organization (RTO) transmission development, and SPP Day-Ahead Market;
- electric utility restructuring, including deregulation;
- spending rates, terminal value calculations and other factors integral to the calculations utilized to test the impairment of goodwill, in addition to market and economic conditions which could adversely affect the analysis and ultimately negatively impact earnings;
- volatility in the credit, equity and other financial markets and the resulting impact on our short term debt costs and our ability to issue debt or equity securities, or otherwise secure funds to meet our capital expenditure, dividend and liquidity needs;
- the effect of changes in our credit ratings on the availability and cost of funds;
- the performance of our pension assets and other post employment benefit plan assets and the resulting impact on our related funding commitments;
- our exposure to the credit risk of our hedging counterparties;
- the cost and availability of purchased power and fuel, including costs and activities associated with the SPP Day-Ahead Market, and the results of our activities (such as hedging) to reduce the volatility of such costs;
- interruptions or changes in our coal delivery, gas transportation or storage agreements or arrangements;
- operation of our electric generation facilities and electric and gas transmission and distribution systems, including the performance of our joint owners;
- our potential inability to attract and retain an appropriately qualified workforce;
- changes in accounting requirements;
- costs and effects of legal and administrative proceedings, settlements, investigations and claims;
- performance of acquired businesses; and
- other circumstances affecting anticipated rates, revenues and costs.

All such factors are difficult to predict, contain uncertainties that may materially affect actual results, and may be beyond our control. New factors emerge from time to time and it is not possible for management to predict all factors or to assess the impact of each factor on us. Any forward-looking statement speaks only as of the date on which such statement is made, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

We caution you that any forward-looking statements are not guarantees of future performance and involve known and unknown risk, uncertainties and other factors which may cause our actual results, performance or achievements to differ materially from the facts, results, performance or achievements we have anticipated in such forward-looking statements.

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Executive Management and Investor Relations Team

Brad Beecher,
President and CEO

Laurie Delano,
Vice President –
Finance and CFO

Dale Harrington,
Corporate Secretary and
Director of
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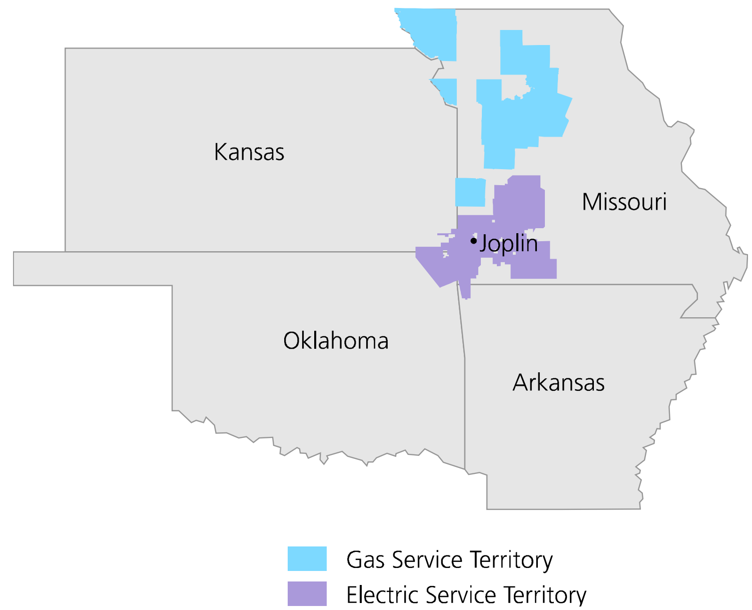
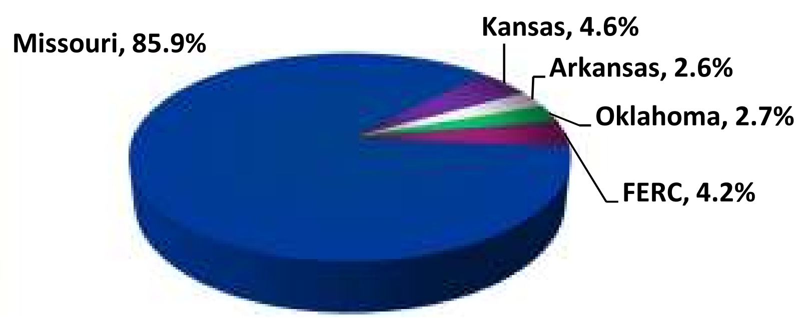
Who We Are

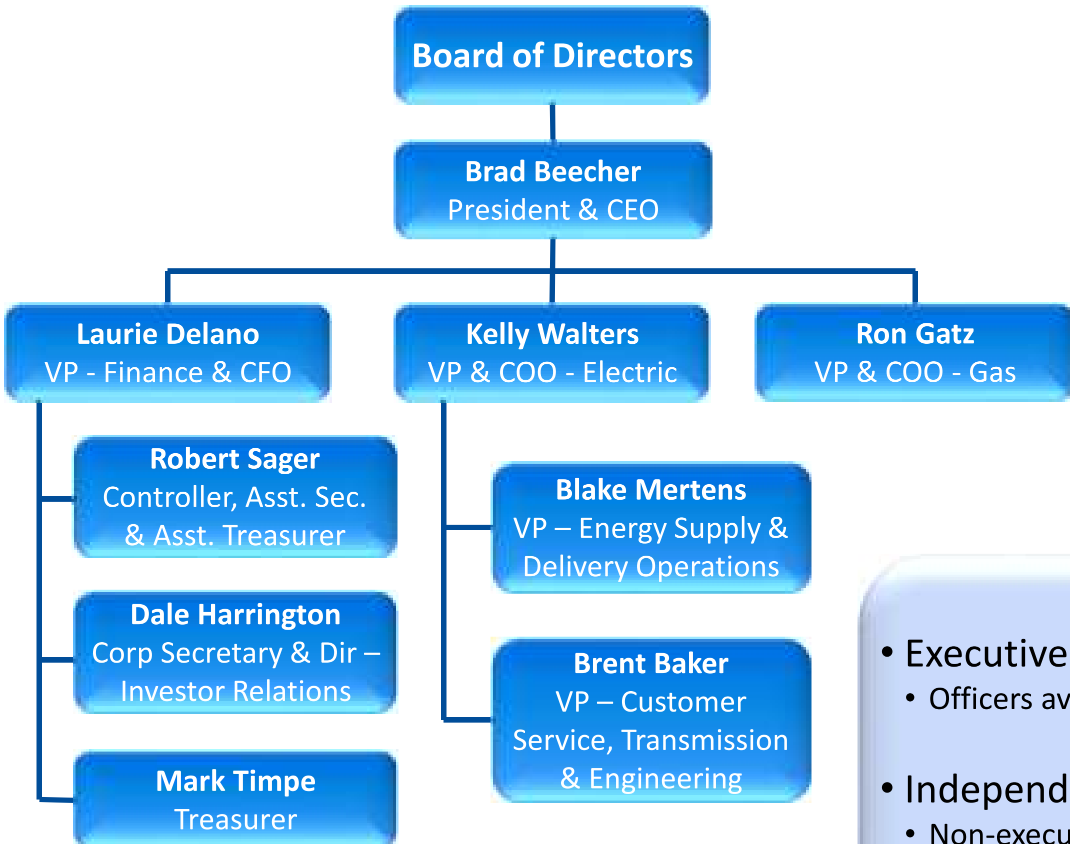
- NYSE ticker: EDE
- 100% regulated utility
- Operations in four states: MO, KS, OK, AR plus FERC
- 218,000 customers
- 10,000 square mile service territory
- Stock price on 10/30/2015: $22.55
- Market capitalization: $990 million on 10/30/2015
- 52 week range: $20.69 – $31.49
- Shares outstanding: 43.8 million
- Annual average daily trading volume (12 month): 217,400 shares
- Current dividend Yield 4.6% (as of 10/30/2015)





2014 On-System Electric Revenues by Jurisdiction

Experienced Management



- Executive Management
  - Officers average nearly 20 years utility experience with Empire
- Independent Board of Directors
  - Non-executive chairman
  - All directors other than CEO are independent

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Strategy

High-quality, pure-play, regulated electric and gas utility	• Favorable energy supply portfolio: reliable, diverse, low cost, regulated generating assets • Constructive regulatory relationships
Low-risk growth plan	• Core business with rate base infrastructure investment • Commitment to renewable energy and reducing emissions
Strong financial metrics	• Earnings growth driven by low risk growth plan • Regulatory lag managed through ratemaking process and cost-conscious management • Investment grade credit ratings
Competitive total return prospects	• Attractive annualized dividend yield of 4.6% on October 30, 2015 • Opportunity for earnings and dividend growth

Riverton 12 Combined Cycle Conversion Project
Building rate base with clean, efficient, low cost generation.

(artist rendition of finished project)

Most Recent Quarter

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Third Quarter, YTD and Twelve Month Ended Highlights

	3rd Quarter 2015	3rd Quarter 2014		YTD 9/30/15	YTD 9/30/14		TME 9/30/15	TME 9/30/14
Net Income *(millions)*	$25.3	$23.9		$46.7	$56.0		$57.8	$71.2
Earnings Per Share	$0.58	$0.55		$1.07	$1.29		$1.33[1]	$1.65
Dividends Per Share	$0.26	$0.255		$0.78	$0.765		$1.04	$1.02

- ***Quarter Drivers:***
  - Increased Missouri customer rates
  - Favorable weather
  - Timing of fuel deferrals
  - Increased production maintenance but flat overall operating and maintenance expenses
  - Increased depreciation and amortization, property, interest and other non-operating expenses
- ***Year to Date and Twelve Month Ended Drivers:***
  - Increased Missouri customer rates
  - Customer growth
  - Fuel deferral timing
  - Milder weather and other volumetric changes
  - FERC wholesale refund
  - Lower gas segment margin
  - Increased production maintenance, depreciation and amortization, property, interest and other non-operating expenses
  - Reduced AFUDC levels
- ***Weather Normalized 2015 Earnings Guidance Unchanged:*** $1.30 to $1.45 per share
- ***Missouri Customer Rates:*** Effective July 26, 2015; $17.1M annual increase in base revenue; fuel re-based

[1] **Fully Diluted = $1.32**

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Missouri Rate Case Highlights (Docket No. ER-2016-0023)

- Seeks recovery of Riverton 12 Combined Cycle Conversion investment
- Requested increase of $33.4 million, or 7.3% above current rates
- Test year ending June 30, 2015; expense true up through March 31, 2016
- Assumes Riverton 12 Combined Cycle in-service date of June 1, 2016
- Requested Return on Equity – 9.9%
- Missouri jurisdictional Rate Base – $1.368 billion; overall Rate of Return – 7.58%
- Increased transmission, administrative and maintenance expenses
- Recovery of mandated solar program costs
- Revised depreciation rates; lower average interest costs
- Continuation of Fuel Adjustment Clause

Cost Driver	Revenue Requirement ($ in millions)
Riverton Unit 12 Combined Cycle Conversion	$27.4
Asbury True-Up	2.1
Effect of New Depreciation Rates	(1.0)
Other Normal Plant Additions	6.0
Administrative Costs	2.1
Capital Structure and Other	(3.2)
Total Base Rates	$33.4

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Recent Missouri Rate Case Settlement (Case No. ER-2014-0351)

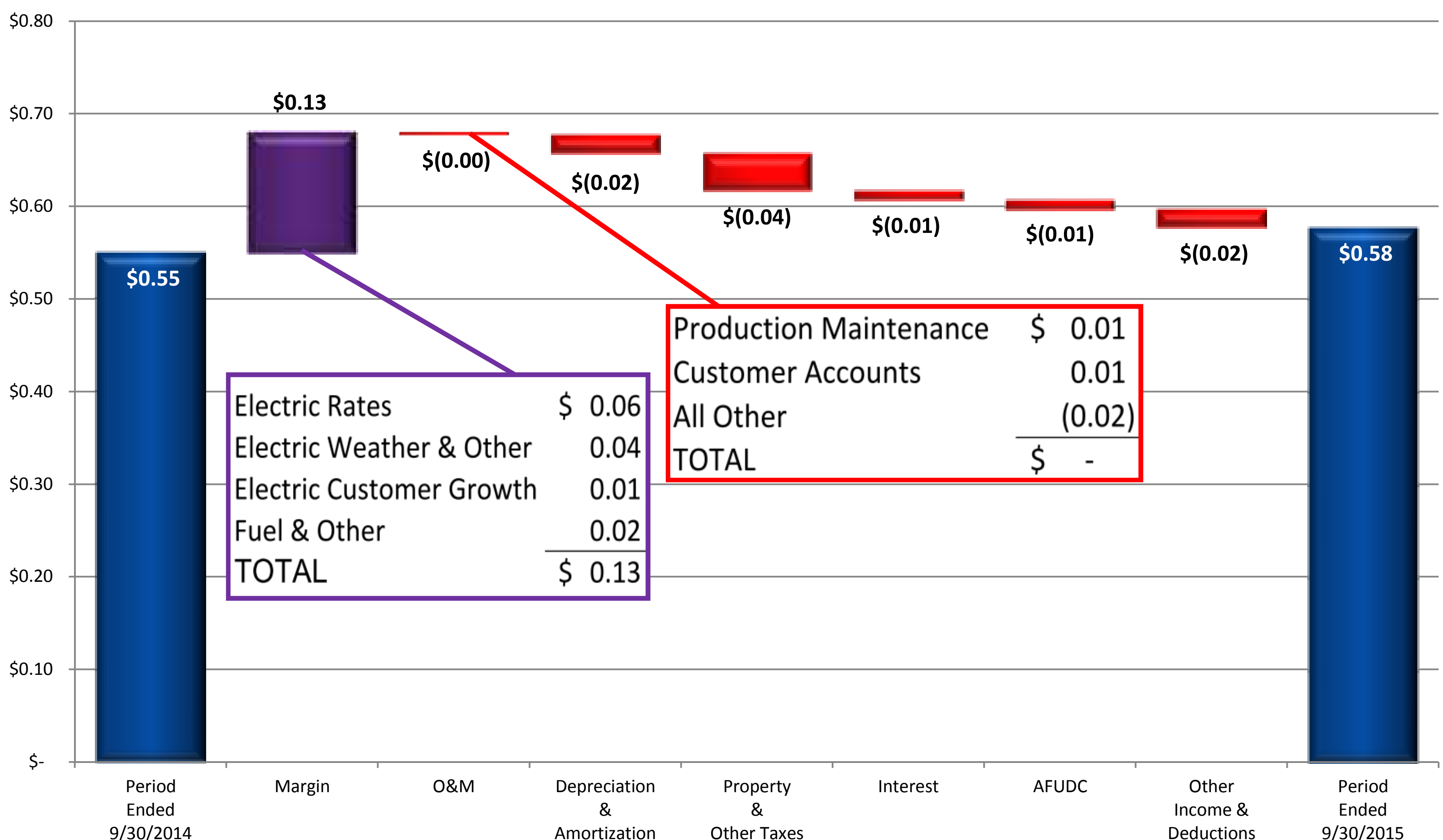
- **New customer rates effective July 26, 2015**
- **$17.1M (3.9%) increase, ordered June 24, 2015 (original request for $24.3M)**
  - Stipulated settlement, no stated Return on Equity
  - Base fuel reduction of $1.60 per MWh
  - Continuation of fuel recovery mechanism (FAC)
  - Recovery of approximately 34% of future changes in transmission expenses above base through FAC
  - Riverton 12 maintenance contract base amount reduced
  - Riverton 12 maintenance contract tracker added
  - Vegetation management, Iatan, and Plum Point maintenance trackers discontinued (costs managed in base rates)
  - Total company sales base of approximately 5 million MWhs
  - No stated Return on Equity
  - Other miscellaneous items as stipulated

Other Regulatory / Legislative Highlights

- **Missouri**
  - Notice updating Integrated Resource Plan (IRP)
    - Retirement of Riverton Units 8 and 9 – June 30, 2015
  - Missouri Energy Efficiency Investment Act (MEEIA) application withdrawn – July 24, 2015
    - Continue recovery of current Energy Efficiency programs through base rates
    - Consider future MEEIA filing with 2016 IRP
  - Solar Rebates
    - At September 30, 2015, approximately 250 applications received; rebate-related costs totaling $3.4M
- **Kansas**
  - Asbury Cost Recovery Tariff Rider approved April 15, 2015, increasing annual base revenues $0.78 million, effective June 1, 2015
  - Ad Valorem Tax Surcharge effective February 23, 2015, increasing annual base revenues $0.27 million
- **Arkansas**
  - Implemented rider February 23, 2015, to recover Asbury AQCS, effective upon filing, subject to refund
- **Oklahoma**
  - Administrative rule provides rate reciprocity to electric companies who serve less than 10% of total customers in state
  - Allows rates approved in Missouri to be applied in Oklahoma jurisdiction
    - Filed for reciprocal rate approval of Missouri rates in Docket No. ER-2016-0023 on October 26, 2015 (Oklahoma Cause No. PUD 201500379)

Third Quarter, YTD and Twelve Month Ended Highlights

Quarter ended September 30, 2015: Consolidated Basic EPS After Tax Increase (Decrease)



