Exhibit No.:
Issue(s): Pension & OPEB Expense, Revenues, Other Miscellaneous Revenues, Corporate Expense, Allocation Factors, Income Tax, Accumulated Deferred, Income Taxes (ADIT), and Excess ADIT Cash Working Capital Income Tax Expense Lag
Witness: Angela Niemeier
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: WR-2024-0104
Date Testimony Prepared: August 20, 2024

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL & BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

DIRECT TESTIMONY

OF

ANGELA NIEMEIER

LIBERTY UTILITIES (Missouri Water) LLC,
d/b/a Liberty

CASE NO. WR-2024-0104

Jefferson City, Missouri
August 2024

** Denotes Confidential Information **

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ANGELA NIEMEIER

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d/b/a Liberty

CASE NO. WR-2024-0104

Q. Please state your name and business address.

A. Angela Niemeier, 200 Madison Street, P.O. Box 360, Jefferson City, MO 65102.

Q. By whom are you employed?

A. I am a Lead Senior Utility Regulatory Auditor employed by the Missouri Public Service Commission ("Commission").

Q. Please describe your educational background and work experience.

A. In early 2020, I completed a Master of Business Administration from Columbia College. I have worked at the Commission since January 2019.

Q. What are your responsibilities at the Commission?

A. My responsibilities include conducting audits and examinations of the books and records of regulated utility companies in the state of Missouri.

Q. Have you previously filed testimony before this Commission?

A. Yes. I have a list of the cases in which I have filed testimony before the Commission as Schedule AN-d1, attached to this direct testimony.

Q. With respect to Case No. WR-2024-0104, have you examined the books and records of Liberty Utilities (Missouri Water), LLC d/b/a Liberty ("Liberty Water")?

A. Yes, with the assistance of other members of the Commission Staff ("Staff").

Q. What knowledge, skills, experience, training, or education do you have in the areas of which you are testifying as an expert witness?

A. I have received continuous training at in-house and outside seminars on technical ratemaking matters since I began my employment at the Commission. I have been employed by this Commission as a Regulatory Auditor for over 5 years, and have submitted testimony on ratemaking matters numerous times before the Commission. I have performed and led rate audits and prepared miscellaneous filings as ordered by the Commission. In addition, I have reviewed workpapers, and testimony from prior Liberty Water general rate cases. I also reviewed the data presented by Liberty Water on these issues.

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to present Staff's recommendations concerning Pensions & Other Post-Employment Benefits ("OPEB") Expense, Revenues, Other Miscellaneous Revenues, Corporate Expense, Allocation Factors, Income Tax, Accumulated Deferred Income Taxes ("ADIT"), Excess ADIT, and the Cash Working Capital Income Tax Expense Lag.

PENSION AND OTHER POST-EMPLOYMENT BENEFITS ("OPEB") TRACKER

Q. Please describe the pension and OPEB issue.

A. Pensions are payments made to retired employees by their former employer that are earned based upon the duration of the individual's employment with the employer. OPEBs refer to payments, other than pension amounts, made to retired employees by their employer, that again are earned based upon the duration of the individual's employment. OPEBs primarily relate to medical and health-related benefits promised to employees during their retirement years.

Q. Is pension and OPEB expense a new issue for Liberty Water?

A. Yes, in the prior rate case, WR-2018-0170, pension and OPEB expenses were not included in rates. However, pension and OPEB expenses have been recorded by Liberty Water's affiliated companies, such as Empire District Electric Company and Liberty Gas (Midstates Natural Gas).

Q. When did Liberty Water begin recording pension and OPEB expense for Liberty Water?

A. Liberty Water began recording pension and OPEB expense in the general ledger in 2021, after the prior rate case, and has continued to current.

Q. What is a "tracker mechanism", as that term applies to ratemaking methodology?

A. For ratemaking purposes, a tracker mechanism is an ongoing comparison of the amount of an expense actually incurred by a utility to the amount of the same expense reflected in the utility's current rates. While tracker mechanisms are generally not appropriate for use in setting rates, trackers for pension expenses are a unique exception because of the possible significant cash flow implications to utilities if their pension funding requirements are materially different from their pension expense recovery levels in rates. Tracker mechanisms provide rate recovery for the exact amount of an expense and are specifically designed to consider increases and decreases to specific costs; in this instance, pensions. Ongoing tracker mechanisms capture both under and over-recoveries of an expense for reimbursement from or return to ratepayers. The overall goal of a tracker mechanism, when properly exercised, is to provide the utility with dollar-for-dollar recovery of reasonable and prudently incurred expenses in the category covered, no more and no less.

Q. Are tracker mechanisms appropriate for broad categories of expenses?

A. No. Pension expenses have unique attributes that reduce the amount of direct control utility management has over these expenses. While management has some control of the expenses, such as the asset mix of the pension trusts and negotiation of future benefits, the investments in the pension trusts are subject to market forces, over which management has little to no control.

Q. Why does Staff use the pension tracking approach for rate purposes?

A. Historically, cash expenditures to the pension trusts and pension expense can and have varied significantly from year to year. Market conditions, actual returns, and cash expenditures are some of the variables that create the need for a pension tracker mechanism.

Q. How long has Staff used the pension tracking approach for rate purposes?

A. Staff has used pension tracking mechanisms for over twenty years. This rate mechanism was developed because of the difficulty of predicting, with accuracy, the amount of pension costs that should be included in rates. Using information to evaluate pension costs on a normalized basis in rates could result in an over or under-collection. To address this problem, Staff entered into agreements with most of the major utilities in the state on some form of a pension tracker. This mechanism allowed recovery in rates of the exact pension costs, tracking the amounts included in rates to determine any over or under-recoveries. In each rate case, a review of the over or under-recoveries would be performed to see if the recovery mechanisms were working and if modifications needed to be made. A tracking device considers both cost increases as well as cost decreases. In the example of pension costs, Staff would consider the funding recommendations made by the utility company's actuary.

The funding requirement for pensions would be included in the rate recommendation made by Staff, taking into account any amount of actual funding that was under or over the levels included in rates. If an amount for pensions was actually funded at a higher level by the utility than what was included in rates, then that would result in a pension asset—reflected as a positive investment to rate base and resulting in a positive amortization to expense. If the amount for pensions was funded by the company at a lower level than was included in rates, then this would result in a pension liability—reflected as a negative offset amount reducing rate base and resulting in a negative amortization to expense.

Q. Please explain how pension and OPEB expenses are typically calculated in rate cases.

A. Utilities typically undergo an annual examination by an accredited actuary in regard to their pension and OPEB plans, who then issues a report on each plan. The reports contain an explanation of the calculation of each component of pension and OPEB expense, and a review of the funded status of the utility's pension and OPEB plans. Review of the annual actuarial reports by the Staff is necessary whether the Staff's position on rate treatment of pensions is based upon Financial Accounting Standard No. 87 ("FAS 87") or Employment Retirement Income Security Act ("ERISA") calculations. This actuarial report may not be issued until a point during the year covered by the report. Before the actuarial report is issued, the utility will book its pension and OPEB expense on an estimated basis. After the report is issued, the company will book a correcting/adjusting entry to true-up booked pension and OPEB expense consistent with the annual actuarial report's results. To the extent a utility's booked test year/updated period pension and/or OPEB expense is based in part on estimations prior to the issuance of the annual actuarial report, an adjustment will be sponsored by the Staff to true-up the results to more updated amounts. Staff included in its recommended revenue requirement pension and OPEB expense; i.e. the cost associated with pension/OPEB expense related to Liberty Water, the allocation of Empire Electric pension/OPEB expense being moved to Liberty Water employees, and the allocation of pension/OPEB expense of Midstates 2. Midstates 2 is identified as a group that supplies services to multiple Liberty entities. The Midstates 2 costs are allocated to Missouri Water, as well as other Liberty entities, such as Midstates Gas. These three components are added to arrive at the pension and OPEB expense.

Q. Can Staff calculate a pension tracker asset or liability?

A. No, without a current tracker in place, there is no expense to be tracked and calculated. Establishing the tracker is the first step in the process. In the next rate case, the tracker mechanism can provide rate recovery for the exact amount of pension and OPEB expenses. After the tracker is initiated in this case, ongoing tracker mechanisms in the next rate case will capture both under and over-recoveries of pension and OPEB expense that will be a reimbursement from or a return to ratepayers. Attached to my testimony is Confidential Attachment AN-d2, which is proposed language which will be needed for the future Liberty Water pension and OPEB trackers.