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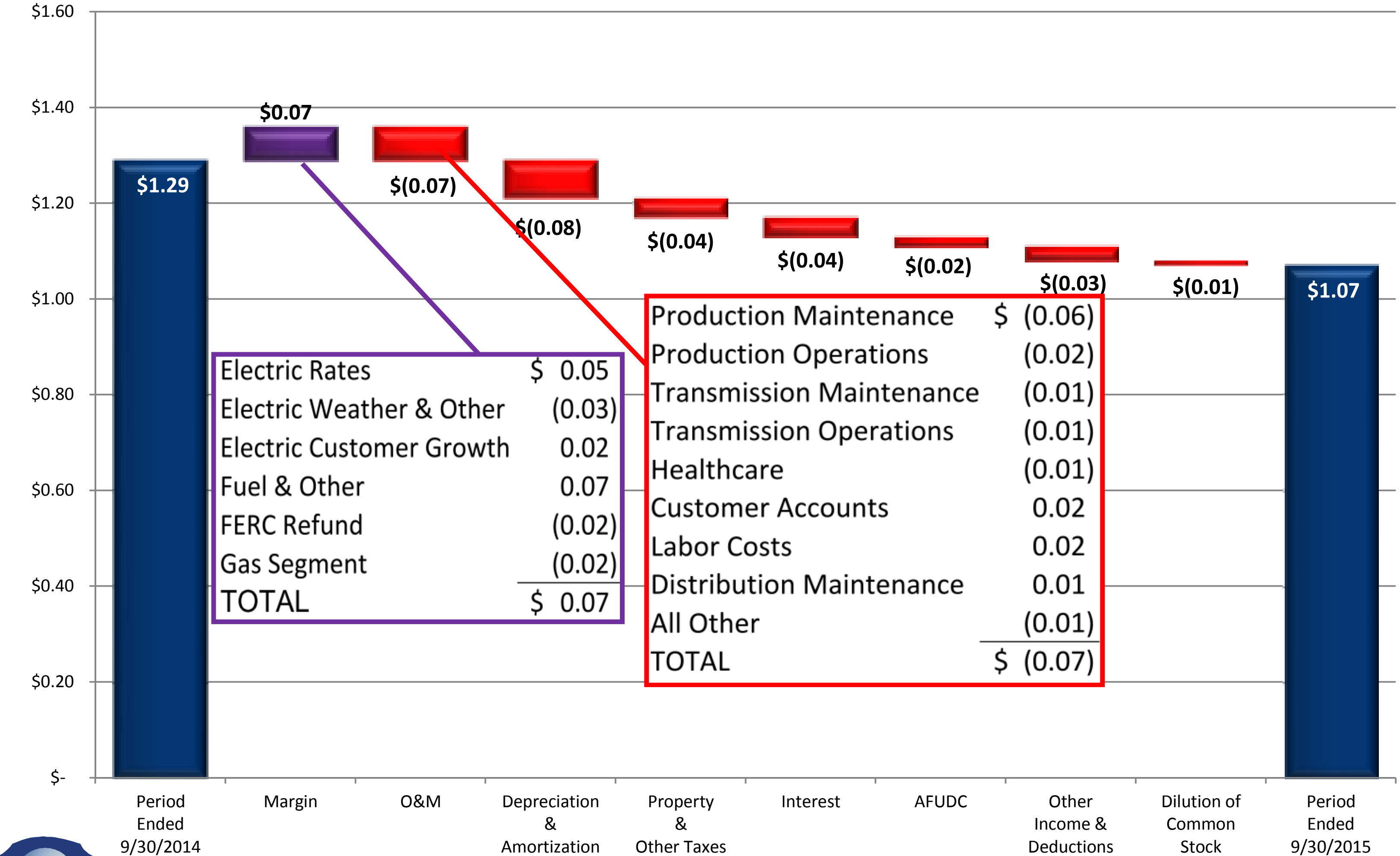
Third Quarter, YTD and Twelve Month Ended Highlights

Year to date ended September 30, 2015: Consolidated Basic EPS After Tax Increase (Decrease)

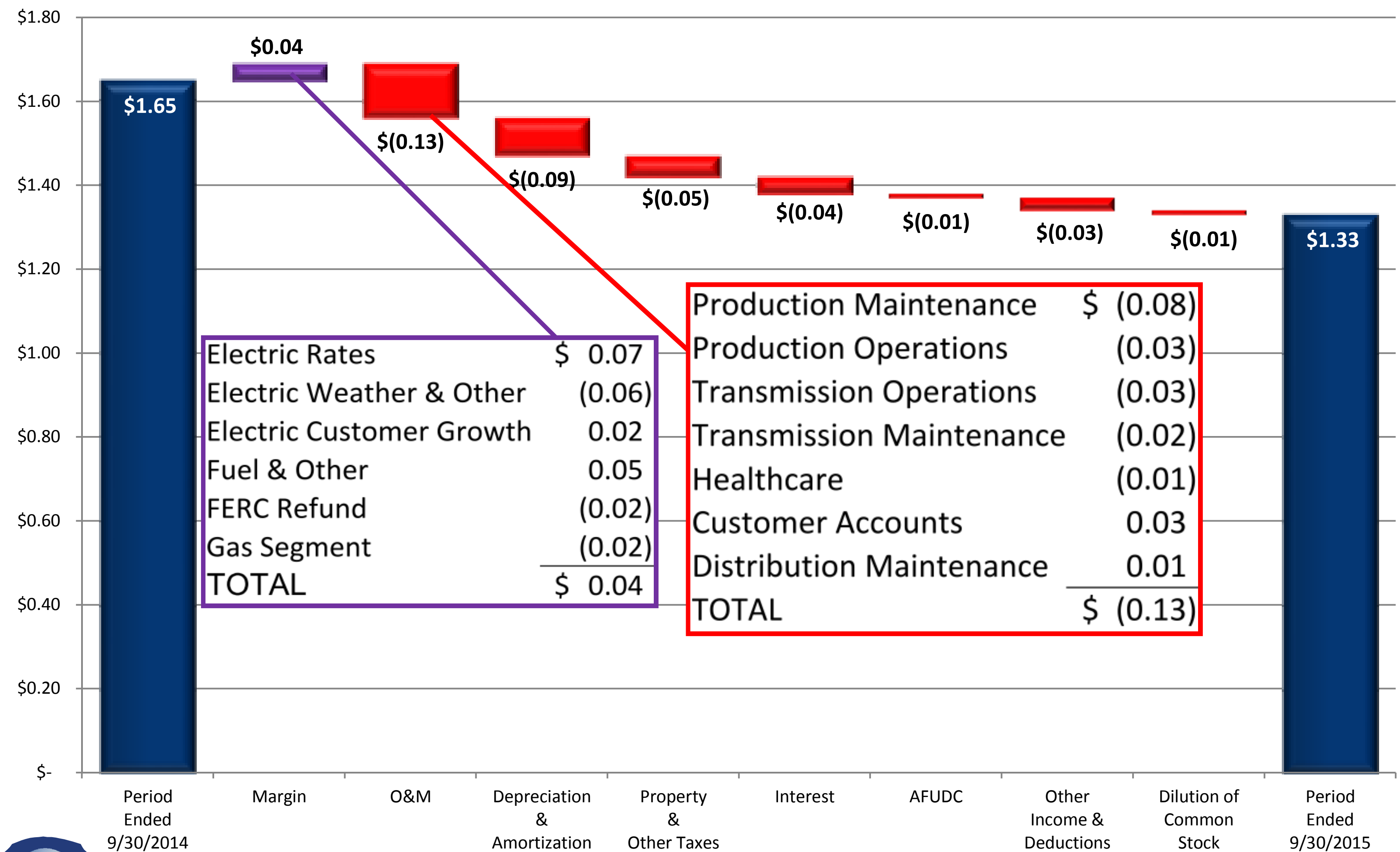


Electric Rates	$ 0.05
Electric Weather & Other	(0.03)
Electric Customer Growth	0.02
Fuel & Other	0.07
FERC Refund	(0.02)
Gas Segment	(0.02)
TOTAL	$ 0.07

Production Maintenance	$ (0.06)
Production Operations	(0.02)
Transmission Maintenance	(0.01)
Transmission Operations	(0.01)
Healthcare	(0.01)
Customer Accounts	0.02
Labor Costs	0.02
Distribution Maintenance	0.01
All Other	(0.01)
TOTAL	$ (0.07)

Third Quarter, YTD and Twelve Month Ended Highlights

Twelve Months ended September 30, 2015: Consolidated Basic EPS After Tax Increase (Decrease)



Electric Rates	$ 0.07
Electric Weather & Other	(0.06)
Electric Customer Growth	0.02
Fuel & Other	0.05
FERC Refund	(0.02)
Gas Segment	(0.02)
TOTAL	$ 0.04

Production Maintenance	$ (0.08)
Production Operations	(0.03)
Transmission Operations	(0.03)
Transmission Maintenance	(0.02)
Healthcare	(0.01)
Customer Accounts	0.03
Distribution Maintenance	0.01
TOTAL	$ (0.13)

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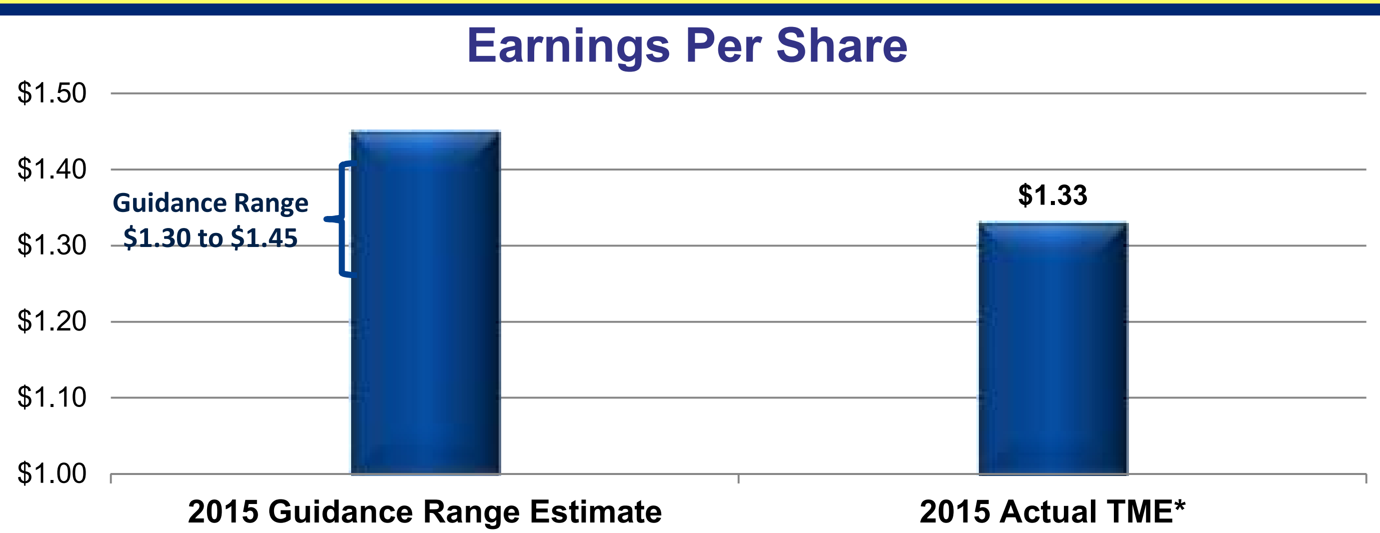
2015 / 2016 Drivers



2015:

- Asbury AQCS cost recovery in new customer rates effective July 26, 2015
- First half 2015 lag effects reduced after July 26 with new Missouri customer rates
- Expense tracking mechanism for Riverton maintenance contract
- Maintenance costs lower in second half of 2015 vs. first half of 2015, exception of Riverton Maintenance Contract (approx. $0.5M per quarter)

2016:

- Full year of Asbury AQCS cost recovery in customer rates
- Rates in effect September 2016 for Missouri case filed October 16, 2015 to recover Riverton Unit 12 Combined Cycle project costs
- Riverton lag effect until project costs recovered in customer rates in September 2016
  - Riverton 12 depreciation rate approximately 2%

* $1.32 Diluted

SERVICES YOU COUNT ON

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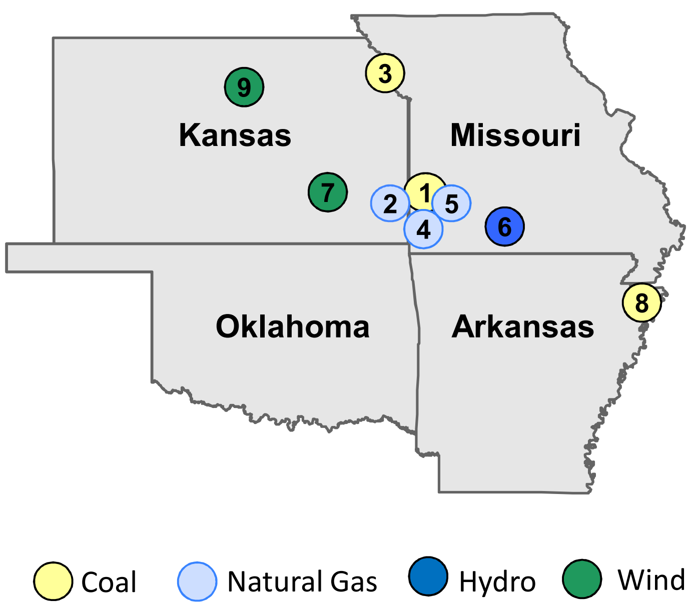
Leading by example – adopting electric plug-in technologies for vehicle fleet

Pure-Play Regulated Electric and Gas Utility

Favorable Energy Supply Portfolio



	Energy Supply	Primary Fuel	Net Capacity (MW)	Status
1	Asbury	Coal	194	Owned
2	Riverton	Natural Gas	226	Owned[1]
3	Iatan (12% owner, Units 1 &2)	Coal	190	Owned
4	State Line Combined Cycle	Natural Gas	297	Owned[2]
4	State Line Unit 1	Natural Gas	93	Owned
5	Empire Energy Center	Natural Gas	260	Owned
6	Ozark Beach	Hydro	16	Owned
8	Plum Point Energy Station (7.5% owner)	Coal	50	Owned
	Owned Capacity (MW)		**1,326**	
7	Elk River Windfarm PPA	Wind	17	Contracted[3]
8	Plum Point Energy Station PPA	Coal	50	Contracted[4]
9	Cloud County Windfarm PPA	Wind	19	Contracted[5]
	Purchased Power Capacity (MW)		**86**	
	Total Capacity (MW)		**1,412**	

Notes:
1 Capacity reduced to approximately 175 MW with retirement of Units 8 and 9 on June 30, 2015. Unit 12 combined cycle project expected to add an estimated 108 MW upon completion in early to mid-2016.
2 Does not include 40% owned by Westar
3 Elk River contracted through December 2025
4 Plum Point contracted through December 2036
5 Cloud County contracted through December 2028

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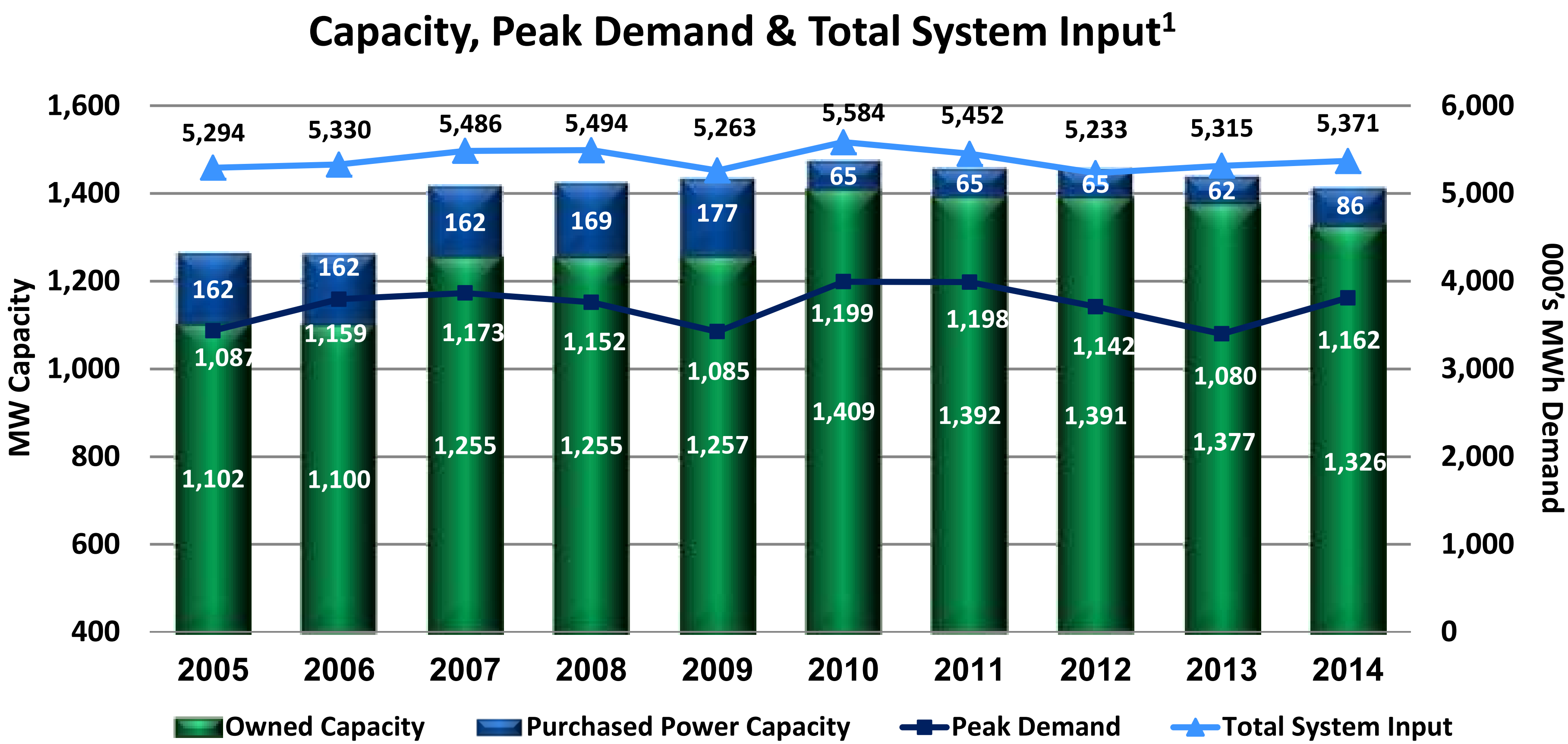
Environmental Compliance[1]

Iatan 1, Iatan 2 and Plum Point	• Environmentally compliant coal-fired generation
Asbury	• Environmentally compliant coal-fired generation • Construction of new ash landfill, permit expected in August 2016
Riverton	• Unit 7 retired June 30, 2014, Unit 8 and Unit 9 retired June 30, 2015 • Riverton Unit 12 conversion to Combined Cycle operation, expected completion early to mid 2016 • Estimated cost: \$165 – \$175 million (\$150 million spent as of 9/30/2015) • October 16, 2015 Missouri rate filing to recover costs
Wind Farms	• Elk River and Meridian Way wind farms – environmentally compliant energy to meet MO and KS renewable energy standards[2]

[1] Does not include the impacts of final Clean Power Plan regulations issued August 3, 2015
[2] Solar requirement to be met with purchase of Renewable Energy Credits; KS standard is voluntary

EMPIRE
SERVICES YOU COUNT ON

Favorable Energy Supply Portfolio

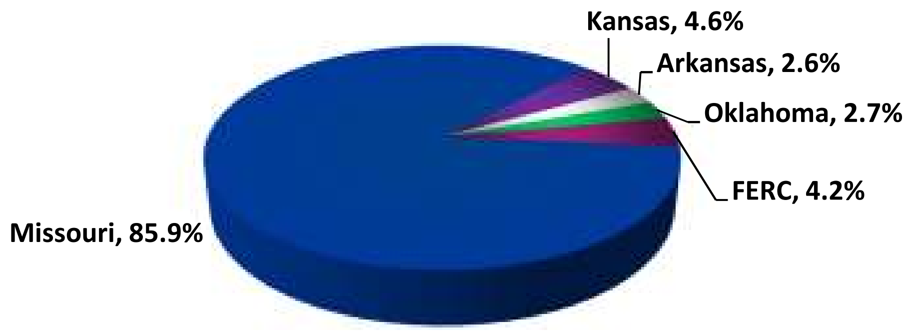


[1] Measure of customer usage, excluding losses

Constructive Regulatory Relationships

- Constructive relationships with state commissions in Missouri, Kansas, Oklahoma and Arkansas
- Rate cases managed to reduce regulatory lag
- Fuel recovery mechanisms in place in all four states
- Trackers for other costs in place
- Missouri Public Service Commission (MPSC)
  - Daniel Y. Hall (D) – Chairman
  - Stephen M. Stoll (D)
  - Scott T. Rupp (R)
  - Maida J. Coleman (D)
  - William P. Kenney (R)

2014 On-System Electric Revenues by Jurisdiction



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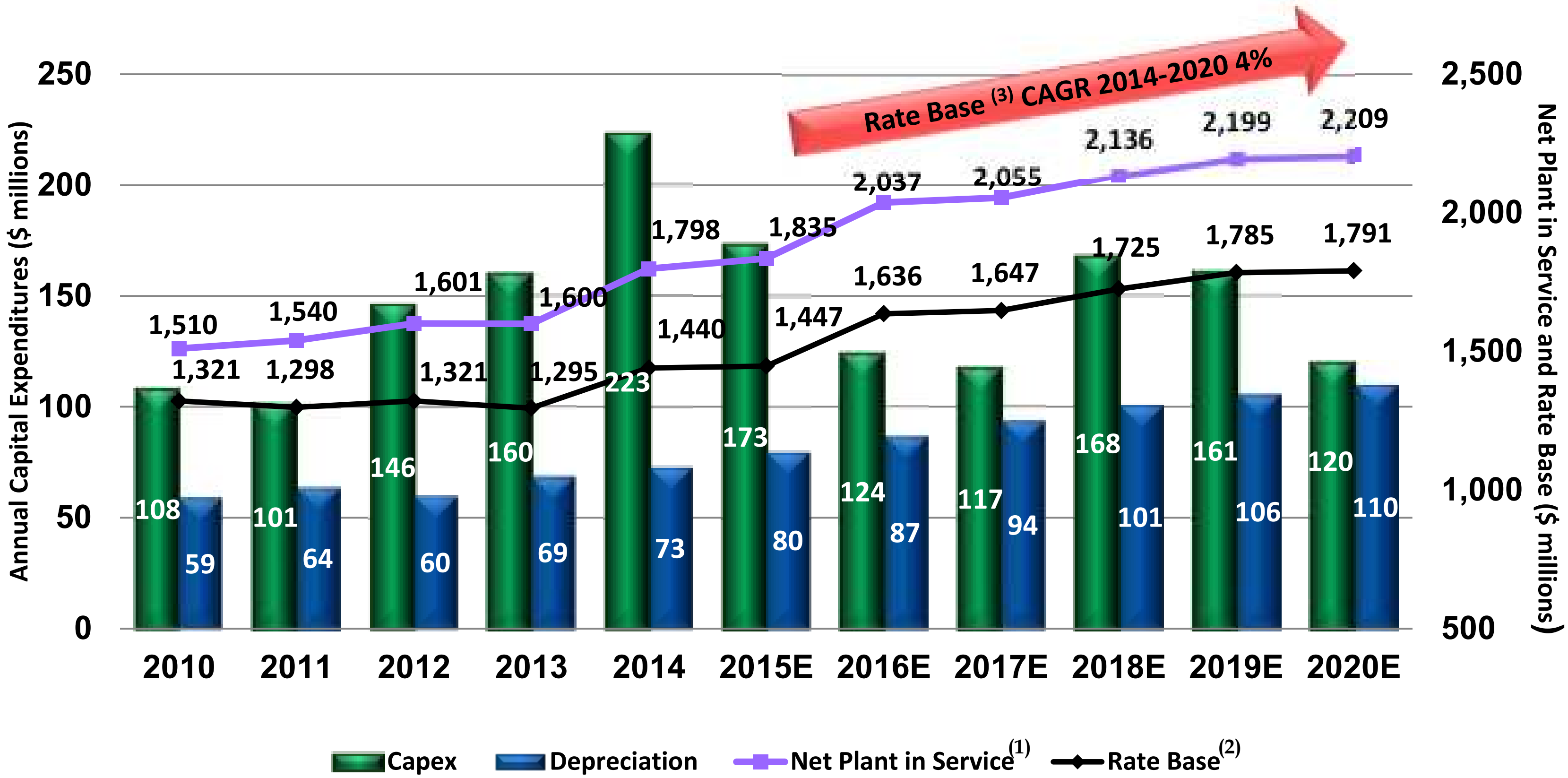
Riverton 12 Combined Cycle Conversion Project –as of September 30, 2015, construction approximately 93% complete, approximately $150M expenditures, tie-in underway, preparation for start-up and commissioning underway

Low-Risk Growth Plan

Building Core Business with Rate Base Infrastructure

- Capital Expenditures (actuals include AFUDC, projections exclude AFUDC)

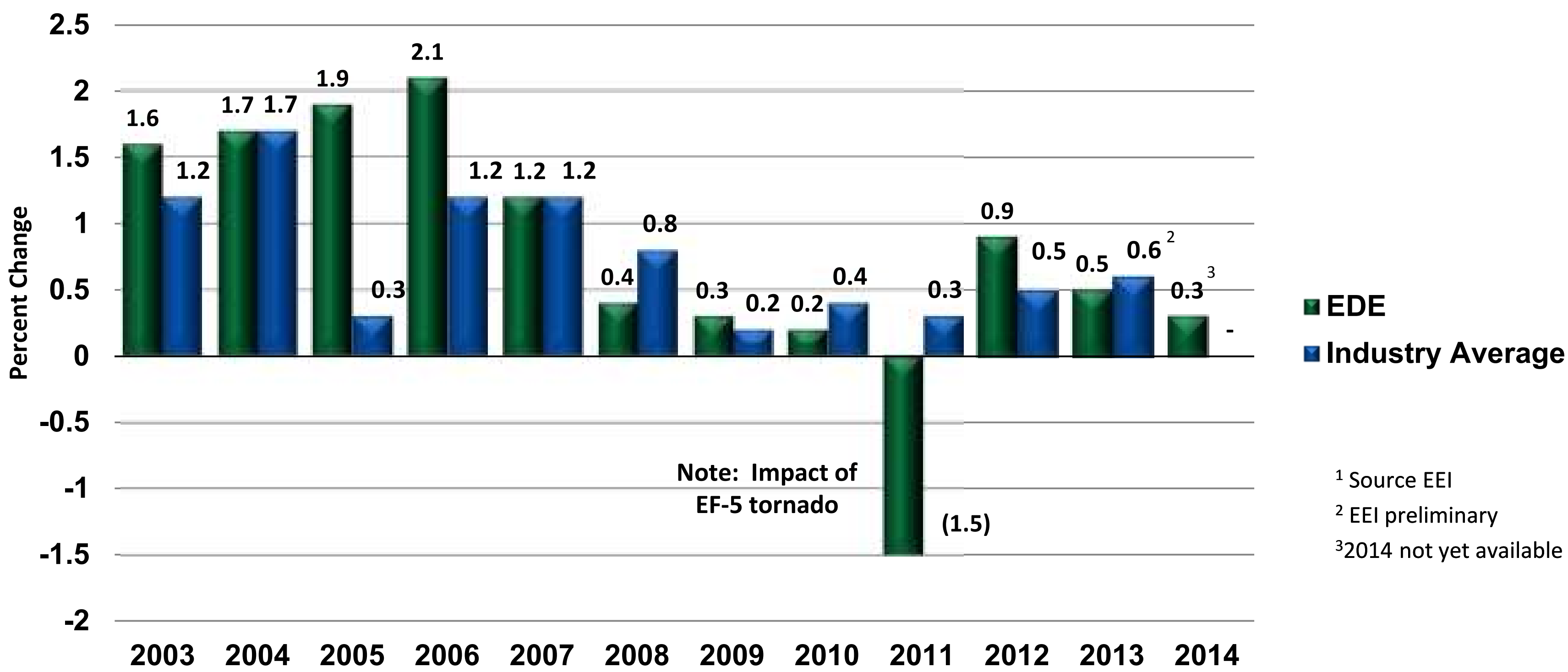


(1) Less Construction Work In Progress (CWIP), no bonus depreciation assumed after 2014
(2) Net Plant less CWIP and Deferred Taxes

EMPIRE
SERVICES YOU COUNT ON

Customer Growth

Electric Customer Growth



Beyond 2014:

- Customer and sales growth expected to be less than 1% annually over the next several years.

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Improving reliability and building rate base with infrastructure improvements

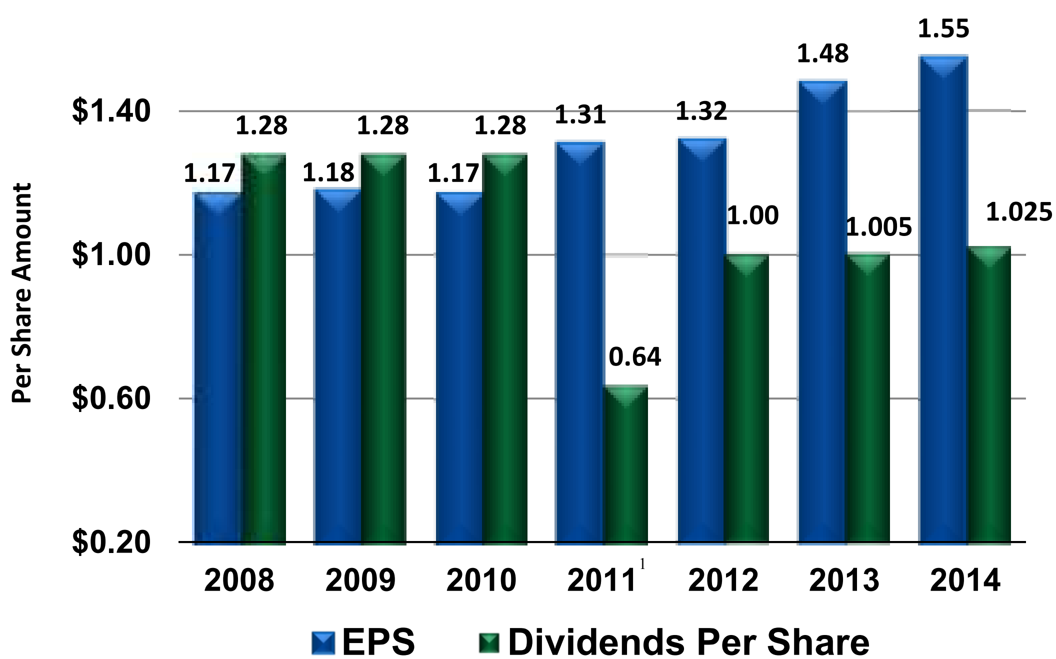
Elk River Wind Farm – Meeting renewable energy standards

Strong Financial Metrics

Earnings Profile

- 2015 earnings guidance - $1.30 to $1.45 per share
    - Missouri rates effective July 26th: no change in guidance range
- Dividend increased 2% in Q4 2014; implied annual rate of $1.04
    - Target long-term payout commensurate with utility peers

Earnings and Dividends Per Share

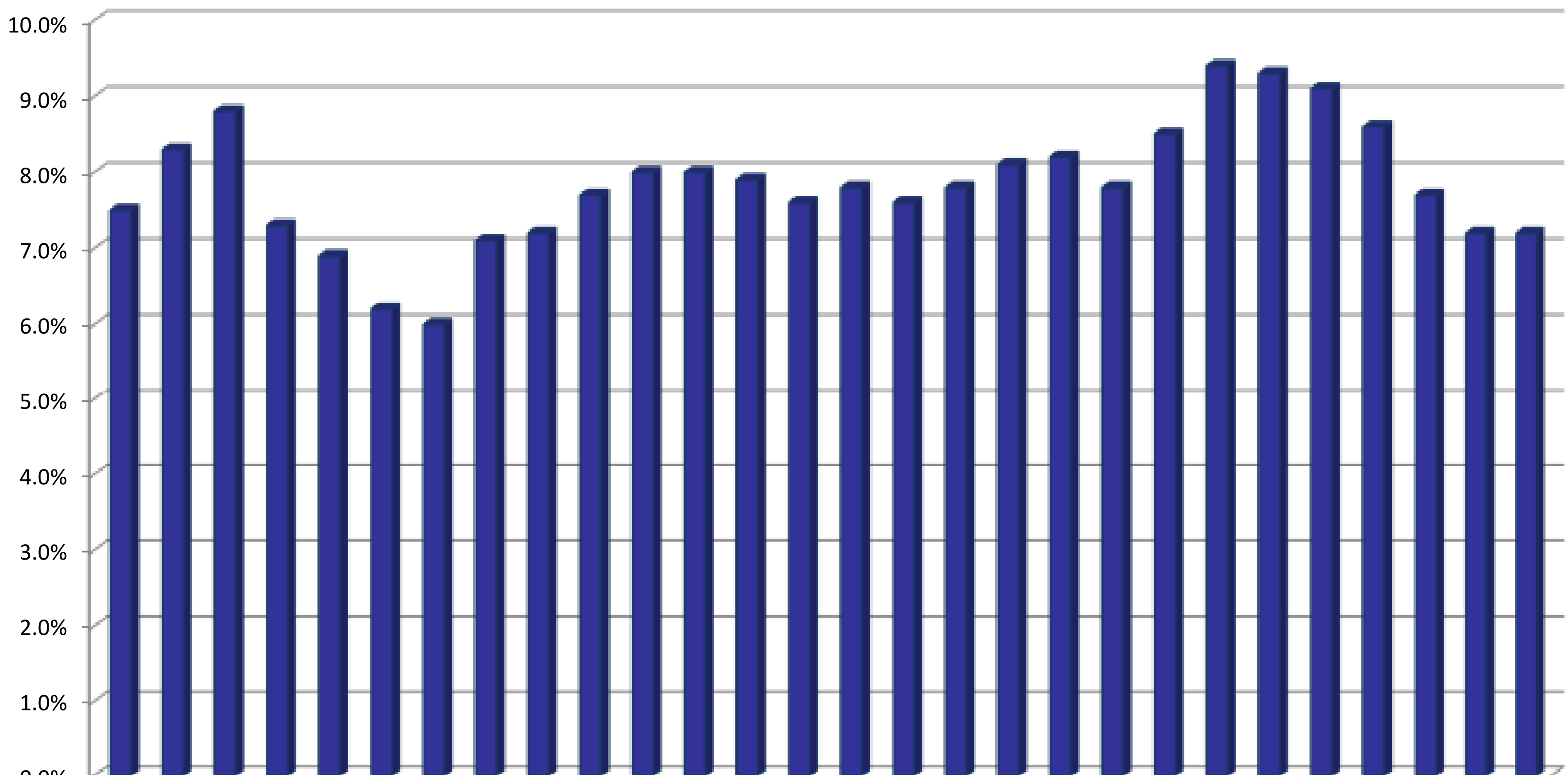


[1] Dividend suspended for Q3 and Q4 in 2011 following EF-5 tornado on May 22, 2011

SERVICES YOU COUNT ON

Return on Equity

Quarterly ROE* – Trailing 12-Month Basis



	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012
ROE	7.5%	8.3%	8.8%	7.3%	6.9%	6.2%	6.0%	7.1%	7.2%	7.7%	8.0%	8.0%	7.9%	7.6%

	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015
ROE	7.8%	7.6%	7.8%	8.1%	8.2%	7.8%	8.5%	9.4%	9.3%	9.1%	8.6%	7.7%	7.2%	7.2%

* Not weather adjusted

EMPIRE
SERVICES YOU COUNT ON

Historical Financial Performance

($ in millions, except EPS and Book Value)	TME 9-30-15	2014	2013	2012	2011
Operating Revenues[1]	$620.2	$652.3	$594.3	$557.1	$576.9
Gross Margin[2]	$414.8	$410.2	$393.1	$359.6	$353.9
Operating Income	$95.8	$100.0	$99.7	$96.2	$96.9
Net Income	$57.8	$67.1	$63.4	$55.7	$55.0
Earnings Per Share	$1.33	$1.55	$1.48	$1.32	$1.31
Return on Average Common Equity	7.4%	8.6%	8.7%	7.9%	8.2%
EBITDA	$210.1	$212.6	$206.4	$190.8	$194.5
Cash from Operations	$174.5	$151.2	$157.5	$159.1	$134.6
Capital Structure					
Debt – Short Term	$16.6	$44.3	$4.3	$24.7	$12.9
Debt – Long Term	$863.0	$803.2	$743.4	$691.6	$692.3
Equity – Retained Earnings	$102.9	$90.3	$67.6	$47.1	$33.7
Equity – Other	$699.6	$693.0	$682.5	$670.7	$660.3
Total Equity	$802.5	$783.3	$750.1	$717.8	$694.0
Book Value	$18.34	$18.02	$17.43	$16.90	$16.53

[1] Operating Revenues include revenues for fuel recovery and, effective March 1, 2014, SPP Integrated Market activity ($19.7M in TME 9-30-15; $41.9M in 2014)

[2] Operating revenues less fuel and purchased power and cost of natural gas sold and transported

EMPIRE
SERVICES YOU COUNT ON

Strong Investment Grade Ratings

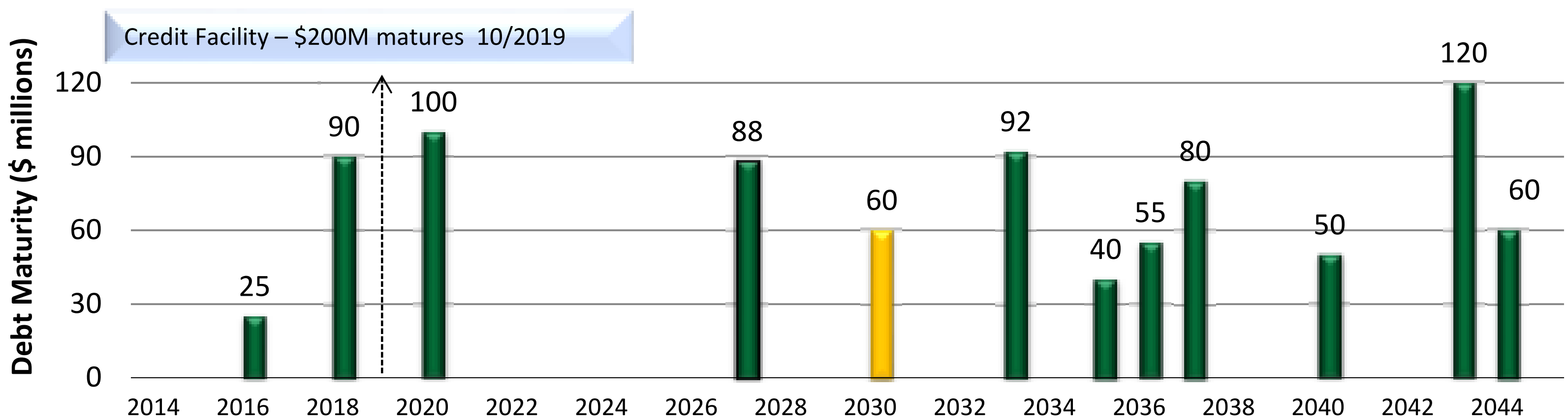
- Target 50/50 capital structure
- March 2015 Moody's reaffirmed credit ratings
- March 2015 Standard & Poor's reaffirmed credit ratings
- June 2015 Fitch reaffirmed credit ratings