Q. Where does Liberty Water record the pension and OPEB expenses?

A. Liberty Water records the pension and OPEB expenses in account 926 with other group benefits; such as group insurance. In Staff Data Request ("DR") Number 0198, Staff requested a breakdown of the contents of Account 926. Liberty Water's response did not provide a detailed breakdown of the test year expenses to the level of individual systems. Because Staff could not separate Account 926, Staff witness, Courtney Horton, made an initial adjustment to group insurance and removed all other costs recorded in Account 926, including pension and OPEB expense. Then, a second adjustment is made to include the entire annualized amount of pension and OPEB expense.

Q. What is the amount that Staff has included for Pension Expense and OPEB Expense?

A. Staff has calculated **$30,347** for Pension Expense and **$13,568** for OPEB Expense. Staff recommends using these amounts as the starting point for the pension and OPEB tracker mechanism.

REVENUES

Q. How did Staff develop the annualized minimum customer charge revenues for water and sewer?

A. Staff calculated a base rate, a commodity rate based on usage, and the miscellaneous revenues. For the base rate, Staff developed the minimum charge revenue by first multiplying the number of meters (i.e. customer number) as of April 30, 2024 for each meter class by the applicable minimum charge, demonstrated in each system's tariff, as approved in Case No. WR-2018-0170, Liberty Water's last general rate proceeding. The product of the number of meters multiplied by the applicable minimum customer charge was then multiplied by the number of billing periods in a year to produce the annualized minimum customer charge revenues for each customer class. This method was used for all service areas.

Q. Did Staff find any irregularities in Liberty's billing determinants?

A. Staff found several irregularities, as addressed in the direct testimony of Staff witness Jarrod Robertson, and which will be further addressed in the rate design direct testimony and rebuttal testimony. However, Staff used the 2023 data to calculate usage for the commodity rate, as it seemed most reliable of the data provided. Staff was not able to distinguish the water usage between meter sizes with the data provided by Liberty Water. However, since the usage price for each customer type (residential, commercial, etc.) is the same for each individual system, Staff used an allocation, based upon customer numbers to divide the water usage between meter sizes. In doing this, all residential was allocated to residential, all commercial was allocated to commercial, etc. The usage was then calculated by taking the annual average customer usage multiplied by the commodity charge as described in Liberty Water's current tariff to determine an annualized level of revenues.

Q. Does Staff have additional concerns regarding the Liberty Water's revenues?

A. Yes. Staff also learned that Liberty was charging rates not authorized in its tariff. As of the date of this filing, Staff continues to investigate this violation and to determine if there are additional tariff violations.

<u>Other Operating Revenues</u>

Q. What revenues are classified as other operating revenue?

A. Liberty Water's other revenue categories include funds received for the following items: late payment charges, rents, collection for others, non-sufficient fund check charges, application/initiation fees, the provision of usage data to other entities, reconnection fees, frozen meter fees, after hour charges, and miscellaneous service.

Q. How did Staff determine the annualized level of other operating revenue?

A. Staff reviewed the totals for each of these revenue categories, by account, for the most recent two-year period, by system. Staff reviewed updated data through March 30, 2024, the most current data available at this time. Staff normalized miscellaneous revenue using a two-year average for period ending March 30, 2024 because there were no discernable upward or downward trends to demonstrate increasing or decreasing revenues.

CORPORATE ALLOCATIONS & AFFILIATE TRANSACTIONS

Q. Please explain what the Affiliate Transaction Rule ("ATR") represents and the requirements that Liberty Water may follow regarding this rule.

A. The National Association of Regulatory Utility Commissioners ("NARUC") Guidelines for Cost Allocations require that costs be directly charged as much as possible to the entity that procures any specific service or a cost creator, and also to ensure that subsidization of unregulated activities by regulated activities does not occur. Costs such as direct labor, direct material and direct purchased services, as well as all indirect charges, should be charged to any receiving entity at fully distributed cost. Fully distributed cost ("FDC") is a methodology that examines all costs of an enterprise in relation to all the goods and services that are produced. FDC requires recognition of all costs incurred directly or indirectly used to produce a good or service. Costs are assigned either through a direct or allocated approach. Costs that cannot be directly assigned or indirectly allocated (e.g., general and administrative) must also be included in the FDC calculation through a general allocation. Algonquin Power & Utilities Corp. most current Cost Allocation Manual ("CAM") was updated as of January 1, 2017.

Q. Are water and/or sewer companies required to follow the requirements of the Affiliate Transactions Rule, 20 CSR 4240-20.015, and file a CAM?

A. No. There is no rule requiring water and/or sewer companies to file a CAM for water rate cases. Algonquin Power & Utilities Corp files a CAM that includes all

Liberty entities. Liberty Water follows the same policies and procedures that Algonquin has laid out in the CAM, which is attached in this testimony as Schedule AN-d3.

Q. Has the CAM provided by Algonquin Power & Utilities Corp. been officially approved and ordered by the Commission?

A. No. Liberty's entities have been appropriately filing their CAM and associated affiliate transaction cost documentation in the Commission Electronic Filing and Information System ("EFIS") with the Commission each year, but there is no official order. There is an open docket before the Commission in Case No. AO-2017-0360 to formally address approval of a CAM for all of Liberty's affiliates in Missouri (Liberty Midstates Gas, Liberty Water, and Liberty Empire Electric & Gas) but that case is currently on hold as progress on the CAM approval is dependent upon the promulgation of new ATRs.

Q. Please provide an overview of the Algonquin Power and Utilities/Liberty Corporation as a whole and explain how cost allocation flows to the Liberty entities, including Liberty Water, utilizing the methodology in the CAM.

A. Algonquin Power and Utilities Corp ("APUC") is the parent company to Liberty Utilities (Canada) Corp. ("LUC") and Liberty Power ("LP"). As the parent company, APUC provides financing, financial control, legal, executive and strategic management services for all companies underneath its umbrella. APUCs costs are either directly or indirectly allocated down to Liberty Utilities as laid out in the CAM. Costs are incurred at these various Liberty entities that provide labor and non-labor services to other Liberty entities further downstream. Each Liberty entity is comprised of different departments that provide various services that are detailed in the CAM attached to this testimony. There are multiple allocation paths, that are determined by what is allocated and to whom it is allocated to/from. Please refer to the attachment AN-d3 for further details that lay out the allocation paths for APUC, LUC, Liberty Utilities Service Corp. ("LUSC", Liberty Algonquin Business Services ("LABS"), and Regional (Local), with Regional being the final allocation to the individual systems in Liberty Water.

Q. Did Staff review the allocation factors?

A. Yes. Staff reviewed the CAM and performed an allocation factor analysis for APUC, LUC, LUSC, LABS, and Regional (Local). The purpose was to see if the factors were reasonable over time. Staff reviewed the data from 2018 through April 2024, the update period in this case. Staff reviewed the CAM documentation in tandem with the organizational charts to determine if the CAM accurately reflected the corporate structure and the basic methodology of how costs are ultimately allocated to downstream affiliates. Staff determined that the changes seemed reasonable and that changes to the allocation factors aligned with the acquisitions and other known changes.

Q. Are the allocation factors used in Algonquin Power & Utilities Corp CAM typical for allocation of utility costs?

A. Historically, Staff has seen three factor allocation methods used for purposes of indirect cost allocation at certain utilities and in the industry, they are commonly known as utilizing the Massachusetts Formula. However, Staff has not seen another utility that uses a four-factor allocation method, rather than a three-factor and the number of layers of allocations that is utilized by Liberty Water. The utilization of a four-factor allocation method is not necessarily incorrect, but the four factors are not equally weighted for LUC. In the CAM, Algonquin Power & Utilities Corp discusses that the four-factor methodology was developed and utilized to better allocate costs, recognizing that larger utilities require more time and management attention and incur greater costs than smaller utilities. The benefit of the heavy weight on the customer count could lean more costs to be allocated to regulated utilities that service a larger customer base. This seems reasonable as larger utilities would more than likely incur more costs, especially labor. Staff does not have any indication that more traditional equally-weighted three-factor or four-factor allocators would allocate more or less costs to Liberty Missouri than the unequally-weighted four-factor methodology.

The allocation factors at APUC, LUC, LABS, LUSC, and Liberty Water are updated annually in April unless there is a material change that would affect the allocation factors, such as an acquisition or divestiture. Since Liberty Water's last rate case, there were five changes to the allocation factors outside the annual update in April for allocation factors. Staff's analysis demonstrates that these were primarily due to acquisitions.