	Moody's	Standard & Poor's	Fitch Ratings
Corporate Issuer	Baa1	BBB	N/R
First Mortgage Bonds	A2	A-	BBB+
Commercial Paper	P-2	A-2	F3
Outlook	Stable	Stable	Stable

Financing Outlook and Debt Maturities

- Lower-cost, flexible capital structure
- $60M 4.27% 30-year FMB private placement debt financing, settled December 1, 2014
- $60M 3.59% 15-year FMB private placement debt financing, settled August 20, 2015 (below)
- Well-spaced debt maturities, upcoming maturity of $25M in late-2016 with expectation to pay off as matures
- Annual DRIP approximately $2M
- $200M five-year revolving credit facility maturing October 19, 2019; $75M accordion; two one-year extensions (subject to bank approval)

Debt Maturities



Average cost of debt 5.2% (including new 15 year $60M issuance

SERVICES YOU COUNT ON

State Line Generating Facility – Low-cost, efficient, gas-fired simple and combined-cycle operation

Competitive Total Return Profile

Competitive Total Return Equation

Key Earnings Drivers

- Rate Base growth – 4% CAGR 2014 through 2020
- Attractive return on equity through constructive regulation
- Manageable financing requirements

+

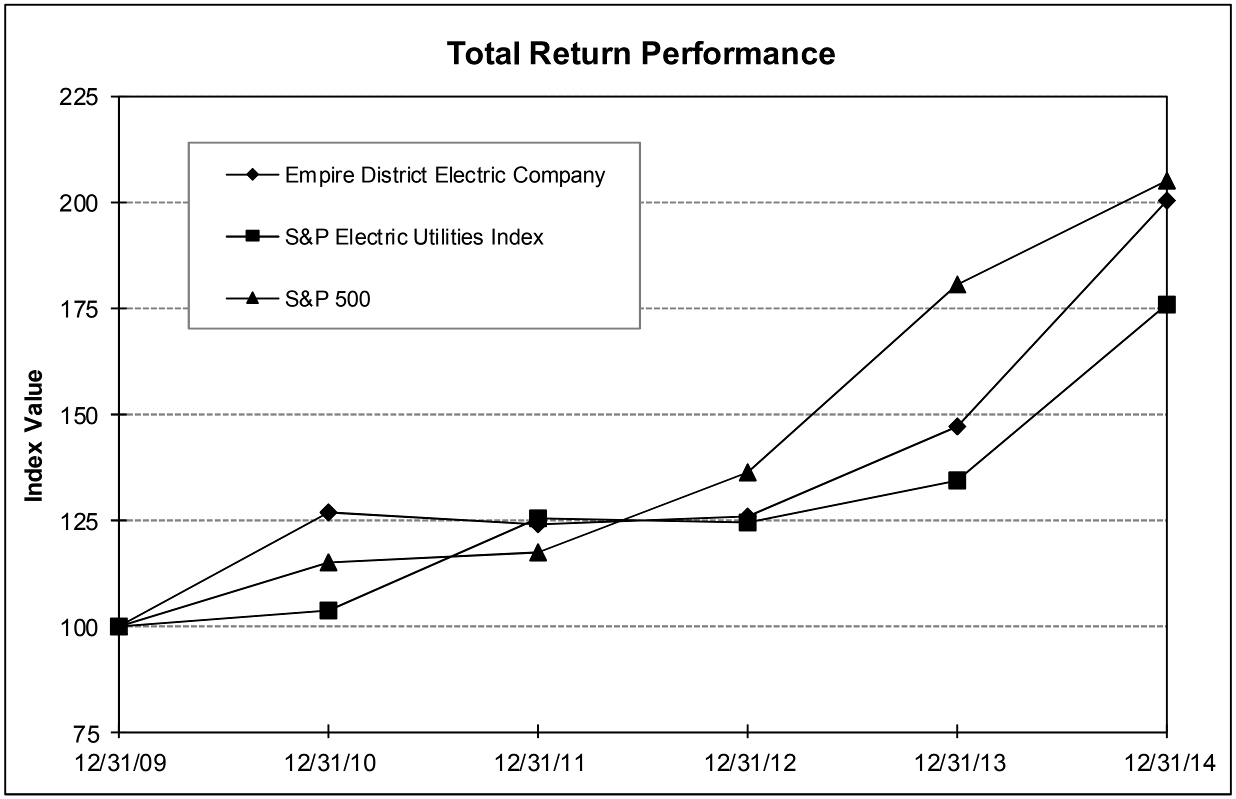
Attractive Dividend

- Attractive yield of 4.6% relative to peers as of 10/30/2015
- Payout ratio commensurate with industry peer group

→

Competitive Total Return

Total Return Performance



	Period Ending					
Index	**12/31/09**	**12/31/10**	**12/31/11**	**12/31/12**	**12/31/13**	**12/31/14**
Empire District Electric Company	$100.00	$ 126.59	$ 124.13	$ 125.95	$ 146.80	$ 200.39
S&P Electric Utilities Index	$100.00	$ 103.43	$ 125.12	$ 124.43	$ 134.13	$ 176.00
S&P 500	$100.00	$ 115.06	$ 117.49	$ 136.30	$ 180.44	$ 205.14

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SERVICES YOU COUNT ON

Compelling Investment Platform

Pure-play regulated utility	Strong financial metrics
Low risk growth plan	Attractive dividend yield and total return prospects

SERVICES YOU COUNT ON

Asbury AQCS Project – environmentally compliant base-load generation, in service with recovery in rates effective July, 2015

Supplemental Materials

- Regulated Electric and Gas Utility Data
    - Revenue Mix
    - Generation Mix
- Residential Rates
- State Commission Profiles
- Management Biographies
- Contact Information

EMPIRE
SERVICES YOU COUNT ON

Regulated Electric and Gas Utility

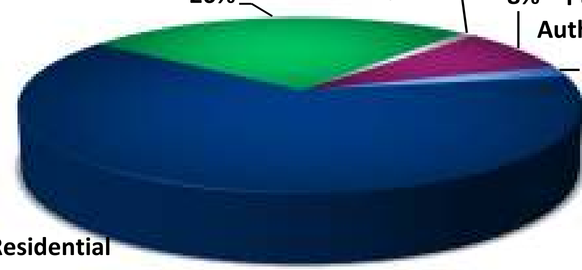
Revenue Source (LTM 12/31/14)

Total: $652 Million

Electric Revenues by Customer (LTM 12/31/14)

Total: $592 Million

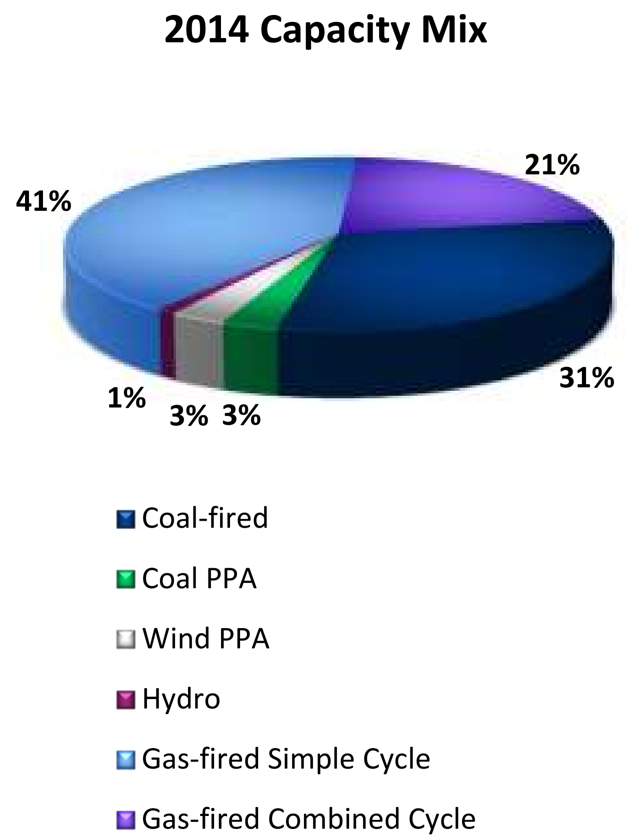
Gas Revenues by Customer (LTM 12/31/14)



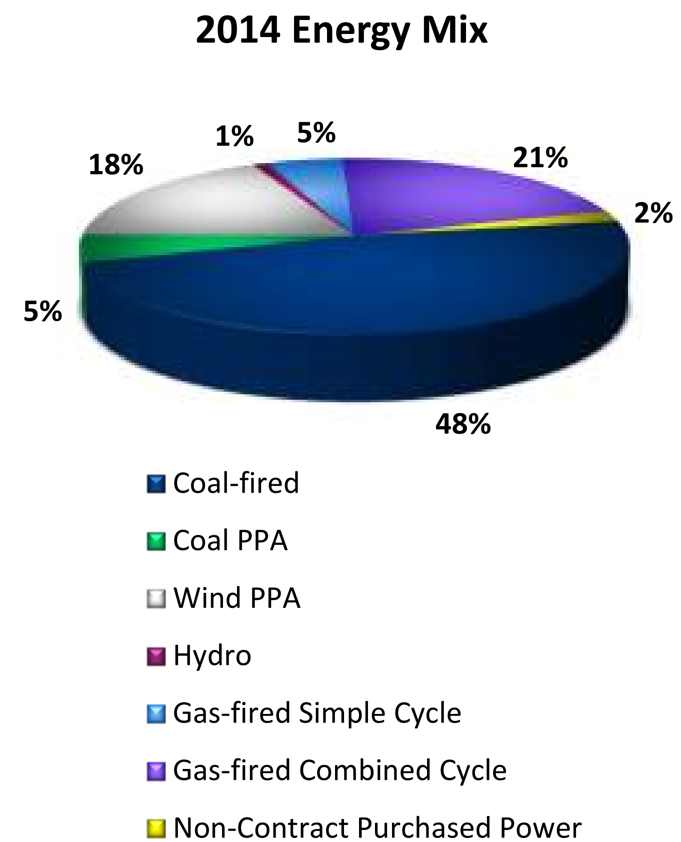
Total: $52 Million

Regulated Electric and Gas Utility (cont.)

- Diverse Generation/Balanced Mix of Resources



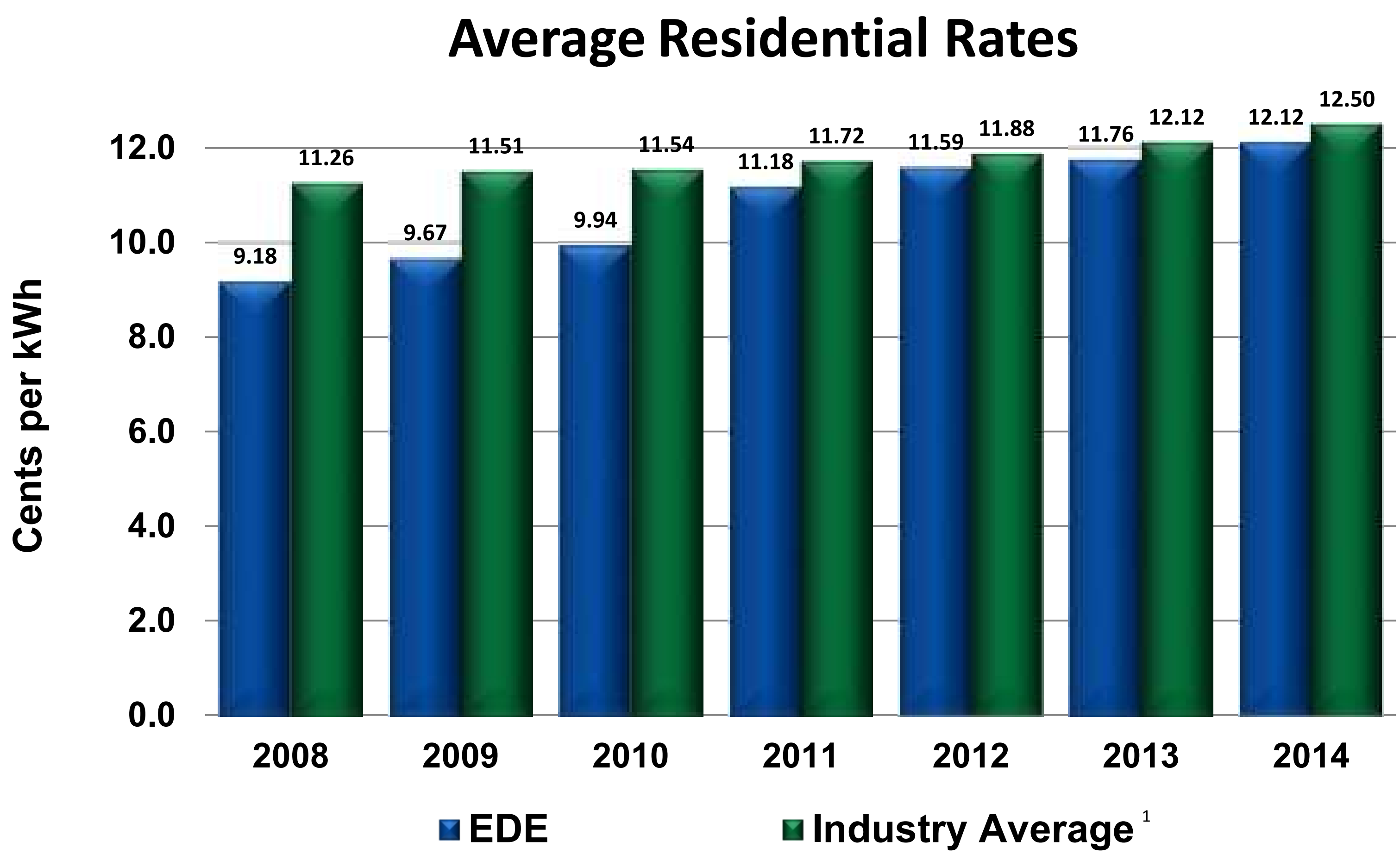
1,326 Net MW Owned Capacity
86 MW Purchased Power Capacity



Total: 5,085 GWh

EMPIRE
SERVICES YOU COUNT ON

Residential Rates



[1] Source: EIA

State Commission Profiles

	Missouri	Kansas	Oklahoma	Arkansas	FERC
% Operations	85.9	4.6	2.7	2.6	4.2
Commissioners (current; allowed)	5 of 5	3 of 3	3 of 3	3 of 3	5 of 5
Elected/Appointed	Appointed	Appointed	Elected	Appointed	Appointed
Test Year	Historical	Historical	Historical	Historical	Historical
Recovery mechanisms	Yes	Yes	Yes	Yes	Yes
RRA ranking [1]	Average/2	Average/2	Average/2	Average/3	N/A

[1] Regulatory Research Associates – RRA maintains three principal rating categories; Above Average, Average, and Below Average. Above Average indicates a relatively more-constructive, lower-risk regulatory environment from an investor viewpoint, and Below Average indicates a less-constructive, higher-risk regulatory environment from an investor viewpoint. Within the three principal rating categories, the numbers 1, 2 and 3 indicate relative position: designation 1 indicates a more constructive rating; 2, a mid-range rating; and 3, a less constructive rating. RRA endeavors to maintain a normal statistical distribution around the average.

Biographies

Bradley P. Beecher, President and Chief Executive Officer, became President and CEO on June 1, 2011. He joined The Empire District Electric Company in 1988 as a Staff Engineer at the Riverton Power Plant. He was elected Vice President – Energy Supply in 2001 and Vice President and COO – Electric in 2006. He was elected Executive Vice President in February 2010.

Mr. Beecher graduated from Kansas State University with a Bachelor of Science degree in Chemical Engineering. He is a registered professional engineer in the State of Kansas.

Mr. Beecher serves on the boards of the Edison Electric Institute, Missouri Energy Development Association, Joplin Chamber of Commerce, Boys and Girls Club of Southwest Missouri, Kiwanis Club of Joplin and Joplin Regional Partnership. He is a graduate of Leadership Missouri.

Laurie A. Delano, Vice President - Finance and Chief Financial Officer, was elected to her current position in July 2011. She first joined the Company in 1979 and served as Director of Internal Auditing from 1983 to 1991. After an eleven-year separation from Empire District, Ms. Delano re-joined the Company in 2002 as Director of Financial Services and Assistant Controller. She was named to the position of Controller, Assistant Secretary, and Assistant Treasurer in July 2005.

During the separation in employment, she was an accounting lecturer at Pittsburg State University and held accounting management positions with TAMKO Building Products, Inc. and Lozier Corporation.

A native of southwest Missouri, Ms. Delano received an Associate of Arts from Crowder College and a Bachelor of Science in Business Administration from Missouri Southern State University. She also holds a Master of Business Administration from Missouri State University. Ms. Delano is a Certified Public Accountant and Certified Management Accountant. She is a member of the American Institute of Certified Public Accountants and the Institute of Management Accountants.

Ms. Delano serves on the board of the Joplin Redevelopment Corporation (JRC) and the Missouri Southern State University School of Business Advisory Council. She has also been active with United Way organizations and agencies, and is a past President of the board of directors of the United Way of Southwest Missouri and the Lafayette House. She currently serves on the Endowment Committee for the Lafayette House. She is a member of the Joplin Daybreak Rotary.

Biographies

Dale W. Harrington, Corporate Secretary and Director of Investor Relations, was elected Secretary on February 5, 2015, effective May 1, 2015. He was named Director of Investor Relations in August 2014 and elected Assistant Secretary in October 2014. He joined The Empire District Electric Company in 1989 as an internal auditor. Mr. Harrington has held positions in financial and regulatory accounting and human resources. He was named to the position of Director of Financial Services in July 2011.

A native of southwest Missouri, Mr. Harrington graduated from Missouri Southern State University with a Bachelor of Science in Business Administration with a major in Accounting.

Mr. Harrington is a past President of the board of directors of the Lafayette House, and continues to actively serve on the Lafayette House board. He also serves on the board of College Heights Christian School.

Contact Us

The Empire District Electric Company
602 S. Joplin Avenue
Joplin, MO 64801
www.empiredistrict.com

Dale Harrington
Office: 417-625-4222
Mobile: 417-825-8281
dharrington@empiredistrict.com

Laurie Delano
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Mobile: 417-291-4397
ldelano@empiredistrict.com

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Making lives better every day with reliable energy and service
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SERVICES YOU COUNT ON
Asbury Generating Station – 2015 AQCS construction
Photo by Randy Richardson, AQCS Construction Manager

Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by:	Luisa Read
Title:	VP, Finance Liberty Utilities (Canada) Corp.
Company:	Joint Applicants
Address:	2751 North High Street Jackson, MO 63755
Company Response Number:	OPC – AzP – No. 5105
Date of Response	June 7, 2016

Question:
(A) Are the Applicants anticipating to record amounts of the assets and liabilities of Empire and each of its subsidiaries to fair value as of the acquisition date (also referred to as 'push down' purchase accounting)? (B) If the answer to subpart 'A' is 'yes', please describe and quantify the anticipated impacts of these adjustments on the assets and liabilities of Empire and its subsidiaries. (C) If the answer to subpart 'A' is 'no', please provide the basis for the Applicants' assertion that push down purchase accounting will not be required in this merger. This may include, but is not limited to, correspondence with any accounting experts retained by the Applicants for purposes of this transaction. (D) If the answer to subpart 'A' is 'no', please specifically state whether the Applicants have been advised by the SEC or its staff that not employing push down purchase accounting is acceptable in this transaction.

Response:
(A) Yes, adjustments to fair value will be recorded in accordance with U.S. GAAP but these adjustments will not be reflected on the regulatory and ratemaking accounting records of Empire.
(B) No analysis has been performed. US GAAP requires this analysis to be completed upon acquisition, once opening balances are known.
(C) N/A
(D) N/A

Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by:	Luisa Read
Title:	VP, Finance Liberty Utilities (Canada) Corp.
Company:	Joint Applicants
Address:	2751 North High Street Jackson, MO 63755
Company Response Number:	OPC – AzP – No. 5109
Date of Response	June 7, 2016

Question:
Regarding the following statement to the response to data request Staff – No. 0084: "All of the aforementioned items will remain on the Empire books, although a complete analysis of the tax impacts is necessary." (A) Are the Applicants committing that the balances for the items discussed in data request Staff – No. 0084 will not change as a result of the proposed merger? (B) If the answer to subpart 'A' is 'yes', please provide the basis for this assertion. This support may include, but not be limited to, correspondence with external accounting experts, internally developed analyses, etc.

Response:
(A) Yes, the balance of customer deposits, customer advances, deferred taxes, investment tax credits and contributions is not expected to change as a result of the proposed merger and will remain on the books of Empire.
(B) As noted in response to OPC – AzP – No. 5105, adjustments to fair value recorded in Empire's U.S. GAAP records are not expected to be reflected on the regulatory and ratemaking accounting records of Empire.

Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by:	Luisa Read
Title:	VP, Finance Liberty Utilities (Canada) Corp.
Company:	Joint Applicants
Address:	2751 North High Street Jackson, MO 63755
Company Response Number:	OPC – AzP – No. 5106
Date of Response	June 7, 2016

Question:
Please, provide all correspondence with accounting experts and/or the Applicants' financial statement auditors regarding the accounting impacts of the proposed transaction.

Response:
There are no documents responsive to this request.

Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by:	Christopher D. Krygier
Title:	Director, Regulatory and Government Liberty Utilities Services Corp.
Company:	Joint Applicants
Address:	2751 North High Street Jackson, MO 63755
Company Response Number:	OPC – AzP – No. 5017
Date of Response	May 23, 2016

Question:
Please provide a definition of merger Transaction Costs, including all major cost categories comprising these costs.

Response:
The Joint Applicants definition of transaction costs include legal and consulting fees associated with merger approvals, investment banking fees, HSR filings fees and CFIUS filing fees.

Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by:	Christopher D. Krygier
Title:	Director, Regulatory and Government Affairs Liberty Utilities Services Corp.
Company:	Joint Applicants
Address:	2751 North High Street Jackson, MO 63755
Company Response Number:	OPC – AzP – No. 5129
Date of Response	June 20, 2016

Question:
Regarding the presentation from the May 16, 2016 Missouri Technical Meeting, there is a discussion regarding a two-phase transition process to take place leading to the close of the transaction. It is stated here that the focus is on support functions, “not focused on operational activities – that will occur post-close”. (A) Please clarify what is meant by this statement. Stated another way, what are the functions that will be reviewed after the merger? (B) Will the time and expenses related to this review be considered “transaction costs”. (C) Will the time and expenses related to this review be segregated and exempt from recovery in rates?

Response:

A. The day-to-day operations will not be reviewed as part of the transition. After the close of the transaction and during the normal course of the business, LU Central will consisder whether there will be any changes to such operations.
B. To the extent that there are any changes to such operations, they will not be “transaction costs” as they occur during the ordinary course of operating Emipre.
C. No.

Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by:	Peter Eichler
Title:	VP, Strategic Initiatives Liberty Utilities (Canada) Corp.
Company:	Joint Applicants
Address:	2751 N. High Street Jackson, MO 63755
Company Response Number:	OPC – AzP - 5019
Date of Response	May 23, 2016

Question:
Please provide a definition of all costs to achieve the merger besides those designated as Transaction Costs, including all major cost categories included in these costs. Please quantify and categorize into major cost categories.

Response:
As described in the Technical Conference on May 15th, the merger is not expected to result in material changes to the operations of EDE, and as such no material costs to achieve the merger have been forecast.

Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by:	Christopher D. Krygier
Title:	Director, Regulatory and Government Liberty Utilities Services Corp.
Company:	Joint Applicants
Address:	2751 North High Street Jackson, MO 63755
Company Response Number:	OPC – AzP – No. 5030
Date of Response	May 23, 2016

Question:
In reference to the Applicants' response to OPC - Mayfield – No. 0026 and OPC - Mayfield – No. 0027, what is the anticipated date of implementing the new customer information system for the merged company?

Response:
A specific date is not yet available but a study to evaluate a news CIS system is expected within the next 5 years.

Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by:	Christopher D. Krygier
Title:	Director, Regulatory and Government Liberty Utilities Services Corp.
Company:	Joint Applicants
Address:	2751 North High Street Jackson, MO 63755
Company Response Number:	OPC – AzP – No. 5034
Date of Response	May 23, 2016

Question:
In reference to the Applicants' response to OPC - Mayfield – No. 0026, when did the Applicants identify the need for and establish an anticipated date for implementing the new customer information system?

Response:
Prior to the announced acquisition both parties identified the business need for implementing new customer information systems. For example, Empire's system is currently on its last upgrade cycle as the vendor will no longer support the software. Liberty Utilities began investigating a new CIS in mid-2015.

Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by:	David Pasieka
Title:	President Liberty Utilities (Canada) Corp.
Company:	Joint Applicants
Address:	2751 North High Street Jackson, MO 63755
Company Response Number:	OPC – AzP – No. 5001
Date of Response	May 23, 2016
Supplemental Response	June 2, 2016

Question:
The Merger Application, Public Interest Consideration ‘c’ states that Empire’s employees and management team “will remain in place”. Please (a) Define “remain in place” as intended in The Merger Application, Public Interest Consideration ‘c’. This should include the time period that employees and management will “remain in place.” (b) State whether the Applicants consider this a commitment enforceable by the Commission. If the answer to this question is “yes” state how the Commission could measure compliance with this commitment.

Response:

(a) “Remain in place” is defined as current employees will be offered a role within the new combined company and that the employee accepts that role. As with any other Empire employee, the employee will “remain in place” until they leave the company.
(b) The joint applicants cannot control whether employees choose to stay or leave the company; however, should the Commission desire to verify that continued offers of employment have been made to members of management who desire to stay with the company, it will be able to verify tht the management team have been offered positions to continue employment.

Supplemental Response:

(b.) The employment commitments apply to both the management team and employees.

Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by:	David Pasieka
Title:	President Liberty Utilities (Canada) Corp.
Company:	Joint Applicants
Address:	2751 North High Street Jackson, MO 63755
Company Response Number:	OPC – AzP – No. 5003
Date of Response	May 23, 2016
Supplemental Response	June 2, 2016

Question:
Please explain the company's workforce-related assumptions, including how Empire would define involuntary and voluntary attrition in its workforce if the merger is consummated. For example, is it anticipated that a person performing functions at the Joplin headquarters may be provided the option to either relocate or resign and if so, would the choice to resign under this or a similar circumstance be deemed "voluntary attrition"?

Response:
As discussed during the Technical Session on May 16, 2016, the Joint Applicants do not anticipate requiring relocation. In the minimal cases where positions are no longer required (i.e. investor relations) it is anticipated that similar positions will be offered to those employees. The Joint Applicants define involuntary turnover as being a situation where employment in their current (or similar) position is no longer offered to an employee against his or her will.

Supplemental Response:
No estimate exists at this time; however the number of job changes is expected to be minimal. The transition team will work on this to have in place before "Day 1".

Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by:	Peter Eichler
Title:	VP, Strategic Initiatives Liberty Utilities (Canada) Corp.
Company:	Joint Applicants
Address:	2751 North High Street Jackson, MO 63755
Company Response Number:	OPC – AzP – No. 5117
Date of Response	June 7, 2016
Date of Supplemental Response	June 21, 2016

Question:
In reference to the Excel attachment provided in response to Staff DR No. 0092, please:
(A) State why cell B15 uses '760' as the denominator to calculate "Average Cost of An Employee" instead of the line listed as 'Total Number of employees' listed in cell B11 as '749'
(B) State the basis for using 'Average Turnover excluding retirees' instead of the average turnover with retirees. For example, are the Applicants committing to hire new employees for all retirees?
(C) Provide source documents for all hard-coded amounts in the spreadsheet.
(D) State the basis used to determine the 2.2% 'Average turnover excluding retirees' in cell B17 and provide source documents for this figure.
(E) State what the Average Turnover *Including* Retirees would be and provide source documents for this figure.

Response:
A. This was an error, the total should be 749.
B. The basis was to underscore that the attrition could be achieved based on the natural attrition not including retirees. As previously stated, both the Joint Applicants and Empire evaluate the need to replace every position as it becomes vacant (this is true

even absent the merger) and thus no conclusion can be drawn about the intent of the applicants beyond the commitments made in the testimony.

C. This was provided by Empire in the course of diligence.
D. See “C’.
E. Please see the response to OPC – AzP – 5004 which reflects a rate of 5.70% for the 2011-2015 time frame.

Supplemental Request:
Please provide the source documents described in subpart “c”.

Supplemental Response:
Please see attached Highly Confidential documents.

Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by:	Nancy Moger
Title:	Payroll Manager
Company:	Joint Applicants
Address:	602 S Joplin Avenue Joplin, MO 64802
Company Response Number:	OPC – AzP – No. 5005
Date of Response	May 23, 2016

Question:
Please provide the number of all Empire employees as of April 30, 2016.

Response:
748.

Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by:	Nancy Moger
Title:	Payroll Manager
Company:	Joint Applicants
Address:	602 S Joplin Avenue Joplin, MO 64802
Company Response Number:	OPC – AzP – No. 5006
Date of Response	May 23, 2016

Question:
Please provide the number of all Empire employees living or working in the State of Missouri as of April 30, 2016. Please specify how many live and/or work in Missouri and distinguish the employees *living* from those *working* in Missouri, *e.g.*, an Empire employee who resides in the State of Kansas, but works in Missouri or vice versa.

Response:
The total number of employees who live and work in Missouri are: 649

The total number of employees who work in Missouri but live out of state are: 76

Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by: David Pasieka

Title: President
Liberty Utilities (Canada) Corp.

Company: Joint Applicants

Address: 2751 North High Street
Jackson, MO 63755

Company Response Number: OPC – AzP – No. 5009

Date of Response May 23, 2016
Supplemental Response June 2, 2016

Question:
Please provide a chart that categorizes all of Algonquin's (or Algonquin subsidiary's) Missouri employees as of April 30, 2016 by company/division and within functional areas/departments, by number.

Response:

CSR	28
EHSS	1
Finance	10
HR	2
Regulatory	5
Operations (NU)	26
Operations (U)	52
Executive	3
Total	127

Supplemental Response:
As requested, the additional information is below.

	Gas	Water	Shared	Total
CSR	27	1	0	28
EHSS			1	1
Finance			10	10
HR			2	2
Regulatory			5	5
Operations (NU)	24	2	0	26
Operations (U)	52			52
Executive			3	3
Total				127

EM-2016-0213
Rebuttal Testimony of
Ara Azad

Attachment AA-R20
has been deemed
“Highly Confidential”
in its Entirety.

Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by:	Jackie Seneker
Title:	Assistant Compensation & Benefits Manager
Company:	Joint Applicants
Address:	602 S Joplin Avenue Joplin, MO 64802
Company Response Number:	OPC – AzP – No. 5004
Date of Response Supplemental Response	May 23, 2016 June 2, 2016

Question:
What is the current level of attrition (as a percentage of current workforce) at Empire's Missouri utilities, headquarters, and other operations? Following the merger, do the Applicants anticipate filling positions that have become vacant due to normal attrition at or above the normal attrition rate?

Response:
The Empire District Electric Company total turnover averaged 5.70% for the years 2011 through 2015. Turnover excluding retirements averaged 2.52% for the years 2011 through 2015.

As discussed during the Technical Session on May 16, 2016, the Joint Applicants hiring process will continue to evaluate each position as it becomes vacant and determine what is best for the business, a process each of the Joint Applicants does today.

Supplemental Response:
The data above is for total Empire and is representative of Missouri jurisdictional information.

Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by:	David Pasieka
Title:	President Liberty Utilities (Canada) Corp.
Company:	Joint Applicants
Address:	2751 North High Street Jackson, MO 63755
Company Response Number:	OPC – AzP – No. 5010
Date of Response	May 23, 2016

Question:
Does the company plan to relocate or eliminate any of the positions or categories of positions for employees living or working in Missouri?

Response:
The company does not plan to relocate any positions. The only positions expected to be eliminated are on account of duplicated functions (i.e. investor relations) or positions that may not be refilled with natural attrition. That said, the joint applicants are also evaluating increasing employment opportunities through centralizing certain functions that are currently performed out of state and moving it in to the Joplin headquarters. Examples of functions currently being evaluated include billing. It has been Liberty Utilities' experience that employment in the states of the utilities which have been acquired have typically increased rather than decreased. For example, Liberty Utilities increased employment at the Jackson office by 30 employees utilizing a similar process.

Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by:	Peter Eichler
Title:	VP, Strategic Initiatives Liberty Utilities (Canada) Corp.
Company:	Joint Applicants
Address:	2751 North High Street Jackson, MO 63755
Company Response Number:	OPC – AzP – No. 5084
Date of Response	May 31, 2016

Question:
Per page 52 of Schedule 14A filed by Empire with the SEC on May 3, 2016, in the section titled “Change-In Control Severance Pay Plan” there is a discussion of both “involuntary terminations” and “voluntary terminations” as they relate to change-in control payments. (A) Given that Mr. Peter Eichler states in his Direct Testimony that “there will be no involuntary job losses within the Empire group…” please confirm that there will be no severance payments related to involuntary terminations due to this merger. (B) If the response to subpart ‘A’ is not confirmed, please provide a detailed explanation of how it is possible that there could be severance payments related to involuntary terminations from the merger if there will be no involuntary terminations due to the merger. (C) Given that Mr. Brad Beecher states that Liberty Utilities has committed “to retain all of Empire’s management team…” please confirm that there will be no severance payments related to voluntary terminations due to this merger. (D) If the response to subpart ‘C’ is not confirmed, please provide a detailed explanation of how it is possible that there could be severance payments related to voluntary terminations from the merger if Empire’s management team will remain in place (i.e., if there will be no “voluntary terminations” due to the merger).

Response:

(A) Confirmed, no involuntary job losses are anticipated as continued employment is being offered to all employees, and it is assumed all employees will continue working, therefore no severance payments are assumed.
(B) N/A
(C) The only severance payments associated with the merger are those described in the response to OCP-AzP-No. 5083 which are only exercised if a change in control occurs.
(D) N/A

Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by:	Laurie Delano
Title:	Vice President-Finance & CFO
Company:	Joint Applicants
Address:	602 S Joplin Avenue Joplin, MO 64802
Company Response Number:	OPC – AzP – No. 5093
Date of Response Supplemental Response	May 31, 2016 June 21, 2016

Question:
In the Direct Testimony of Mr. Brad Beecher, Mr. Beecher states: "Our customers will also see Empire continue its current level of involvement and charitable support for our local communities." Additionally, the Direct Testimony of Mr. Christopher Krygier states: "LU Central has committed to the same level of charitable contributions…as Empire currently does today." Please: (A) Provide Empire's historic charitable contributions, by state jurisdiction, from January 1, 2006 to present day. (B) State specifically how long (*i.e.*, how many years after the merger is consummated) the Applicants are committing to maintain the current level of Empire charitable contributions. (C) Provide the calculations and source documents used to determine the "current level" of Empire's charitable contributions. Also, provide a narrative description of the calculation methodology. (D) Quantify, in US Dollars, the level of charitable contributions, by jurisdiction, the Applicants are committing to contribute. Provide this amount for the number of periods stated in subpart 'B'. For example, if the Applicants are making this commitment for three years, quantify the committed charitable contributions by year and by jurisdiction. (E) State whether, and the extent to which, the charitable contributions will be recovered in customer rates.

Response:
(A) and (C) See attached which contains Highly Confidential information.
(B) and (D) See Section 6.06(f) of the Merger Agreement.

(E) No charitable contributions have been recovered in rates.

AzP Clarification Request:
Please provide a supplement for the following subparts: (A) Please provide a breakout of the charitable contributions by state jurisdiction; (B) Please provide an explicit statement for the length of time that the Applicants are committing to maintain the 'current' level of charitable contributions. (C) Please provide the calculations and source documents for the 'current' level of charitable contributions, as well as a narrative description of the calculation methodology); (D) Please explicitly state the specific level (i.e., dollar amount) that the Applicants are committing to; [NOTE: Subpart 'E' was sufficiently answered and does not need to be supplemented]

Supplemental Response:
(A) The information does not readily exist.
(B) As per the Merger Agreement, no such length of time exists.
(C) Please see the the Highly Confidential attachment provided to OPC – Mayfield – No. 0007 on April 1, 2016 for approximate annual donations. Additionally, please see the spreadsheet previously provided on May 31, 2016.
(D) Please see the the Highly Confidential attachment provided to OPC – Mayfield – No. 0007 on April 1, 2016 for approximate annual donations.

Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by:	Peter Eichler
Title:	VP, Strategic Initiatives Liberty Utilities (Canada) Corp.
Company:	Joint Applicants
Address:	2751 N. High Street Jackson, MO 63755
Company Response Number:	OPC – AzP - 5024
Date of Response	May 23, 2016

Question:
Please describe and reference by section the material differences, including assumptions regarding cost drivers, in the cost allocation methodology of Algonquin and its subsidiaries and those of Empire.

Response:
The Joint Applicants have not completed the analysis at this time, however, the Joint Applicants have committed to filing a revised CAM within six months of the transaction closing.