Q. Please describe the next step that Staff took in reviewing allocations.

A. Next, Staff further reviewed data Missouri Water provided for APUC, LUC, LUSC, LABS, and Regional. Specifically, pulling that data, putting it side by side, and comparing year to year. Staff then made calculations following the path from APUC to Regional to check for reasonableness at each level. Staff reviewed all Liberty affiliate general ledgers to verify that acquisition costs and other costs not beneficial to ratepayers were either, not ultimately allocated to Liberty affiliates, including Liberty Water, or if they were purposefully or inadvertently charged, the costs were located and proposed for removal from inclusion in customer rates. Staff made disallowances to each level for the Liberty Water portion as described below.

CORPORATE EXPENSE

Staff reviewed the billing details for APUC, LUC, LABS, and LUSC corporate expense for the test year. Staff made adjustments to restate the test year based upon 2023 update period allocation factors. Staff made adjustments to remove certain allocated test year costs that are not typically included in rates, examples include car and house allowances, advertising that the Company hasn't provided for Staff's review of prudency, and to address duplicative costs amongst the different levels of allocations from the various entities above Liberty Water. Staff removed the test year amount for Liberty Water for energy procurement at the LUC level. Energy procurement typically involves contracts concerning renewable resources, specifically with the electricity and gas operations of Liberty. Staff has sent a data request, Staff DR No. 0021.1, to understand how this may relate to water.

INCOME TAXES

Current and Deferred Income Tax

Q. How has Staff approached current and deferred income taxes in this case?

A. Staff's methodology for calculating income tax expense is largely consistent with the methodology used in Liberty Water's previous rate cases. The income tax calculations begin by taking adjusted net operating income before taxes, then adding to or subtracting from net income certain timing differences in order to obtain the net taxable income amount for ratemaking purposes. These "add back" and/or "subtraction" adjustments are necessary to identify new amounts for the tax deductions that are different from those levels reflected in the income statement as revenues or expenses. Tax timing differences occur when the timing used in reflecting a cost (or revenue) for financial reporting purposes (book purposes) is different than the timing required by the Internal Revenue Service ("IRS") in determining taxable income (tax purposes). The current income tax calculations for Liberty Water reflect timing differences consistent with the timing required by the IRS. Staff has included Liberty Water's calculations of timing differences. The ratemaking calculation of income taxes for regulated utilities may reflect either the "normalization" approach or the "flow through" approach of recognizing the effect of tax timing differences on income tax expense. The tax normalization method defers, for ratemaking purposes, the deduction taken for tax purposes for certain tax timing differences. The effect of use of tax normalization is to allow utilities the net benefit of certain net tax deductions for a period of time before those benefits are passed on to the utility's customers in rates. The flow-through tax method essentially provides for the same tax deduction taken as a deduction for ratemaking purposes as is taken for tax payment purposes. Staff utilized a normalization approach in calculating income taxes for this case. Under either the tax normalization or tax flow-through approach, the resulting net taxable income for ratemaking is then multiplied by the appropriate federal and state tax rates to obtain the current liability for income taxes. A federal tax rate of 21 percent and a state income tax rate of 4 percent were used in calculating Liberty Water's current income tax liability. The difference between the calculated current income tax provision and the per book income tax provision is the current income tax provision adjustment.

Q. Is Liberty Water subject to city income taxes?

A. No. Liberty Water does not incur city income tax, and no inclusion of any city earnings taxes are included in the cost of service.

Q. Does Liberty Water file tax returns as part of a larger consolidated group?

A. Yes. APUC is a Canadian corporation that has ultimate ownership of all of its unregulated and regulated Liberty entities. APUC is not subject to US income tax, but Liberty Utilities (America) Corp. files a consolidated tax return including all of its regulated and non-regulated affiliate enterprises. Liberty Water itself had ** [redacted]. ** The Liberty consolidated group ** [redacted]. ** A net operating loss occurs when a company's allowable deductions exceed its taxable income within a tax period. The NOL can generally be used to offset a company's future tax payments in other tax periods called a net operating loss carryforward. ** [redacted] ** However, following IRS guidance, Staff is normalizing the tax treatment and is including a positive amount of current federal and state income tax expense for each of Liberty Water service areas.

<u>Accumulated Deferred Income Tax ("ADIT")</u>

Q. What is ADIT and what has been included in the cost of service?

A. Liberty Water's ADIT represents, in effect, a prepayment of income taxes by Liberty Water's customers to Liberty Water, prior to payment being made by Liberty Water to taxing authorities. Each year that Liberty Water has a temporary tax timing difference that causes a deferred income tax expense, a liability is created. The liability recognizes that the tax savings received in the current period are temporary, and will be reversed in future periods. The federal government intended to create these timing differences so that a company could have an effective cost-free loan from the federal government so that the firm could reinvest in its company. Over time, the tax assets or liabilities related to temporary timing differences are accumulated in Liberty Water's liability accounts as ADIT. Ratepayers are charged deferred income tax expense related to normalized tax timing differences protected by the IRS Internal Revenue Code ("IRC"). Because ratepayers do not immediately receive the benefits of the normalized tax deductions, customers have effectively paid income tax expense that Liberty Water has not yet incurred. As such, Liberty Water's ADIT represents cash collected from customers for an expense that will be realized in future periods and is considered an interest-free loan from ratepayers. Since the amount of ADIT customers have provided is available for Liberty Water's use, rate base is reduced by that amount to avoid charging customers a rate of return on funds they have made available to Liberty Water.

As an example, because Liberty Water is allowed to deduct depreciation expense on an accelerated basis for income tax purposes, the depreciation expense deduction used for income taxes paid by Liberty Water is considerably higher than depreciation expense used for ratemaking purposes. This results in what is referred to as a "book-tax timing difference" and creates a deferral of income taxes to the future. The net credit balance in the deferred tax reserve represents a source of cost free funds to Liberty Water. Therefore, Liberty Water's rate base is reduced by the deferred tax reserve balance to avoid having customers pay a return on funds that are provided cost-free to Liberty Water. Since the expense recognized for depreciation is considerably lower for accounting and ratemaking purposes than for income tax purposes, Liberty Water's customers are required to pay higher costs for income taxes in rates than Liberty Water will actually pay to the IRS. The difference in income tax paid to the IRS and those paid in utility rates are "accumulated" to recognize the future tax liability that will eventually be paid to the IRS. Because Liberty Water has retained these tax deferrals, they will be used as an offset to rate base. Staff has included the ADIT balance as of December 31, 2023 in the direct cost of service for both plant related and non-plant related tax timing differences.

Federal Tax Cuts and Jobs Act ("TCJA") Excess Accumulated Deferred Income Tax ("EADIT")

Q. What is EADIT and what has been included in the cost of service?

A. The TCJA was signed into law in December 2017, and as part of that, a reduction in the corporate tax rate required the revaluation of accumulated tax timing differences that were previously valued at 35 percent to be revalued at 21 percent. The difference between the two valuations represents an excess deferred tax value, or EADIT, that is required to be returned to customers based on whether the excess deferred taxes are considered protected or unprotected. Utilities can have both protected and unprotected excess deferred income taxes.

Q. Please explain what makes an EADIT protected and unprotected?

A. Protected EADIT is the portion associated with accelerated depreciation tax timing differences that must be "normalized" for rate making purposes and where the flow back of EADIT cannot be returned to customers any more quickly than over the estimated life of the assets that gave rise to the ADIT. Unprotected EADIT is the portion of the deferred tax reserve that resulted from normalization treatment of tax timing differences other than accelerated depreciation.

Q. Were there requirements regarding income taxes agreed to between Liberty Water and Staff in the prior rate case?

A. Yes. In the *Non-Unanimous Stipulation and Agreement* between Liberty Water and Staff in Case Number WR-2018-0170, Liberty Water and Staff agreed to an overall revenue requirement that, among other items, reflected the reduction in the statutory federal corporate income tax rate from 35 percent to 21 percent, that went into effect on January 1, 2018, as a result of the TCJA. However, the revenue requirement did not include any allowance for the return of EADIT. A regulatory liability was established to account for the tax savings associated with the EADIT which would be evaluated for inclusion in Liberty Water's next rate case. In addition, if Liberty Water chose not to use the Average Rate Assumption Model ("ARAM") as the method for computing and normalizing EADIT, it was required to notify the signatories to the *Non-Unanimous Stipulation and Agreement* within thirty (30) days of making that determination.

Q. Has Liberty Water met the conditions as set out in the *Non-Unanimous Stipulation and Agreement* in Case Number WR-2018-0170 regarding this issue?