ALGONQUIN POWER & UTILITIES CORP.

COST ALLOCATION MANUAL

V2014.1 Effective: July 1st, 2015

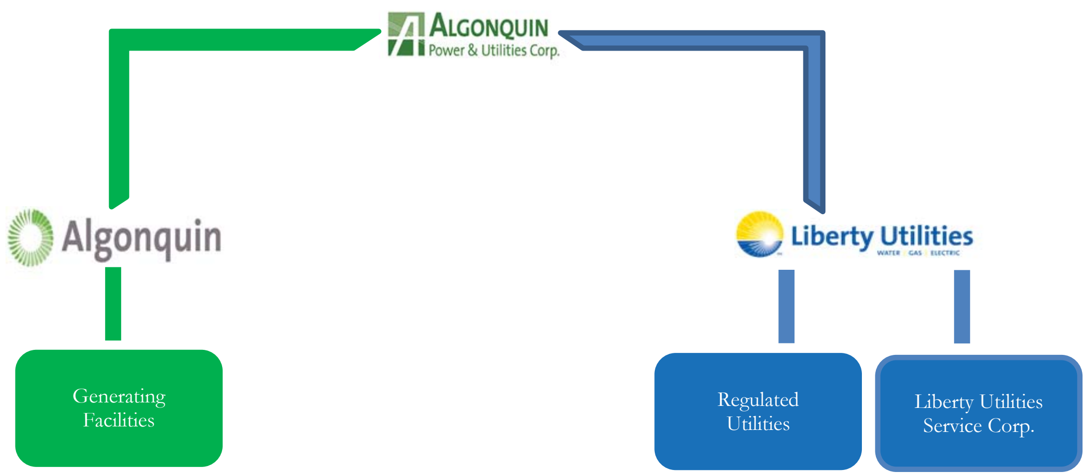
This document outlines the methods of direct charges and cost allocations: (i) between Algonquin Power & Utilities Corp. and its affiliates, including Algonquin Power Company and Liberty Utilities (Canada) Corp.; (ii) between Liberty Utilities (Canada) Corp. and its regulated utility subsidiaries; (iii) between Liberty Utilities (Canada) Corp.'s shared services functions and its affiliates, including Algonquin Power Company and Liberty Utilities (Canada) Corp.; and (iv) between Liberty Utilities Service Corp. and its affiliates.

TABLE OF CONTENTS

1. INTRODUCTION

The purpose of this manual is to provide a detailed explanation of services provided by Algonquin Power & Utilities Corp ("APUC"), and its affiliates, Algonquin Power Company ("APCo"), Liberty Utilities (Canada) Corp. ("LUC"), and Liberty Utilities Service Corp. ("LUSC") to the regulated utilities and to describe the Direct Charge[1] and Cost Allocation[2] Methodologies used by APUC, APCo, LUC, and LUSC. The following organization chart identifies the relationships between the separate entities.

<u>Figure 1: Algonquin Power & Utilities Corporate Structure</u>



This Cost Allocation Manual ("CAM") has been completed in accordance and conformance with the *NARUC Guidelines for Cost Allocations and Affiliate Transactions* ("NARUC Guidelines"). More specifically, the founding principles of this Cost Allocation Manual are to a) directly charge as much as possible to the entity that procures any specific service, and b) to ensure that inappropriate subsidization of unregulated activities by regulated activities, and vice versa, does not occur. For ease of reference, the NARUC Guidelines are attached as Appendix 1.

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[1] Direct charges (sometimes referred to as assigned costs) are costs incurred by one company for the exclusive benefit of one or more other companies, and which are directly charged (or assigned) to the company or companies that specifically benefited.

[2] Allocated costs are costs incurred by one company that are for the benefit of either (a) all of the Algonquin companies or (b) all of the regulated companies, and which are charged to the benefited companies using a methodology and set of logical allocation factors that establish a reasonable link between cost causation and cost recovery.

Costs charged and allocated pursuant to this CAM shall include direct labor, direct materials, direct purchased services associated with the related asset or services, and overhead amounts. The direct charges are assigned as follows:

a. Tariffed rates or other pricing mechanisms established by rate setting authorities shall be used to provide all regulated services;
b. Services not covered by (a) shall be charged by the providing party to the receiving party at fully distributed cost; and
c. Facilities and administrative services rendered to a rate-regulated subsidiary shall be charged on the following basis:

   (i) the prevailing price for which the service is provided for sale to the general public by the providing party (i.e., the price charged to non-affiliates if such transactions with non-affiliates constitute a substantial portion of the providing party's total revenues from such transactions) or, if no such prevailing price exists, (ii) an amount not to exceed the fully distributed cost incurred by the providing party in providing such service to the receiving party.

2. THE APUC CORPORATE STRUCTURE

APUC's primary business is direct interest or equity ownership in renewable and thermal power generating facilities and regulated utilities. APUC owns a widely diversified portfolio of independent power production facilities[3] and regulated utilities[4] consisting of water distribution, wastewater treatment facilities, electric and gas utilities. While power production facilities are located in both Canada and the United States, regulated utility operations are exclusively in the United States. APUC is publicly traded on the Toronto Stock Exchange[5]. Its structure as a publicly traded holding company provides substantial benefits to its regulated utilities through access to capital markets.

[3] All power production (i.e. generation) facilities are found within Algonquin Power Company within the APUC corporate structure.

[4] All distribution utilities are found within Liberty Utilities (Canada) Corp. within the APUC corporate structure.

[5] Common shares and preferred shares are traded on the Toronto Stock Exchange (TSX) under the symbols AQN, AQN.PR.A and AQN.PR.D. Additional corporate information can be found at the company's website, algonquinpower.com.

APUC is the ultimate corporate parent and affiliate that provides financial, strategic management, corporate governance, administrative and support services to LUC and its subsidiaries as well as to the numerous generation assets held by APCo. The services provided by APUC are necessary for LUC and its subsidiaries to have access to capital markets for capital projects and operations. These services are expensed at APUC and are performed for the benefit of APCo and LUC and their respective businesses.

APUC and its affiliates capitalize on APUC's expertise and access to the capital markets through the use of certain shared services, which maximizes economies of scale and minimizes redundancy. In short, it provides for maximum expertise at lower costs. Further, the use of shared expertise allows each of the entities to receive a benefit they may not be able to achieve on a stand-alone basis such as strategic management advice and access to capital at more competitive rates.

3. SCOPE OF SERVICES FROM APUC AND APCO AMONG AFFILIATES AND HOW THOSE COSTS ARE DISTRIBUTED

Each distribution utility can be assigned and/or allocated costs from APUC, LUC and LUSC. This section provides an overview of the services and the cost methodology for APUC. In addition, this section also addresses any costs and services that may arise from APCo.

3.1 Labor Services and Cost Allocation from APUC to LUC and APCo

3.1.1 Description of the APUC Services and Costs

APUC provides benefits to its affiliate companies by use of certain shared services. APUC charges labor rates for these shared services at cost, which is the dollar hourly rate per employee as recorded in APUC's payroll systems, grossed up for burdens such as payroll taxes, health benefits, retirement plans, other insurance provided to employees, and other employee benefits. These labor costs are charged directly based on timesheets to the extent possible. If labor is for the benefit of all subsidiaries then the allocation methodologies used for non-labor costs are applied.

APUC's non-labor services include Financing Services. As used herein Financing Services means the selling of units to public investors in order to generate the funding and capital necessary (be it short term or long term funding, including equity and debt) for LUC and APCo as well as providing legal services in connection with the issuance of public debt.

The capital and funds obtained from the sale of shares in APUC are used by LUC and APCo for current and future capital investments. The services provided by APUC are critical and necessary to LUC and APCo because without those services they would not have a readily available source of capital funding. Further, relatively small utilities may have difficulty attracting capital on a stand-alone basis.

The services provided by APUC specifically optimize the performance of the utilities, keeping rates low for customers while ensuring access to capital is available. If the utilities did not have access to the services provided by APUC, then they would be forced to incur associated costs for financing, capital investment, audits, taxes and other similar services on a stand-alone basis, which would substantially increase such costs. Simply put, without incurring these costs, APUC would not be able to invest capital in its subsidiaries, including the regulated utilities.

In connection with the provision of Financing Services, APUC incurs the following types of costs: (i) strategic management costs (board of director, third-party legal services, accounting services, tax planning and filings, insurance, and required auditing); (ii) capital access costs (communications, investor relations, trustee fees, escrow and transfer agent fees); (iii) financial control costs (audit and tax expenses); and (iv) administrative (rent, depreciation, general office costs). See Appendix 2 for a more detailed discussion of the costs incurred by APUC.

Non-labor costs, excluding corporate capital, are pooled and allocated to LUC's subsidiaries and APCo using the method summarized in Table 1. Each corporate cost type, or function, has been carefully reviewed to properly identify the factors driving those costs. Each function or cost type is typically driven by more than one factor and each has been assigned an appropriate weighting. Table 1 includes brief commentary on the rationale for each cost driver and weighting, along with examples for each cost type.

Table 1: Summary of Corporate Allocation Method of APUC Indirect Costs

Type of Cost	Allocation Methodology	Rationale	Examples
Legal Costs	Net Plant 33.3% Number of Employees 33.3% O&M 33.3%	This function is driven by factors which include Net Plant, as typically the higher the value of plant, the more legal work it attracts; similarly, a greater number of employees are typically more indicative of larger facilities that require greater levels of attention; and O&M costs tend to be a third factor indicative of size and legal complexity.	Employee labor and related administration and programs; Third party legal
Tax Services	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by a variety of factors that influence the size and relative tax complexity, including Revenues, O&M and Net Plant. Tax activity can be driven by each of these factors.	Employee labor and related administration and programs, including Third party tax advice and services
Audit	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by a variety of factors that influence the size	Employee labor and related administration and programs,

		and complexity of Audit, including Revenues, O&M and Net Plant. Audit activity can be driven by each of these factors.	including Third party accounting and audit services
Investor Relations	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Employee labor and related administration and programs, including third party Investor day communications and materials
Director Fees and Insurance	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Board of Director fees, insurance and administration
Licenses, Fees and Permits	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Third party costs
Escrow and Transfer Agent Fees	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Third party costs

Other Professional Services	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Third party costs
Office Administration	Oakville Employees 50% Square Footage 50%	This function is driven by factors which are indicative of number of employees and square footage utilized by these employees.	Office space and utility costs. Employee labor and related administration
Executives	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Employee labor cost that is not directly attributable to any entity

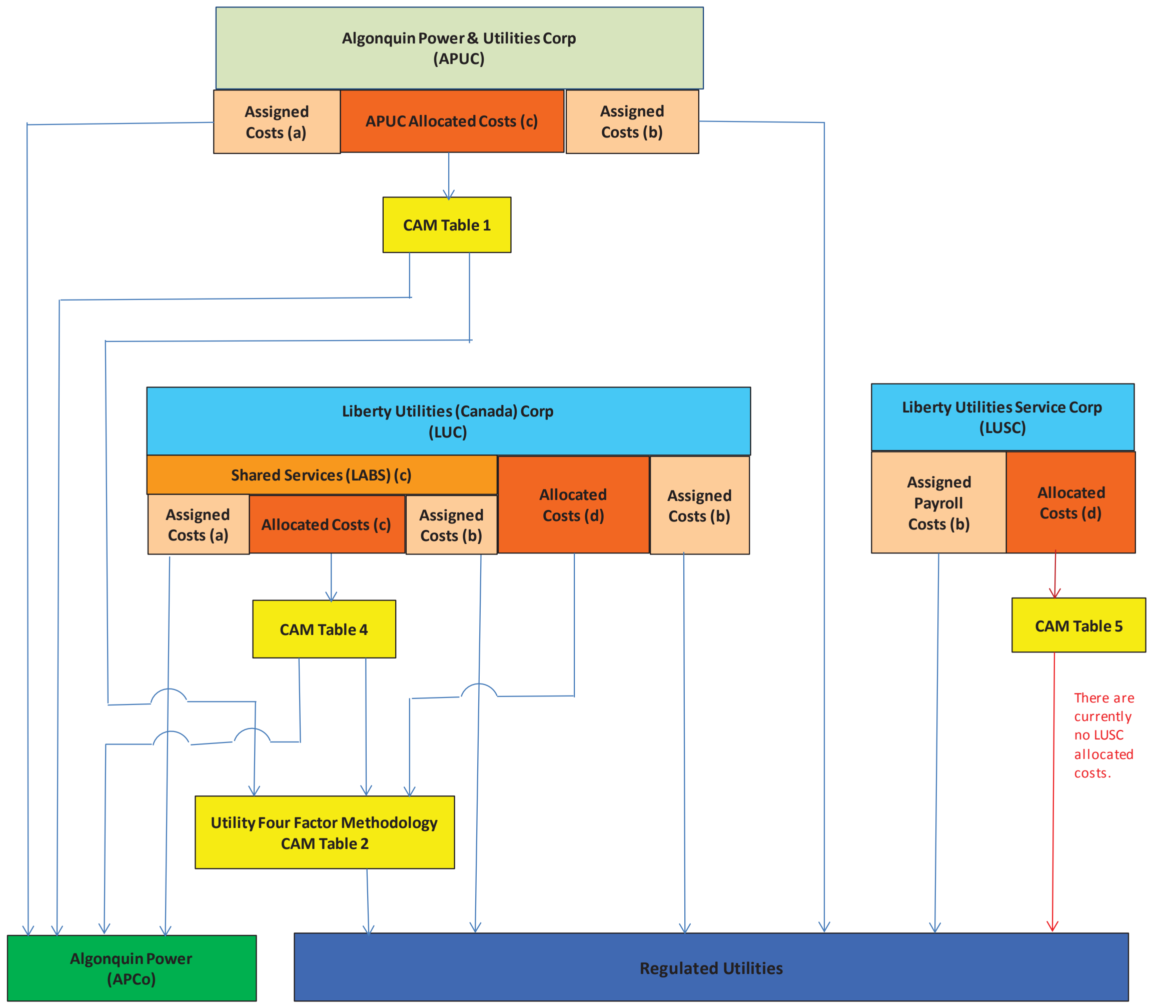
Notwithstanding the above, if a charge is related either solely to the regulated utility business, i.e., LUC, or to the power generation business, i.e., APCo, then all of those costs will be direct charged, or assigned, to the business segment for which they are incurred.

Lastly, if a cost can be directly attributable to a specific entity, it will be directly charged to that entity.

3.1.2 Description of the APUC Cost Flows

Please refer to Figure 2 for a diagram of the various flows of costs that may arise from each affiliate, including APUC.

Figure 2: Illustration of APUC Corporate Cost Distributions



(a) Costs that are directly assignable to unregulated companies
(b) Costs that are directly assignable to regulated companies
(c) Costs that benefit both unregulated and regulated operations
(d) Costs that benefit all regulated operations

As illustrated in Figure 2 and as described above, APUC incurs three types of costs that are passed on to its direct and indirect subsidiaries. The first type is APUC's costs that directly benefit a particular specific unregulated company, which are directly assigned to that unregulated company. The second type is APUC's costs that directly benefit a particular regulated company, which are directly assigned to that regulated company. The third type are APUC's remaining costs that benefit the entire enterprise (both regulated and unregulated), which are allocated between regulated and unregulated company groups pursuant to CAM Table 1. Information within Table 1 includes: (a) each type of cost incurred by APUC that is to be allocated between regulated and unregulated parts of the business; (b) the factors used to allocate each type of cost between regulated and unregulated activity; (c) the rationale for selecting the factors that are used for allocation; and (d) examples of the specific allocated costs. The costs allocated to the regulated companies as a group are then reallocated to individual companies using the Utility Four-Factor allocation methodology set forth in CAM Table 2 (described below), resulting in utility-specific allocated charges from APUC.

For an example of how an APUC invoice would be assigned or allocated, please see Appendix 3.

Certain costs, which are incurred for the benefit of APUC's businesses, are not allocated to any subsidiary. These include costs such as certain corporate travel and certain overheads.

3.2 Labor Services and Cost Allocation From APCo To LUC

From time to time, APCo may provide Engineering and Technical Labor to LUC or its utilities. These charges plus an allocation for corporate overheads such as rent, materials/supplies, etc. are capitalized and directly charged to the relevant utility.

From time to time, APCo employees may provide administrative support to LUC or its utilities. These charges are direct charged using time sheets.

4. SCOPE OF SERVICES PROVIDED BY LUC TO ITS SUBSIDIARIES, APUC AND APCO, AND HOW THOSE COSTS ARE DISTRIBUTED

Each distribution utility can be assigned and/or allocated costs from APUC, LUC and LUSC. This section provides an overview of the services and the cost methodology for LUC.

4.1 Overview of LUC Services and Costs

Please refer to Figure 2 for a diagram of the various flows of costs that may arise from each affiliate, including LUC.

As illustrated in Figure 2, LUC incurs three types of costs that are passed on to other direct or indirect subsidiaries. The first type is an LUC cost that directly benefits a particular regulated company, which is directly assigned to that regulated company. The second type is an LUC cost that benefits all of the regulated companies, which is allocated using the Utility Four-Factor Methodology described in CAM Table 2. Both of these cost types are described in section 4.2 below.

The third type of costs arising from LUC are those from shared services[6] that benefit both the regulated group of companies and the unregulated group of companies within the Liberty / Algonquin family, which are allocated between the two groups pursuant to the methodology described in section 4.3 and as set forth in CAM Table 4.

4.2 LUC Services and Costs Provided to Utilities

LUC provides its regulated utilities with the following services: accounting, administration, corporate finance, human resources (including training and development), information technology, rates and regulatory affairs, environment, health, safety, and security, customer service, procurement, risk management, legal, and utility planning. The following are examples of some of the services provided: (i) budgeting, forecasting, and financial reporting services including preparation of reports and preservation of records, cash management (including electronic fund transfers, cash receipts processing, managing short-term borrowings and investments with third parties); (ii) development of customer service policies and procedures; (iii) development of human resource policies and procedures; (iv) selection of information systems and equipment for accounting, engineering, administration, customer service, emergency restoration and other functions and implementation thereof; (v) development, placement and administration of insurance coverages and employee benefit programs, including group insurance and retirement annuities, property inspections and valuations for insurance; (vi) purchasing services including preparation and analysis of product specifications, requests for proposals and similar solicitations; and vendor and vendor-product evaluations; (vii) energy procurement oversight and load forecasting; and (viii) development of regulatory strategy.

LUC will assign costs that can be directly attributable to a specific utility. These include direct labor and direct non-labor costs. However, the indirect LUC costs cannot be directly attributed to an individual utility. LUC allocates its indirect

[6] As discussed later, LUC costs that benefit both regulated and unregulated businesses are incurred within Liberty Algonquin Business Services ("LABS"), which is a business unit within LUC that serves both regulated and unregulated entities.

labor and indirect non-labor costs, including capital costs, to its regulated utilities using a Utility Four-Factor Methodology. LUC uses the Utility Four-Factor Methodology to allocate costs incurred for the benefit of all of its regulated assets ("System-Wide Costs") to all of its utilities.

The Utility Four-Factor Methodology allocates costs by relative size of the utilities. The methodology used by LUC involves four allocating factors, or drivers: (1) Utility Plant; (2) Total Customers; (3) Non-Labor Expenses; and (4) Labor, with each factor assigned an equal weight, as shown in Table 2 below.

Table 2: Utility Four-Factor Methodology Factors and Weightings

Factor	Weight
Utility Plant	25%
Customer Count	25%
Non-Labor Expenses	25%
Labor	25%
Total	**100%**

LUC also uses the Utility Four-Factor Methodology to allocate to its regulated utilities the system-wide indirect labor and indirect non-labor costs allocated to LUC from APUC.

Table 3 provides a simplified hypothetical example to demonstrate how the Utility Four-Factor Methodology would be calculated based on ownership of only two hypothetical utilities.

Table 3: Utility Four-Factor Methodology Example

Factor	Utility 1	Utility 2	Total All Utilities	Utility 1 % of Total	Factor Weight	Utility 1 Allocation
Utility Plant ($)	727	371	1098	66%	25%	17%
Customer Count (#)	6000	1000	7000	86%	25%	21%
Labor ($)	57	32	89	64%	25%	16%
Non-Labor Expenses ($)	108	41	149	72%	25%	18%
Total Allocation						72%

As can be seen from these hypothetical numbers in Table 3, Utility 1 would be allocated 72% of the total indirect costs incurred by LUC, based on its relative size and application of the Utility Four-Factor Methodology. Utility 2 would be allocated the remaining 28%. LUC has developed and utilized this methodology to better allocate costs, recognizing that larger utilities require more time and management attention and incur greater costs than smaller ones.

On occasion there may be costs which are incurred for the benefit of two or more utilities, but not all of the utilities. These costs are directly assigned to utilities as per the vendor invoice, or, if the invoice doesn't specify a share for each utility, the Utility Four-Factor Methodology is used. In this situation, the weighting is determined by only including the utilities that benefited from the service and excluding the utilities that did not receive the service.

For an example of how an LUC invoice would be assigned or allocated, please see Appendix 4.

4.3 Shared Services from LUC

The third type of costs arising from LUC are those from shared services[7] that benefit both the regulated group of companies and the unregulated group of companies within the Liberty / Algonquin family.

Consistent with the organization practices described earlier, shared services and costs (within LUC) are assigned when they are directly attributable to a specific business unit[8]. Labor charges for LUC shared services staff are assigned using time sheets that depict the amount of time that is to be direct charged to either LUC or APCo.

Indirect costs for services from the shared services functions that cannot be directly assigned are allocated between the regulated and unregulated business units, LUC and APCo, pursuant to the methodology set forth in CAM Tables 4a and 4b. Similar to Table 1, Tables 4a and 4b include: (a) each type of cost incurred by LUC that is to be allocated between regulated and unregulated parts of the business; (b) the factors used to allocate each type of cost between regulated and

[7] Liberty Algonquin Business Services ("LABS") is a business unit found organizationally within LUC that serves both regulated and unregulated entities.

[8] To clarify, if a LABS service is for only one specific organization, such as the unregulated generation business, APCo, the cost will be directly charged to that business unit.

unregulated activity; (c) the rationale for selecting the factors that are used for allocation; and (d) examples of the specific allocated costs. The costs allocated to the regulated companies as a group are then reallocated to individual companies using the Utility Four-Factor Methodology set forth in CAM Table 2, resulting in utility-specific allocated charges from LUC.

For an example of how an invoice or cost within LUC's shared services (LABS) would be assigned or allocated, please see Appendix 5.

4.3.1 Business Services and Corporate Services

LUC shared services that benefit the entire company, i.e., APCo and LUC, are internally referenced under two names - Business Services and Corporate Services. The services and functions within each category are shown in the tables below[9]. Indirect costs from Business Services and Corporate Services are allocated using the following methodology shown in Tables 4a and 4b, respectively, which are designed to closely align the costs with the driver of the activity.

Table 4a: Summary of Corporate Allocation Method of LUC Business Services Indirect Costs

Type of Cost	Allocation Methodology	Rationale	Examples
Information Technology	Number of Employees 90% O&M 10%	IT function is driven by factors which include number of employees and O&M. The larger the number of employees, the more support, software and IT infrastructure is required.	Enterprise wide support, architecture, etc. Third party fees

[9] Note that the shared service functions found in Tables 4a and 4b are unchanged from those shown in Table 4 in the prior version of the CAM. These functions have simply been reorganized into these two Tables, 4a and 4b, to show the differentiation between Business Services and Corporate Services.

Human Resources	Number of Employees 100%	HR function is driven by number of employees. A greater number of employees requires additional HR support	HR policies, payroll processing, benefits, employee surveys
Training	Number of Employees 100%	Training is directly proportional to the number of employees per function	Courses, lectures, in house training sessions by third party providers
Facilities and Building Rent	Square Footage 100%	Office space occupied accurately reflects space requirements of each subsidiary	Corporate office building
Environment, Health, Safety and Security	Number of Employees 100%	EHSS training, etc. is directly proportional to the number of employees per function	Enterprise wide programs, employee labor and related administration
Procurement	O&M 50% Capital Expenditures 50%	Procurement function is based on typical proportion of expenditures	Enterprise wide support and related administration

Table 4b: Summary of Corporate Allocation Method of LUC Corporate Services Indirect Costs

Risk Management	Net Plant 33.3% Revenue 33.3% O&M 33.3%	This function is driven by factors which reflect the relative size and complexity of Risk Management - Revenues, Net Plant and O&M costs.	Software platform, fees and administration
Financial Reporting and Administration	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and complexity of Financial Reporting and Admin. - Revenues, Net Plant and O&M costs.	Employee labor and related administration and third party fees
Treasury	Capital Expenditures 25% O&M 50% Net Plant 25%	Treasury activity is typically guided by the amount of necessary capex/plant for each utility, and operating costs/cash flow	Third party financing, employee labor and related administration and programs
Internal Audit	Net Plant 25% O&M 75%	This function is driven by factors which reflect the relative size and complexity of Internal audit activity. Larger Plant and operating costs drive of a given facility drive	Third party fees, employee labor and related administration and programs

		more activity from IA.	
Communications	Number of Employees 100%	Communications cost is directly proportional to the number of employees	Enterprise wide support and related administration
Legal Costs	Net Plant 33.3% Number of Employees 33.3% O&M 33.3%	This function is driven by factors which include Net Plant, as typically the higher the value of plant, the more legal work it attracts; similarly, a greater number of employees are typically more indicative of larger facilities that require greater levels of attention; and O&M costs tend to be a third factor indicative of size and legal complexity.	Employee labor and related administration and programs, including third party legal

5. LIBERTY UTILITIES SERVICE CORP.

Each distribution utility can be assigned and/or allocated costs from APUC, LUC and LUSC. This section provides an overview of the services and the cost methodology for LUSC.

All U.S.-based utility employees are employed, or will be employed, by Liberty Utilities Service Corp. (LUSC). All employees' costs, such as salaries, benefits, insurances etc. are to be paid by LUSC and direct charged to the company to which the employee is dedicated and performs work. Services provided from

LUSC to each regulated utility shall be done on a time sheet basis to the extent possible. In infrequent instances where time sheeting may not be possible, the allocation factors shown in Table 5 are to be used.

Table 5: Summary of Allocation Method of LUSC Indirect Costs

Type of Cost	Allocation Methodology	Rationale	Examples
Customer Care and Billing	Customer count 100%	Customer count accurately reflects the resource requirements of the Customer Care and Billing group	Customer Care and Billing employees and related administrations
IT/Tech Support	Number of Employees 100%	Technical support requirements are related to the number of employees	Tech support staff, associated administration, and required software, hardware, etc.
Human Resources	Number of Employees 100%	HR function is driven by number of employees. A greater number of employees requires additional HR support	HR policies, payroll processing, benefits, employee surveys
Gas Control	Net Plant 100%	The greater the plant, the more control required	Gas Control labor, administration, and associated programs
Legal	Net Plant 33.3% Number of Employees 33.3% O&M 33.3%	Allocated based on the relative size of affiliate and employee count.	Employee labor and related administration and programs, including third party legal

Regulatory	Net Plant 33.3% Number of Employees 33.3% O&M 33.3%	Allocated based on the relative size of affiliate and employee count.	Utility-wide studies or third party costs beneficial to all utilities
Environment, Health, Safety and Security	Number of Employees 100%	EHSS training, etc. is directly proportional to the number of employees	Utility-wide programs, employee labor and related administration
Procurement	O&M 50% Capital Expenditures 50%	Based on typical proportion of expenditures	Utility-wide support and related administration

Please note the allocation methodology can be adjusted based on the number of participating utilities. For example, Customer Service representatives who serve only the New Hampshire utilities will only have their indirect costs allocated, if any, based on the number of customers within New Hampshire. Labor costs associated with energy procurement are directly billed to the utilities requiring energy procurement services using timesheets.

6. CORPORATE CAPITAL

APUC or LUC will make capital investments for the benefit of all the utilities or facilities it owns (examples include corporate headquarters, IT systems, etc.). All capital investments kept at the corporate level benefiting all facilities will be distributed monthly in the form of an intercompany operating expense charge that captures the depreciation expense and cost of capital associated with the assets. All costs associated to service the investment will be allocated to APCo and LUC's utilities based on that department's allocation where the capital investment is made. For example, if the capital investment is made in Human Resources then the allocation methodology used for Human Resources to allocate non-capital indirect costs as shown in Table 4a will be used to allocate the charge associated with the corporate capital expenditures, including the cost of capital, depreciation, property tax, operation and maintenance costs and all other associated costs. Any corporate capital charges allocated to LUC are then reallocated to individual companies using the Utility Four-Factor Methodology set forth in CAM Table 2.

7. UPDATING ALLOCATIONS

Allocation percentages[10] are updated annually. These annual updates to the allocation percentages are based on the most recent audited financial statements and other actual, year-end information. The updated percentages come into effect each April 1st and are valid through to the following March 31st. These allocations percentages are also updated if an entity is either acquired or sold.

8. CAM TRAINING

The oversight of the CAM is currently the responsibility of the corporate Regulatory department. Any updates or revisions are coordinated and completed by this group. The CAM, and any support material, is distributed to Finance and Regulatory staff throughout the organization at least annually. Any revisions to the CAM are distributed immediately upon finalization to this same audience. Training sessions are conducted annually to Finance, Regulatory and other affected departments. As part of the employee orientation program, new employees receive an introduction to the CAM. Further enhancements and additions to this employee training program to foster and enhance the organization's understanding of the CAM are ongoing. For example, it is anticipated that an online training module will be created and deployed across the organization, supplemented by a self-certification process.

[10] To clarify, the factors and weightings are expected to remain constant. It is the underlying information used to calculate the allocation percentages that is updated annually, such as the most recent net plant figures, or the most recent numbers of employees, for example.

9. APPENDICES

APPENDIX 1 - NARUC GUIDELINES FOR COST ALLOCATIONS

Guidelines for Cost Allocations and Affiliate Transactions:

The following Guidelines for Cost Allocations and Affiliate Transactions (Guidelines) are intended to provide guidance to jurisdictional regulatory authorities and regulated utilities and their affiliates in the development of procedures and recording of transactions for services and products between a regulated entity and affiliates. The prevailing premise of these Guidelines is that allocation methods should not result in subsidization of non-regulated services or products by regulated entities unless authorized by the jurisdictional regulatory authority. These Guidelines are not intended to be rules or regulations prescribing how cost allocations and affiliate transactions are to be handled. They are intended to provide a framework for regulated entities and regulatory authorities in the development of their own policies and procedures for cost allocations and affiliated transactions. Variation in regulatory environment may justify different cost allocation methods than those embodied in the Guidelines.

The Guidelines acknowledge and reference the use of several different practices and methods. It is intended that there be latitude in the application of these guidelines, subject to regulatory oversight. The implementation and compliance with these cost allocations and affiliate transaction guidelines, by regulated utilities under the authority of jurisdictional regulatory commissions, is subject to Federal and state law. Each state or Federal regulatory commission may have unique situations and circumstances that govern affiliate transactions, cost allocations, and/or service or product pricing standards. For example, The Public Utility Holding Company Act of 1935 requires registered holding company systems to price "at cost" the sale of goods and services and the undertaking of construction contracts between affiliate companies.

The Guidelines were developed by the NARUC Staff Subcommittee on Accounts in compliance with the Resolution passed on March 3, 1998 entitled "Resolution Regarding Cost Allocation for the Energy Industry" which directed the Staff Subcommittee on Accounts together with the Staff Subcommittees on Strategic Issues and Gas to prepare for NARUC's consideration, "Guidelines for Energy Cost Allocations." In addition, input was requested from other industry parties.

Various levels of input were obtained in the development of the Guidelines from the Edison Electric Institute, American Gas Association, Securities and Exchange Commission, the Federal Energy Regulatory Commission, Rural Utilities Service and the National Rural Electric Cooperatives Association as well as staff of various state public utility commissions.

In some instances, non-structural safeguards as contained in these guidelines may not be sufficient to prevent market power problems in strategic markets such as the generation market. Problems arise when a firm has the ability to raise prices above market for a sustained period and/or impede output of a product or service. Such concerns have led some states to develop codes of conduct to govern relationships between the regulated utility and its non-regulated affiliates. Consideration should be given to any "unique" advantages an incumbent utility would have over competitors in an emerging market such as the retail energy market. A code of conduct should be used in conjunction with guidelines on cost allocations and affiliate transactions.

A. DEFINITIONS

1. Affiliates - companies that are related to each other due to common ownership or control.

2. Attestation Engagement - one in which a certified public accountant who is in the practice of public accounting is contracted to issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party.

3. Cost Allocation Manual (CAM) - an indexed compilation and documentation of a company's cost allocation policies and related procedures.

4. Cost Allocations - the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).

5. Common Costs - costs associated with services or products that are of joint benefit between regulated and non-regulated business units.

6. Cost Driver - a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.

7. Direct Costs - costs which can be specifically identified with a particular service or product.

8. Fully Allocated costs - the sum of the direct costs plus an appropriate share of indirect costs.

9. Incremental pricing - pricing services or products on a basis of only the additional costs added by their operations while one or more pre-existing services or products support the fixed costs.

10. Indirect Costs - costs that cannot be identified with a particular service or product. This includes but not limited to overhead costs, administrative and general, and taxes.

11. Non-regulated - that which is not subject to regulation by regulatory authorities.

12. Prevailing Market Pricing - a generally accepted market value that can be substantiated by clearly comparable transactions, auction or appraisal.

13. Regulated - that which is subject to regulation by regulatory authorities.

14. Subsidization - the recovery of costs from one class of customers or business unit that are attributable to another.

B. COST ALLOCATION PRINCIPLES

The following allocation principles should be used whenever products or services are provided between a regulated utility and its non-regulated affiliate or division.

1. To the maximum extent practicable, in consideration of administrative costs, costs should be collected and classified on a direct basis for each asset, service or product provided.

2. The general method for charging indirect costs should be on a fully allocated cost basis. Under appropriate circumstances, regulatory authorities may consider incremental cost, prevailing market pricing or other methods for allocating costs and pricing transactions among affiliates.

3. To the extent possible, all direct and allocated costs between regulated and non-regulated services and products should be traceable on the books of the applicable regulated utility to the applicable Uniform System of Accounts. Documentation should be made available to the appropriate regulatory authority upon request regarding transactions between the regulated utility and its affiliates.

4. The allocation methods should apply to the regulated entity's affiliates in order to prevent subsidization from, and ensure equitable cost sharing among the regulated entity and its affiliates, and vice versa.

5. All costs should be classified to services or products which, by their very nature, are either regulated, non-regulated, or common to both.

6. The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, should be identified and used to allocate the cost between regulated and non-regulated services or products.

7. The indirect costs of each business unit, including the allocated costs of shared services, should be spread to the services or products to which they relate using relevant cost allocators.

C. COST ALLOCATION MANUAL (NOT TARIFFED)

Each entity that provides both regulated and non-regulated services or products should maintain a cost allocation manual (CAM) or its equivalent and notify the jurisdictional regulatory authorities of the CAM's existence. The determination of what, if any, information should be held confidential should be based on the statutes and rules of the regulatory agency that requires the information. Any entity required to provide notification of a CAM(s) should make arrangements as necessary and appropriate to ensure competitively sensitive information derived therefrom be kept confidential by the regulator. At a minimum, the CAM should contain the following:

1. An organization chart of the holding company, depicting all affiliates, and regulated entities.

2. A description of all assets, services and products provided to and from the regulated entity and each of its affiliates.

3. A description of all assets, services and products provided by the regulated entity to non-affiliates.

4. A description of the cost allocators and methods used by the regulated entity and the cost allocators and methods used by its affiliates related to the regulated services and products provided to the regulated entity.

D. AFFILIATE TRANSACTIONS (NOT TARIFFED)

The affiliate transactions pricing guidelines are based on two assumptions. First, affiliate transactions raise the concern of self-dealing where market forces do not necessarily drive prices. Second, utilities have a natural business incentive to shift costs from non-regulated competitive operations to regulated monopoly operations since recovery is more certain with captive ratepayers. Too much flexibility will lead to subsidization. However, if the affiliate transaction pricing guidelines are too rigid, economic transactions may be discouraged.

The objective of the affiliate transactions' guidelines is to lessen the possibility of subsidization in order to protect monopoly ratepayers and to help establish and preserve competition in the electric generation and the electric and gas supply markets. It provides ample flexibility to accommodate exceptions where the outcome is in the best interest of the utility, its ratepayers and competition. As with any transactions, the burden of proof for any exception from the general rule rests with the proponent of the exception.

1. Generally, the price for services, products and the use of assets provided by a regulated entity to its non-regulated affiliates should be at the higher of fully allocated costs or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.

2. Generally, the price for services, products and the use of assets provided by a non-regulated affiliate to a regulated affiliate should be at the lower of fully allocated cost or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.

3. Generally, transfer of a capital asset from the utility to its non-regulated affiliate should be at the greater of prevailing market price or net book value, except as

otherwise required by law or regulation. Generally, transfer of assets from an affiliate to the utility should be at the lower of prevailing market price or net book value, except as otherwise required by law or regulation. To determine prevailing market value, an appraisal should be required at certain value thresholds as determined by regulators.

4. Entities should maintain all information underlying affiliate transactions with the affiliated utility for a minimum of three years, or as required by law or regulation.

E. AUDIT REQUIREMENTS

1. An audit trail should exist with respect to all transactions between the regulated entity and its affiliates that relate to regulated services and products. The regulator should have complete access to all affiliate records necessary to ensure that cost allocations and affiliate transactions are conducted in accordance with the guidelines. Regulators should have complete access to affiliate records, consistent with state statutes, to ensure that the regulator has access to all relevant information necessary to evaluate whether subsidization exists. The auditors, not the audited utilities, should determine what information is relevant for a particular audit objective. Limitations on access would compromise the audit process and impair audit independence.