A. Yes. Although Staff was unable to find a filed notice associated with Liberty Water, the same reporting requirement was agreed to in the Liberty Utilities (Midstates Natural Gas) Corp. rate case (Case No. GR-2018-0013). On January 4, 2019, Liberty Utilities (Midstates Natural Gas) Corp. filed notice with the Commission regarding the method it chose to value its EADIT for purposes of the deferral and reflection in customer rates.[1]

Q. What does this change mean for the ratepayers?

A. This change in tax rate means that customers of Liberty Water have paid more in deferred taxes than the utility will ultimately pay to the taxing authorities. The EADIT related to the change in tax rate should be returned over a time period based on whether those excess deferred taxes are protected or unprotected.

Protected deferred income taxes are those that are based on depreciation related tax timing differences. Per IRS guidance, the time period (or amortization period) for protected excess deferred income taxes to be returned to customers is to be over a time period not to

[1] Direct Testimony of Michael McCuen, page 7, lines 7-12

exceed the estimated average remaining lives of the assets that gave rise to the tax timing difference under tax normalization requirements. This time period can be determined using one of two IRS approved methods. The first method is the ARAM, which is the average useful life remaining for each depreciable asset. The second method is the Reverse South Georgia Method ("RSGM") which (a) computes the excess tax reserve on all public utility property included in the plant account on the basis of the weighted average life or composite rate used to compute depreciation for regulatory purposes, and (b) reduces the excess tax reserve ratably over the remaining regulatory life of the property. The RSGM is typically used when a taxpayer lacks sufficient vintage account data necessary to apply the ARAM.

Q. What method did Liberty Water utilize for measurement of EADIT?

A. Liberty Water had a test year of the twelve months ending June 30, 2017 with a true-up cutoff of March 31, 2018 in the last rate case. Due to this, Staff attempted to include a regulatory liability balance for the federal EADIT in rate base and establish an ongoing amortization to flow the federal excess deferred taxes back to customers. However, at that time there was limited guidance to utilities regarding how to apply all of the tax law changes to regulated utilities. In addition, Liberty Water was uncertain what method could ultimately be used to value the protected EADIT it had with acquisitions with limited records.

Staff set the current income tax to 21 percent to calculate current federal income taxes in the last case and per paragraph 1.E. of the *Non-Unanimous Stipulation and Agreement* in WR-2018-0170, Liberty Water and Staff agreed to the following with regard to the treatment of EADIT:

> Liberty Utilities is in the early stages of evaluating the cost and ability to use the Average Rate Assumption Method ("ARAM") as a method for computing and normalizing excess ADIT. If Liberty Utilities determines that it is unable to use the ARAM, Liberty Utilities shall notify the Parties within thirty (30) days of such determination. Liberty Utilities shall provide testimony and support in its next general rate case of its proposed methodology in dealing with the balances.
>
> The calculation of the Regulatory Liability of excess ADIT will begin as of January 1, 2018.

Liberty Water has indicated in the Direct testimony of Michael McCuen that it could not utilize the ARAM as the method for computing and normalizing protected EADIT because it lacks sufficient asset records necessary to perform the calculation. Instead, Liberty Water determined that the most appropriate and reasonable method to utilize for computing and normalizing protected EADIT is the RSGM.

Q. What kind of EADIT has been included in customer rates from Liberty Water's prior rate cases?

A. With the exception of EADIT related to uncollectible accounts, only depreciation related (protected) tax timing differences have been included in customer rates. The amount related to uncollectible accounts is immaterial.

Q. What amortization period has Liberty Water proposed for customer recovery of EADIT in this case?

A. Liberty Water has proposed in this case to return the protected (depreciation related) balances of EADIT, netted by a Net Operating Loss ("NOL") balance back to ratepayers over 51.79 years per the RSGM. Liberty Water determined the amortization period for return of the protected EADIT based upon a depreciation study that was performed in 2022.

Q. What amortization period does Staff propose for customer recovery of the EADIT in this case?

A. Staff believes the EADIT balances net of an appropriate NOL balance as of January 1, 2018 should be returned to customers using the remaining life of those assets at the time the tax rate change went into effect. This maintains consistency and reflects the correct time period for customer recovery. Similar to the treatment afforded customers at other Missouri utilities, Staff has calculated an amortization period of 20.49 years. Staff also proposes that the balance for EADIT be given rate base treatment until fully returned to customers.

State Corporate Tax Reform and State EADIT

Q. Please explain the EADIT that was created due to the Missouri corporate tax reform.

A. The state of Missouri passed legislation reducing Missouri's corporate tax rate from 6.25 percent to 4.00 percent on January 1, 2020; however, the effective date of rates in Liberty Water's last rate case, WR-2018-0170, was November 3, 2018, and this current case is the first case Liberty Water has requested to change rates since that time. This change in tax rate means that customers of Liberty Water have paid more in state deferred taxes than the utility will ultimately pay to the taxing authorities. The Missouri tax rate reduction had the same effect on Liberty Water's EADIT liability as the TCJA and led to a balance of unprotected EADIT. Excess deferred taxes related to the state corporate tax reduction is considered unprotected. This is because the TCJA addresses excess deferred taxes for federal purposes regarding protected and unprotected EADIT. The state tax laws do not make this delineation. Due to the fact that Liberty Water's rates, effective November 3, 2018, did not reflect the reduced state tax rate, the accumulation of deferred taxes in current customer rates has been at the higher tax rate of 6.25 percent since January 1, 2020. Similar to federal EADIT, Staff will need to include the EADIT produced by Missouri's tax reform beginning with the effective date of rates in this current rate case. Staff has included an EADIT balance in rate base and an annual amount of amortization in its income tax schedule. The amortization is based on a five-year period for unprotected EADIT. The excess accumulated deferred income tax related to the change in tax rate for state income tax is considered unprotected and as such can be returned to customers over any time period approved by the Commission, either through a Stipulation & Agreement or a Report & Order. Staff has established the EADIT balance, that has accumulated from January 1, 2020 through April 30, 2024. Staff also included a 4 percent state tax rate in its calculation of current income tax.

Staff proposes to separate the state EADIT from the federal EADIT and return the state EADIT over a five-year period, consistent with how it has been established for other Missouri utilities. Staff also proposes that the balances for unprotected EADIT be given rate base treatment until fully returned to customers.

<u>TCJA and State EADIT Stub Period Amortization</u>

Q. Please describe how this tax change will be treated in this rate case.

A. As discussed above, a major change to the tax code that reduced the tax rate was brought about due to the TCJA. This tax rate reduction affected the current income tax calculation as well as the ADIT calculation included in the base rates of a utility. The ADIT tax timing changes were initially calculated assuming a 35 percent rate, but after January 1, 2018 they were overstated as the new tax rate was only 21 percent. This difference in the tax rate as applied to individual tax timing differences is considered "excess" ADIT.

For the federal tax rate change, the rate was initially calculated assuming a 35% rate but after January 1, 2018 the ADIT was overstated as the new tax rate was only 21%. Staff included the ongoing federal tax rate of 21% in its calculation of current income taxes in Liberty Water's last rate case so as of the effective date of rates in the last case, ADIT moving forward would have been valued at the lower tax rate. However, since the tax rate change occurred January 1, 2018 but rates did not change to enact the lower current tax rate until December 8, 2018, this creates a stub period of federal excess ADIT from the period of January 1, 2018 through December 8, 2018.

For the state tax rate change, the tax rate was initially calculated assuming a 6.25% rate but after January 1, 2020, it was overstated as the new tax rate was only 4%. The tax rate change for state corporate income tax did not occur until well after the effective date of rates in the last rate case, so state excess ADIT has been overstated since January 1, 2020 and will be overstated through the effective date of rates in this case when the current state tax rate is reflected at 4%. This creates a stub period of state excess ADIT from the period of January 1, 2020 through the effective date of rate in this case. At this time, Staff has not been able to calculate the federal or state EADIT stub period to return to customers in the current rate case. Staff will address this amount in rebuttal testimony.

Q. Will there be another future stub period for the return of federal and state excess ADIT?

A. Yes. Since the return of federal and state excess ADIT could not be included in customer rates in Liberty Water' last rate case, excess ADIT has been included in customer rates since the effective date of the tax rate change. The update period in this case is April 30, 2024 and Staff intends to reflect the excess ADIT return to customers in this current rate proceeding; however, customer rates will not change to reflect the return of EADIT until February 10, 2025, barring any early rate implementation for settlement. This means that a portion of the federal and state tax reduction will not have been returned to customers during this rate proceeding for the time period of May 1, 2024 through February 10, 2025. This "stub period" amount will need to be deferred and returned to customers in Liberty Water's next rate case.

Cash Working Capital ("CWC") Income Tax Expense Lag

Q. What did Liberty Water propose for its CWC expense lag for income taxes in the current rate case?

A. Liberty Water witness Timothy S. Lyons proposes a 37-day expense lag for income taxes.

Q. Please explain the current Commission guidance regarding the income tax expense lag as part of the CWC calculation.

A. In Spire Missouri's rate case, GR-2021-0108, the Commission stated in its Report and Order that:

> …federal and state income tax expense is included in rates but the Company is not likely to remit any federal or state income taxes because of its net operating loss carryforward (NOLC)…this lack of income tax payment should be reflected in the CWC expense lag. The fact that no income tax payments have been made in the test year or true-up period justifies the use of a 365-day expense lag. Therefore, the Commission finds that the appropriate expense lag days for income taxes within the CWC calculation is 365 days.

Q. Is Liberty Water still experiencing a NOL?

A. Yes. Liberty Water has not ** [redacted] ** according to Liberty Utilities pro forma tax returns, and there is a ** [redacted] ** for future tax offset.

Q. Has Staff included a 365-day expense lag for federal and states taxes in CWC, consistent with the Commission Report and Order in Case No. GR-2021-0108, for the current case?

A. Yes.

Q. Does this conclude your direct testimony?

A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Request of Liberty Utilities (Missouri Water) LLC d/b/a Liberty for Authority to Implement a General Rate Increase for Water and Wastewater Service Provided in its Missouri Service Areas	)))))	Case No. WR-2024-0104

AFFIDAVIT OF ANGELA NIEMEIER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW ANGELA NIEMEIER and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct Testimony of Angela Niemeier*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Angela Niemeier

ANGELA NIEMEIER

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 19th day of August 2024.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070

D Suzie Mankin

Notary Public

Angela Niemeier

Present Position:

I am a Lead Senior Utility Regulatory Auditor, Auditing Department, Financial & Business Analysis Division of the Missouri Public Service Commission. As a Utility Regulatory Auditor, I assist in research and analysis of the financial aspects of public utility operations.

Educational Credentials and Work Experience:

I completed a Bachelor of Health Science- Radiologic Science from the University of Missouri in 2000. In February 2020 I completed an MBA through Columbia College. I have completed 78 credit hours in business related classes; of these, 36 credit hours are specific to accounting and 48 credit hours are graduate level coursework.

Professional Experience:

Missouri Public Service Commission

- Lead Senior Utility Regulatory Auditor
  - February 2023 – Present
- Senior Utility Regulatory (formerly Auditor III)
  - May 2021 - February 2023
- Utility Regulatory (formerly Auditor II)
  - January 2020 - May 2021
- Utility Regulatory (formerly Auditor I)
  - January 2019 – January 2020

Case Participation:

Company Name	Case Number(s)	Testimony/Issues
Liberty Utilities	WA-2019-0036	Certificate of Convenience and Necessity
Missouri American Water Company	WO-2019-0389	ISRS Recommendation

Company Name	Case Number(s)	Testimony/Issues
Confluence Rivers	WR-2020-0053	Fuel expense, Revenue, Miscellaneous Revenues, Property Tax, Payroll
Empire District Electric Company-Electric	ER-2019-0374	Advertising, Amortization of Ice Storm, Customer Advances, Customer Deposits, Customer Deposits Interest, Materials and Supplies, Postage, Prepayments, PSC Assessments, Rate Case Expense, SWPA Payment Amortization
Elm Hills	WR-2020-0275	Fuel expense, Revenue, Miscellaneous Revenues, Property Tax, Payroll, Plant, Prepayments
Missouri American Water Company	WR-2020-0344	Building Maintenance and Services, Main Break Expense, Maintenance Supplies & Services Expense, Tank Painting, PSC Assessment
Liberty Utilities-Bolivar	WA-2020-0397 SA-2020-0398	Certificate of Convenience and Necessity
Empire District Electric Company-Electric	ER-2021-0312	Advertising, Amortization of Electric Plant and Depreciation Reserve, Amortization of Ice Storm, Credit Card Fees, Iatan/Plum Point Carrying Costs, Materials and Supplies, PeopleSoft, Postage Expense, Plant and Depreciation Reserve, PSC Assessments, Property Tax Expense, Rate Case Expense, SWPA Payment Amortization, Vegetation Management Expense

Company Name	Case Number(s)	Testimony/Issues
Empire District Electric Company- Gas	GR-2021-0320	Advertising, Amortization of Intangible Assets and Depreciation Reserve, Customer Payment Fees, Injuries and Damages and Worker's Compensation, Insurance Expense, Postage Expense, Plant and Depreciation Reserve, PSC Assessments, Property Tax Expense, Rate Case Expense, ROW Clearing Expense
Missouri American Water Company- Garden City	WA-2021-0391	Certificate of Convenience and Necessity
TUK LLC	SM-2022-0131	Certificate of Convenience and Necessity
Missouri American Water Company- WSIRA	SO-2022-0176	WSIRA Recommendation
Missouri American Water Company- Purcell	WA-2022-0293	Certificate of Convenience and Necessity
S. K. & M. Water and Sewer Company	SR-2022-0239	Small water and sewer rate case.
Missouri American Water Company- Pom Osa	WA-2022-0361	Certificate of Convenience and Necessity
Missouri American Water Company- Smithton	WA-2023-0071	Certificate of Convenience and Necessity

Company Name	Case Number(s)	Testimony/Issues
Missouri American Water Company	WR-2022-0303	Building Maintenance, Cash Working Capital, Hydrant Painting, Injuries and Damages, Insurance, Leases, Main Break Expense, Maintenance Supplies & Services Expense, Miscellaneous Expenses, Tank Painting, Telecommunications Expense, Valve Maintenance, Waste Disposal
Spire ISRS	GO-2023-0203	ISRS Recommendation
The Raytown Water Company	WR-2024-0344	Board of Directors, Health Insurance, Incentive Compensation, Income Taxes, Main GIS Mapping, Payroll, Payroll Taxes, Plant and Depreciation Reserve, Purchased Power, and Transportation Expense
Confluence Rivers Utility Operating Company, Inc.	WA-2024-0048	Certificate of Convenience and Necessity
United Services, Inc.	SR-2024-0206	Bad Debt Expense, Electric Expense, Insurance Expense, Maintenance Expense, Chemicals, Office Supplies Expense, Postage Expense, Property Tax Expense, PSC Assessment.

Case No. WR-2024-0104

SCHEDULE AN-d2

HAS BEEN DEEMED

CONFIDENTIAL

ALGONQUIN POWER & UTILITIES CORP.

COST ALLOCATION MANUAL

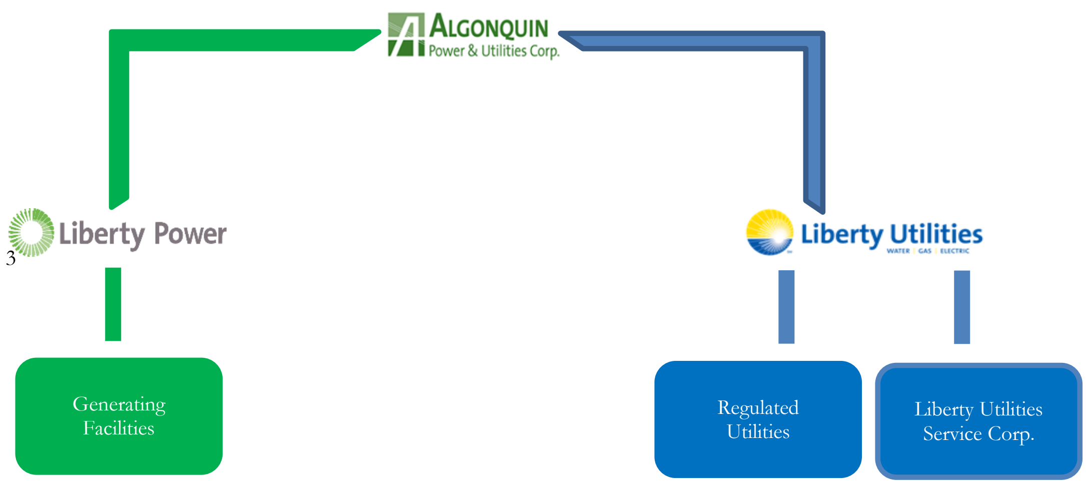
V2017 Effective: January 1st, 2017

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 to other entities within the APUC family of businesses and to describe the Direct Charge[1] and Indirect Charge[2] Methodologies used for those services. The following organization chart identifies, at a high level, the corporate structure of APUC.