2. Each regulated entity's cost allocation documentation should be made available to the company's internal auditors for periodic review of the allocation policy and process and to any jurisdictional regulatory authority when appropriate and upon request.

3. Any jurisdictional regulatory authority may request an independent attestation engagement of the CAM. The cost of any independent attestation engagement associated with the CAM, should be shared between regulated and non-regulated operations consistent with the allocation of similar common costs.

4. Any audit of the CAM should not otherwise limit or restrict the authority of state regulatory authorities to have access to the books and records of and audit the operations of jurisdictional utilities.

5. Any entity required to provide access to its books and records should make arrangements as necessary and appropriate to ensure that competitively sensitive information derived therefrom be kept confidential by the regulator.

F. REPORTING REQUIREMENTS

1. The regulated entity should report annually the dollar amount of non-tariffed transactions associated with the provision of each service or product and the use or sale of each asset for the following:

a. Those provided to each non-regulated affiliate.
b. Those received from each non-regulated affiliate.
c. Those provided to non-affiliated entities.

2. Any additional information needed to assure compliance with these Guidelines, such as cost of service data necessary to evaluate subsidization issues, should be provided.

Source:
http://www.naruc.org/Publications/Guidelines%20for%20Cost%20Allocations%20and%20Affiliate%20Transactions.pdf

APPENDIX 2 – DETAILED EXPLANATION OF APUC COSTS

1. APUC STRATEGIC MANAGEMENT COSTS

Strategic management decisions are critical for any public utility. The need for strategic management is even more pronounced for APUC as a publicly traded company, which depends on access to capital funding through public sales of units. APUC seeks to hire talented strategic managers that aid in running each facility owned by the company as efficiently and effectively as possible. This ensures the long term health of each utility and ensures that rates are kept as low as possible without compromising the level of service. It also facilitates each regulated utility's access to necessary capital funding at reduced costs. The costs included in Strategic Management Costs fall into the following categories.

a. Board of Directors

The Board of Directors provides strategic oversight on all company affairs including high level approvals of strategy, operation and maintenance budgets, capital budgets, etc. In addition, the Board of Directors provides corporate governance and ensures that capital and costs are incurred prudently, which ultimately protects ratepayers.

b. General Legal Services

General legal services involve legal matters not specific to any single facility, including review of audited financial statements, annual information filings, Sedar filings, review of contracts with credit facilities, incorporation, tax issues of a legal nature, market compliance, and other similar legal costs. These legal services are required in order for APUC to provide capital funding to individual utilities, without which the utilities could not provide adequate service. Additionally, the services ensure that APUC's subsidiaries remain compliant in all aspects of operations and prevent those entities from being exposed to unnecessary risks.

c. Professional Services

Professional Services including strategic plan reviews, capital market advisory services, ERP System maintenance, benefits consulting, and other similar professional services. By providing these services at a parent level, the subsidiaries are able to benefit from economies of scale. Additionally, some of these services improve APUC's access to capital which benefits all of its subsidiaries.

2. Access to Capital Markets

One of APUC's primary functions is to ensure its subsidiaries have access to quality capital. APUC is listed on the Toronto Stock Exchange, a leading financial market. In order to allow its subsidiaries to have continued access to those capital markets, APUC incurs the following costs. These services and costs are a prerequisite to the subsidiaries continued access to those capital markets.

a. License and Permit Fees

In connection with APUC's participation in the Toronto Stock Exchange, APUC incurs certain license and permit fees such as Sedar fees, annual filing fees, licensing fees, etc. These licensing and permit fees are required in order to sell units on the Toronto Stock Exchange, which in turn provides funding for utility operations.

b. Escrow Fees

In connection with the payment of dividends to unit holders, APUC incurs escrow fees. Escrow fees are incurred to ensure continued access to capital and ensure continuing and ongoing investments by shareholders. Without such escrow fees, APUC's subsidiaries would not have a readily available source of capital funding.

c. Unit Holder Communications

Unit holder communication costs are incurred to comply with filing and regulatory requirements of the Toronto Stock Exchange and meet the expectations of shareholders. These costs include items such as news releases and unit holder conference calls. In the absence of shareholder communication costs, investors would not invest in the units of APUC, and in turn, APUC would not have capital to invest in its subsidiaries. With such communications services, the subsidiaries would not have a readily available source of capital funding.

3. APUC Financial Controls

Financial control costs incurred by APUC include costs for audit services and tax services. These costs are necessary to ensure that the subsidiaries are operating in a manner that meets audit standards and regulatory requirements, which have strong financial and operational controls, and financial transactions are recorded accurately and prudently. Without these services, the regulated utilities would not have a readily available source of capital funding.

a. Audit Fees

Audits are done on a yearly basis and reviews are performed quarterly on all facilities owned by APUC on an aggregate level. These corporate parent level audits reduce the cost of the stand-alone audits significantly for utilities which must perform its own separate audits. Where stand-alone audits are not required, ratepayers receive benefits of additional financial rigor, as well as access to capital, and financial soundness checks by third parties. Finally, during rate cases, the existence of audits provides staff and intervenors additional reliance on the company records, thus reducing overall rate case costs. The aggregate audit is necessary for the regulated utilities to have continued access to capital markets and unit holders.

b. Tax Services

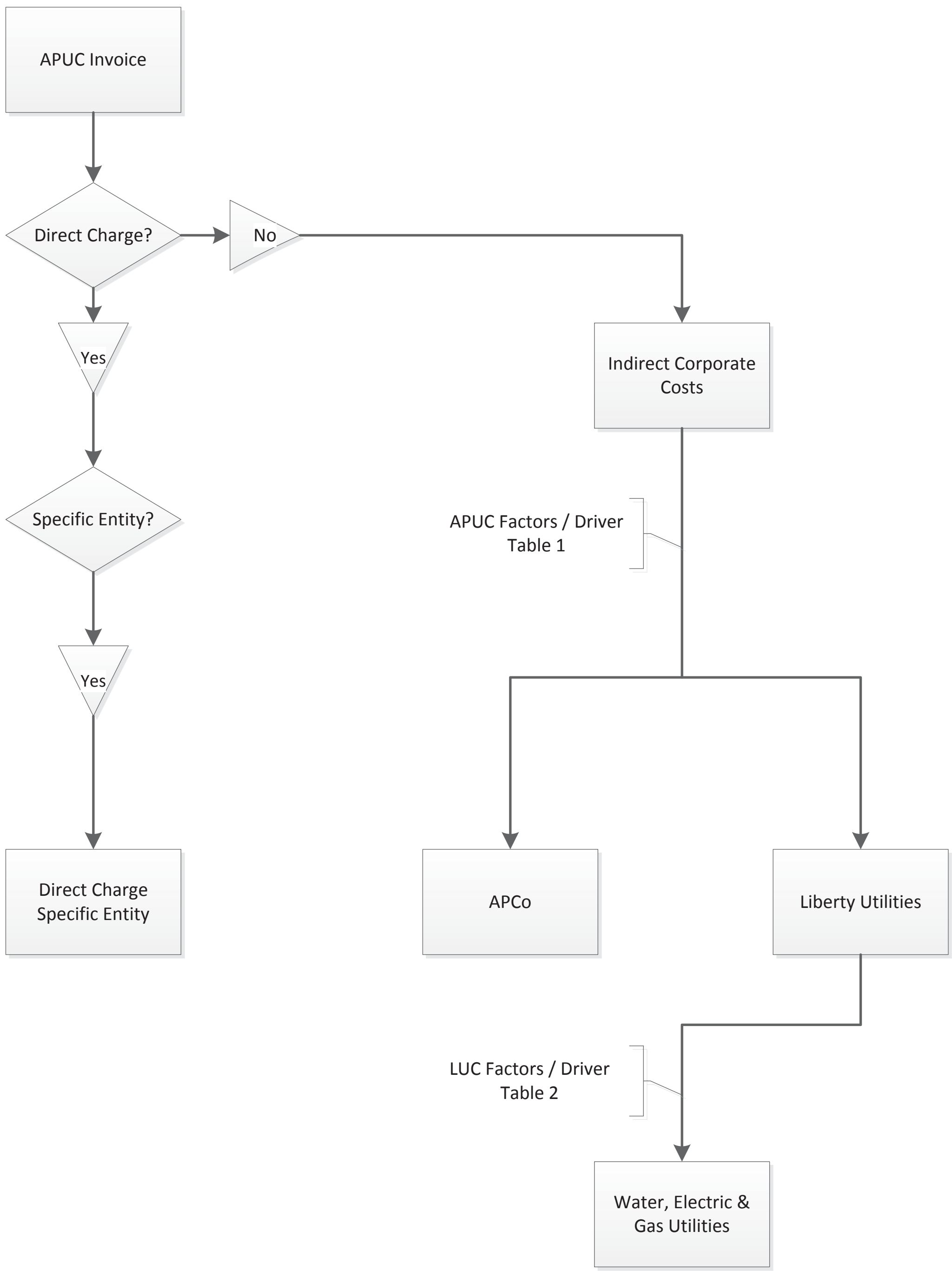
Taxes are paid on behalf of the regulated utilities at the parent level as part of a consolidated United States tax return. Tax services such as planning and filing are provided by third parties. Filing tax returns on a consolidated basis benefits each regulated utility by reducing the costs that otherwise would be incurred by such utility in filing its own separate tax return.

4. APUC Administrative Costs

Finally, administrative costs incurred by APUC such as rent, depreciation of office furniture, depreciation of computers, and general office costs are required to house all the services mentioned above. Without these administrative costs, the employees of APUC could not perform their work and provide the necessary services to the regulated utilities. These administrative costs also include training for corporate employees.

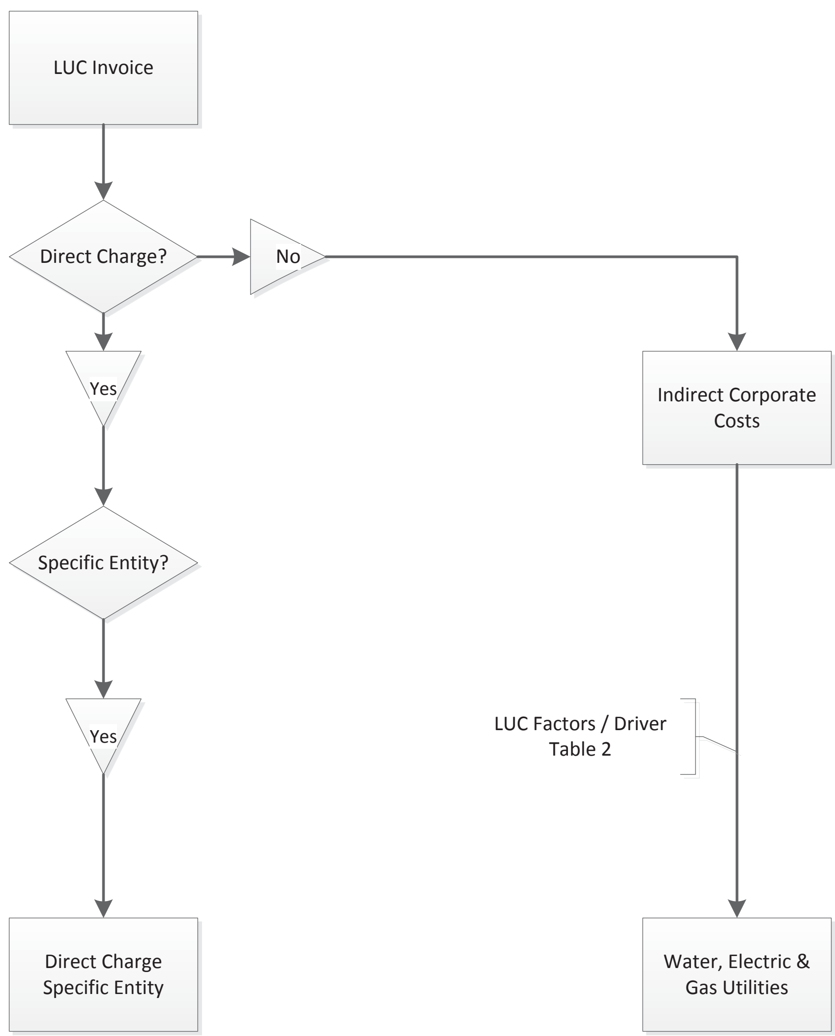
APPENDIX 3 – LIFE OF AN APUC INVOICE

A schematic is provided below showing the trail of an invoice received by APUC for services to be charged to its subsidiaries. The schematic is intended to visually explain the distribution of charges from APUC to APCo and Liberty Utilities companies.



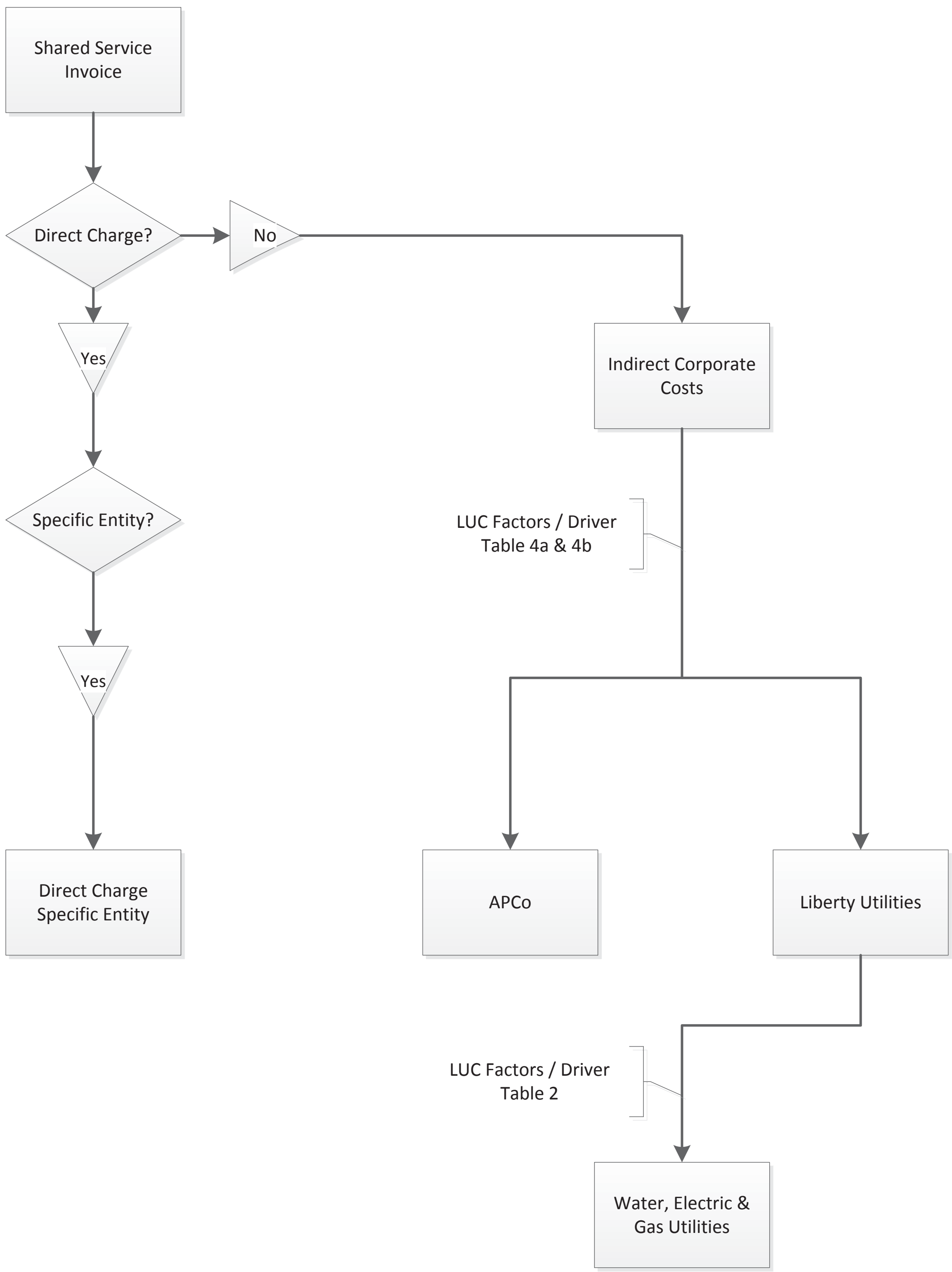
APPENDIX 4 – LIFE OF A LIBERTY UTILITIES INVOICE

A schematic is provided below showing the trail of an invoice received by Liberty Utilities (LUC) for services to be charged to its subsidiaries. The schematic is intended to visually explain the distribution of charges from LUC to Liberty Utilities companies.



APPENDIX 5 – LIFE OF A SHARED SERVICES INVOICE

A schematic is provided below showing the trail of an invoice for shared services provided within Liberty Utilities for services to be charged to affiliates and subsidiaries. The schematic is intended to visually explain the distribution of charges from shared services to APCo and Liberty Utilities companies.



Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by:	David Pasieka
Title:	President Liberty Utilities (Canada) Corp.
Company:	Joint Applicants
Address:	2751 North High Street Jackson, MO 63755
Company Response Number:	OPC – AzP – No. 5123
Date of Response	June 20, 2016

Question:
Please state where shared services (accounting, human resources, etc.) are presently performed for the current (i.e., non-Empire) Liberty Utilities companies.

Response:
Shared services provided to Liberty Utilities Co. distribution companies are provided by Algonquin Power & Utilities Corp., Liberty Utilities (Canada) Corp., and Liberty Utilities Service Corp.

EM-2016-0213
Rebuttal Testimony of
Ara Azad

Attachment AA-R28
has been deemed
“Highly Confidential”
in its Entirety.

Liberty Utilities (Central) Co.
Liberty Sub Corp.
The Empire District Electric Company
Docket No. EM-2016-0213
Response to Office of the Public Counsel

Response provided by:	Peter Eichler
Title:	VP, Strategic Initiatives Liberty Utilities (Canada) Corp.
Company:	Joint Applicants
Address:	2751 N. High Street Jackson, MO 63755
Company Response Number:	OPC – AzP - 5025
Date of Response	May 23, 2016

Question:
Following consummation of the merger and thereafter, what changes do the Applicants anticipate to the cost allocation methodologies in place currently at Empire?

Response:
The Joint Applicants have not completed a detailed analysis at this time, however, the Joint Applicants have committed to filing a revised CAM within six months of the transaction closing. The changes anticipated include:

- Allocation of costs to Liberty Utilities Co. regulated affiliates located in the new LU Central Region
- Allocations for services currently performed at Empire that will be allocated to all Liberty Utilities Co. regulated affiliates in other states