<u>Figure 1: Simplified APUC 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)

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[1] Direct charges (sometimes referred to as assigned costs) are costs incurred by one company for the exclusive benefit of, or specifically identified with, one or more other companies, and which are directly charged (or assigned) to the company or companies that specifically benefited. Under the NARUC Guidelines, "Direct Costs" are defined as "costs which can be specifically identified with a specific service or product."

[2] Indirect charges (sometimes referred to as allocated costs) are costs incurred by one company that are for the benefit of either (a) all of the APUC 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. Under the NARUC Guidelines, "Indirect Costs" are defined as "costs that cannot be identified with a particular service or product. This includes but not limited to overhead costs, administrative, general, and taxes."

[3] As of April 2017, Algonquin Power Co. (APCo) is doing business under the name Liberty Power. All Liberty Power employees in Canada will become employed by Liberty Utilities (Canada) Corp. in 2017. Liberty Power employees in the United States will remain employed by Algonquin Power Fund (America) Inc.

to ensure that unauthorized 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.

Costs allocated can take the form of: direct labor, direct material, direct purchased services and indirect charges (as described in Tables 1, 4a and 4b in this CAM). These costs are charged by the providing party to the receiving part at fully distributed costs.

2. THE APUC CORPORATE STRUCTURE

APUC owns a widely diversified portfolio of independent power production facilities and regulated utilities[4] consisting of water distribution, wastewater treatment, electric and gas distribution utilities. While power production facilities are located in both Canada and the United States, regulated distribution utility operations are located in the United States.[5] APUC is publicly traded on the New York Stock Exchange and the Toronto Stock Exchange[6]. APUC's structure as a publicly traded holding company provides substantial benefits to its regulated utilities through access to capital markets.

APUC is the ultimate corporate parent that provides financial and strategic management, corporate governance, and oversight of administrative and support services to Liberty Utilities (Canada) Corp. ("LUC") and its subsidiaries as well as to Algonquin Power Co. ("APCo") d/b/a Liberty Power and its subsidiaries. The services provided by APUC are necessary for all affiliates, including LUC and the regulated utility subsidiaries of Liberty Utilities Co. (referred to as "Liberty Utilities"), to have access to capital markets for capital projects and operations. These services are expensed at APUC and are performed for the benefit of Liberty Power and Liberty Utilities and their respective businesses.

APUC and its affiliates benefit from 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,

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[4] All distribution and transmission utilities are owned, either directly or indirectly, by Liberty Utilities Co., which is itself indirectly owned by Liberty Utilities (Canada) Corp.

[5] Algonquin Tinker Gen Co. owns transmission assets in New Brunswick, Canada, which are subject to regulation by the New Brunswick Energy and Utilities Board.

[6] Common shares, preferred shares, and instalment receipts of APUC are traded on the Toronto Stock Exchange under the symbols AQN, AQN.PR.A, AQN.PR.D, and AQN.IR. APUC's common shares are also listed on the New York Stock Exchange under the symbol AQN. Additional corporate information can be found at the company's website, algonquinpower.com.

the use of shared expertise allows each of the entities to receive a benefit it 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 HOW THOSE COSTS ARE DISTRIBUTED

This section provides an overview of the services provided from APUC, and method used to distribute the associated costs for these services throughout the organization.

3.1 Services and Cost Allocation from APUC to Liberty Utilities and Liberty Power

3.1.1 Description of APUC Services and Costs

APUC provides benefits to its subsidiaries by providing financing, financial control, legal, executive and strategic management and related 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 to the entity incurring these costs based on timesheets to the extent possible. If labor is for the benefit of all subsidiaries then the allocation methodologies used for indirect costs are applied. See Appendix 2 for a more detailed discussion of the costs incurred by APUC.

APUC also charges non-labor services which includes Financing Services. 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 the entire organization, including subsidiaries of Liberty Utilities and Liberty Power, as well as providing legal services and other associated costs in connection with the issuance of debt and equity.

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) other administrative costs (examples: rent, depreciation, general office costs).

The capital raised by APUC is used by Liberty Utilities (and its regulated subsidiaries) and Liberty Power for current and future capital investments. The services provided by APUC are critical and necessary to Liberty Utilities and its regulated subsidiaries and Liberty Power 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.

Indirect costs from APUC, excluding corporate capital, are pooled and allocated to LUC (and subsequently, to LUC's subsidiaries) and Liberty Power using the method summarized in Table 1. Each corporate cost type, or function, has been 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 a brief commentary on the rationale for each cost driver and weighting, along with examples for each cost type.

The services provided by APUC 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, 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.

<u>Table 1: Summary of Corporate Allocation Method of APUC Indirect Costs</u>

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	Employee labor and related administration and programs; Third party legal services

		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.	
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 and complexity of Audit, including Revenues, O&M and Net Plant. Audit activity can be driven by each of these factors.	Employee labor and related administration and programs, 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	Employee labor and related administration and programs,

		scope of each affiliate - Revenues, Net Plant and O&M costs.	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

Other Administration Costs	Oakville Employees 50% Total Employees 50%	This function is driven by factors which are indicative of number of employees.	Office administration costs. Employee labor and related administration
Executive and Strategic Management	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 that is not directly attributable to any entity

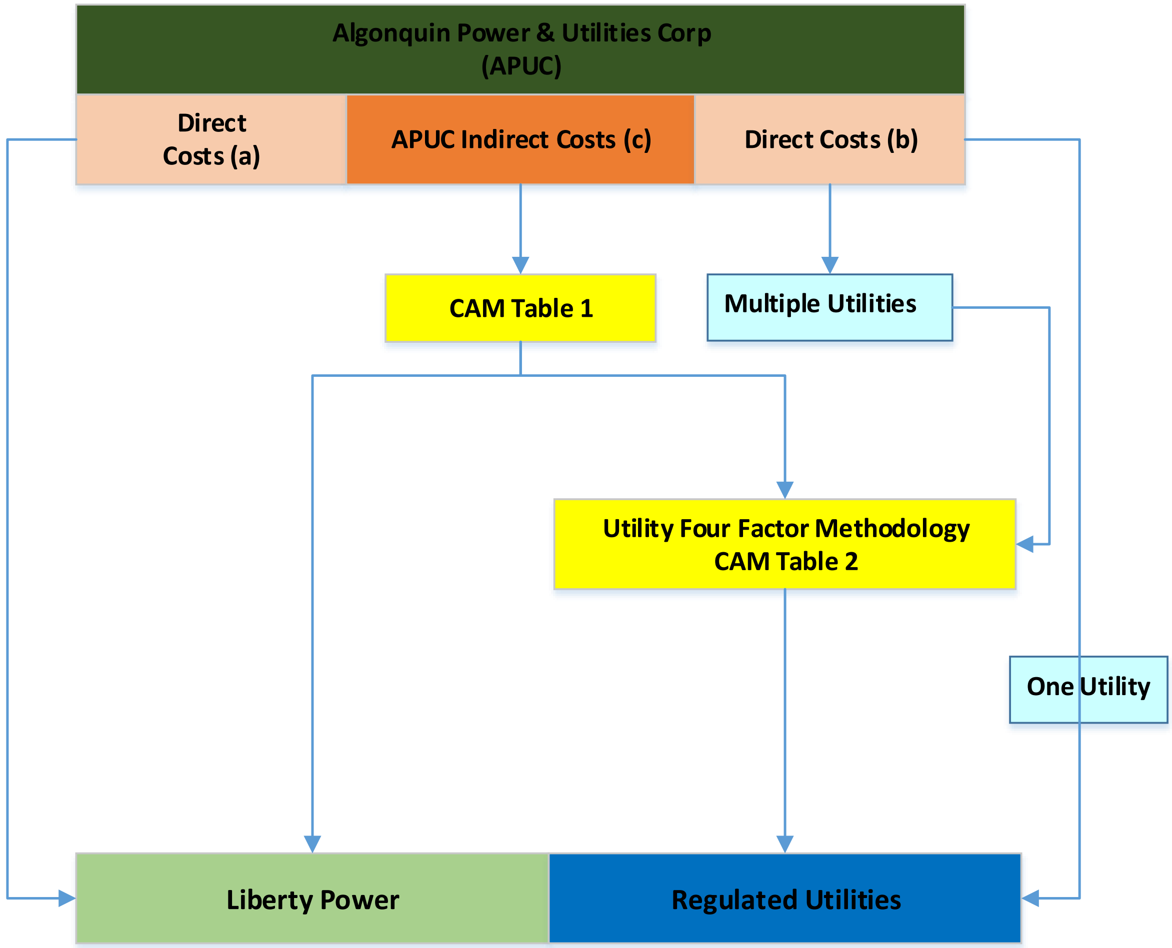
Notwithstanding the above, if a charge is related either solely to the regulated utility business or to the power generation business Liberty Power, then all of those costs will be direct charged, or assigned, to the business segment for which they are incurred. If a cost can be directly attributable to a specific entity, it will be directly charged to that entity.

In the event that organizational realignments occur, resulting in certain other services or costs to come from APUC, any allocations (if any) will be done as per the "Executive and Strategic Management" line in Table 1 above until the CAM is updated.

3.1.2 Description of the APUC Cost Flows

Please refer to Figure 2 for a diagram of the various flows of costs from 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 one regulated company, or that benefit all regulated operations.
(c) Costs that benefit both unregulated and 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 (i.e., Liberty Power or one of its subsidiaries). The second type is APUC's costs that directly benefit a particular regulated company, which are directly assigned to that regulated company[7]. The third type are APUC's remaining costs that benefit the entire

[7] This could be directly to LUC (which would subsequently be allocated over utility subsidiaries of LUC) or to a specific utility for which the service was necessary.

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 utility 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 utility subsidiary. These costs include certain corporate travel and certain overheads.

4. SCOPE OF SERVICES PROVIDED BY LUC AND HOW COSTS ARE DISTRIBUTED

This section provides an overview of the services and the cost methodology for LUC.

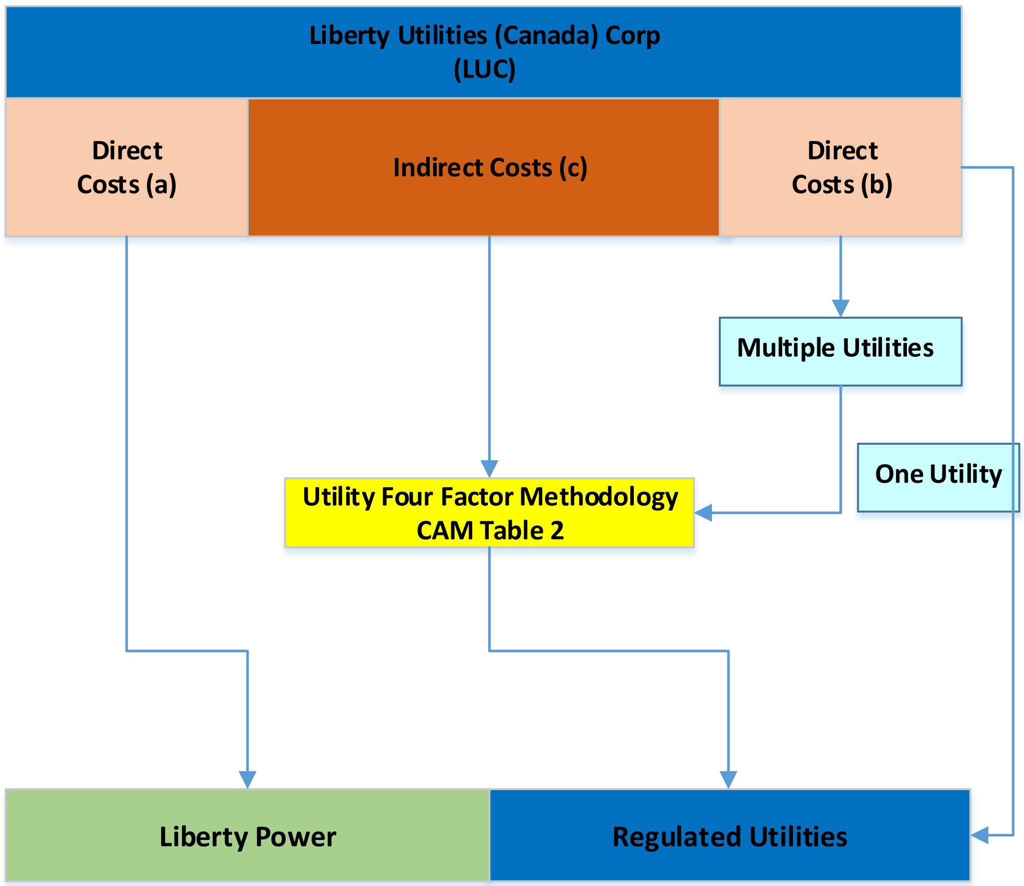
4.1 Overview of LUC Services and Costs

Various services and methods of cost distribution arise from LUC and can be categorized as those provided: (a) specifically to regulated utilities, (b) specifically to Liberty Power, or (c) to the entire organization (under the business unit of Liberty Algonquin Business Services ("LABS")). Figure 3 identifies the flow of costs from dedicated utility support and dedicated Liberty Power staff within LUC. Figure 4 identifies the flow of costs from the shared business and corporate services staff and functions ("LABS") within LUC. Both Figures 3 and 4 are depicted below in this section.

As illustrated in Figure 3, LUC incurs three types of costs. The first type is an LUC cost that directly benefits a particular Liberty Utilities affiliate (i.e., regulated company), which is directly assigned to that regulated company. The second type is an LUC cost that benefits all of the Liberty Utilities regulated companies, and which is allocated using the Utility Four-Factor Methodology described in CAM Table 2. The third type is a cost that only benefits and is directly charged to Liberty Power. All three of these cost types are described in section 4.2 below.

As illustrated in Figure 4, shared services costs arising from LUC are those from shared services[8] that benefit both the regulated group of companies and the unregulated group of companies within the APUC 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.

<u>Figure 3: Illustration of LUC Corporate Cost Distributions</u>



Notes:

(a) Costs that are directly assignable to unregulated companies

(b) Costs that are directly assignable to one or more specific regulated companies.

(c) Costs that benefit all regulated operations.

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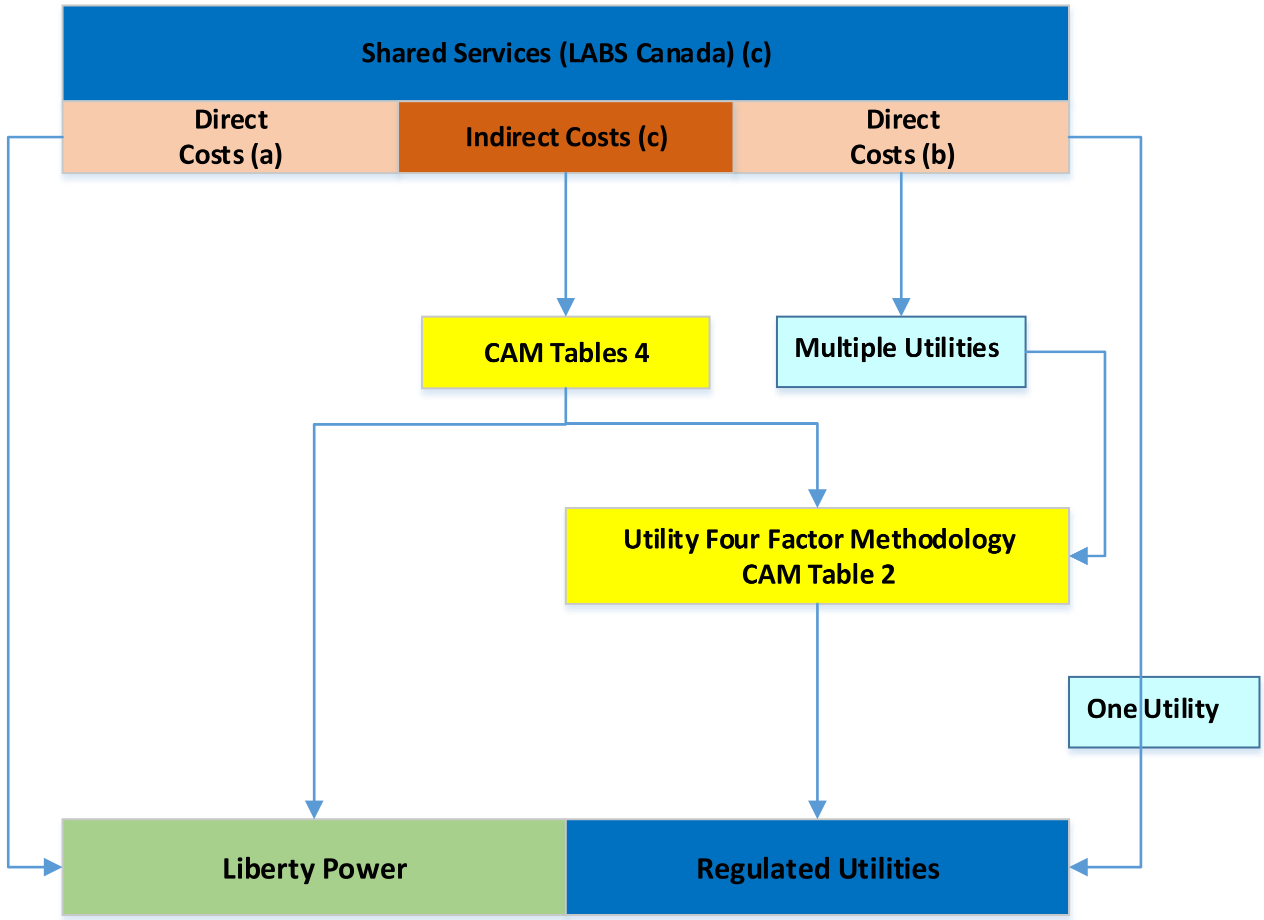
[8] As discussed later, shared support services that benefit both regulated and unregulated businesses within APUC are provided within Liberty Algonquin Business Services ("LABS"), which is a business unit with staff employed within LUC and LUSC. Shared services staff serve both regulated and unregulated entities. LABS staff within the corporate office in Canada are employed within LUC; LABS staff in the US are employed within LUSC. As new U.S.-based utilities are added to the Liberty-Algonquin organization, there could be a transitionary period in which some of these shared services staff and functions may also remain employed within the new utility until such time that they may be transitioned to become an employee of Liberty Utilities Service Corp. ("LUSC").

Figure 4: Illustration of LUC Shared Services Cost Distributions



Notes:
- (a) Costs that are directly assignable to unregulated companies.
- (b) Costs that are directly assignable to one or more regulated companies.
- (c) Costs that benefit both unregulated and regulated operations.

4.2 LUC Services and Costs Provided to Liberty Utilities and Liberty Power

4.2.1 Services to Liberty Utilities

LUC provides services to Liberty Utilities such as: executive, regulatory strategy, energy procurement, operations, utility planning, administration, and customer experience.

LUC will assign costs that can be directly attributable to a specific utility. These include direct labor and direct non-labor costs. However, because the indirect LUC costs cannot be directly attributed to an individual utility, LUC allocates its indirect labor and indirect non-labor costs, including capital costs, to its regulated utilities using a Utility Four-Factor Methodology[9]. 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 and scope of the utilities. The methodology used by LUC involves four allocating factors, or drivers: (1) Utility Net Plant; (2) Total Customers; (3) Non-Labor Expenses; and (4) Labor Expenses, with each factor assigned an equal weight, as shown in Table 2 below.

Table 2: Utility Four-Factor Methodology Factors and Weightings

Factor	Weight
Customer Count	40%
Utility Net Plant	20%
Non-Labor Expenses	20%
Labor Expenses	20%
Total	**100%**

LUC uses the Utility Four-Factor Methodology to allocate to its regulated utilities the system-wide indirect labor and indirect non-labor costs within LUC (from its utility-dedicated staff, and from the shared services functions within LUC).

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.

[9] Please note, indirect costs sent to utilities via the 4-factor will consist of 1) indirect costs from LUC's utility-dedicated staff and services, plus 2) the indirect costs from APUC, 3) the indirect costs retained within LUC from LABS (the shared services staff and services within LUC), and 4) the indirect costs allocated from LUSC.

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 Net Plant ($)	727	371	1098	66%	20%	13%
Customer Count (#)	6000	2000	8000	75%	40%	30%
Labor Expenses ($)	57	32	89	64%	20%	13%
Non-Labor Expenses ($)	108	41	149	72%	20%	14%
Total Allocation						71%

As can be seen from these hypothetical numbers in Table 3, Utility 1 would be allocated 71% 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 29%. 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.

4.2.2 LUC Services to Liberty Power.

A sub-set of LUC employees provide dedicated services to Liberty Power such as: executive, energy services, asset management, business development, and operations. All costs (labor and non-labor) incurred for these services will be directly charged to Liberty Power (no indirect costs are allocated from this group). Labor costs are tracked through timesheets and directly charged to Liberty Power.

4.3 Shared Services from LUC

The last type of costs arising from LUC are those from shared services[10] that benefit both the regulated group of subsidiary companies owned by Liberty Utilities and Liberty Power.

Consistent with the organization practices described earlier, shared services and costs (within LUC[11]) are assigned when they are directly attributable to a specific affiliate company (such as a specific distribution utility) or business unit[12] (such as Liberty Utilities or Liberty Power). Labor charges for LUC shared services staff are assigned using timesheets that depict the amount of time that is to be direct charged to either Liberty Utilities or Liberty Power (or a specific subsidiary within Liberty Utilities. or Liberty Power).

Please refer to Figure 4 above for a diagram of the various flows of costs that may arise from the shared services staff and functions within LUC[13].

Indirect costs for services from the shared services functions that cannot be directly assigned are allocated between the regulated and unregulated business units, Liberty Utilities and Liberty Power, 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 shared services functions within 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 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.

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[10] Liberty Algonquin Business Services ("LABS") is a business unit found organizationally within LUC and LUSC that serves both regulated and unregulated entities. The LABS business unit provides shared services throughout the organization. LABS employees and functions provided from Canada are employed within LUC; LABS employees and functions located in the U.S. are typically employed within LUSC.

[11] As will be discussed further in section 5, shared services to the entire APUC organization are also provided from staff within LUSC.

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

[13] Sometimes referred to as "LABS Canada."

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 would be provided to the entire company, i.e., Liberty Power and Liberty Utilities, are internally referenced under two names - Business Services and Corporate Services. The services and functions within each category are shown in the tables below[14]. 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[15] 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
Human Resources	Number of Employees 100%	HR function is driven by number of employees. A greater number of employees requires	HR policies, payroll processing, benefits,

[15] And LUSC shared services functions.

		additional HR support	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	Oakville Employees 100%	Office space occupied by employees 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
Executive and Strategic Management	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 that is not directly attributable to any entity

Technical Services	Net Plant 33.3% Revenue 33.3% O&M 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 that is not directly attributable to any entity
Utility Planning	Net Plant 33.3% Revenue 33.3% O&M 33.3%	This function is driven by factors which reflect the scope of each affiliate Management - Revenues, Net Plant and O&M costs.	Employee labor and related administration that is not directly attributable to any entity

<u>Table 4b: Summary of Corporate Allocation Method of LUC[16] Corporate Services Indirect Costs</u>

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.	Employee labor and related administration, Software platform, fees and administration

[16] And LUSC shared services functions.

Financial Reporting, Planning 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 of a given facility drive more activity from IA.	Third party fees, employee labor and related administration and programs
External Communications	Total Employees 100%	Communications cost is directly proportional to the number of employees	Enterprise wide support and related administration
Legal Costs	Net Plant 33.3%	This function is driven by factors	Employee labor and related

	Number of Employees 33.3% O&M 33.3%	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.	administration and programs, including third party legal
Compliance	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 that is not directly attributable to any entity

5. LIBERTY UTILITIES SERVICE CORP.

This section provides an overview of some of the services (as outlined in Table 5) and the cost methodology for Liberty Utilities Service Corp. ("LUSC").

Most U.S.-based utility employees are employed by LUSC and are dedicated to serve particular utilities. All employees' labor costs, such as salaries, and associated labor costs, such as benefits, insurance etc. are to be paid by LUSC and direct charged to the company to which the employee is dedicated and performs work. Services provided by employees within LUSC to each regulated utility shall be distributed on a time sheet basis to the extent possible. In infrequent instances where time sheeting may not be possible, the allocation factors shown in Tables 4a and 4b are to be used, as will be explained below.

5.1 Shared Services from LUSC

LUSC employs some individuals who provide shared services (listed in Table 5 below). Costs distributed by LUSC will include those from shared services employees: (a) where the function benefits both Liberty Utilities and Liberty Power businesses and (b) where the function benefits some or all of the regulated utilities within Liberty Utilities (e.g., energy procurement services).

Consistent with the organizational shared services practices described earlier, shared services and costs (within LUSC) are assigned when they are directly attributable to a specific affiliate company (such as a specific distribution utility, for example) or business unit (such as Liberty Utilities or Liberty Power). Labor charges for LUSC shared services staff are assigned using timesheets that depict the amount of time that is to be direct charged to either Liberty Utilities or Liberty Power (or a specific subsidiary within Liberty Utilities or Liberty Power).

The type of U.S. shared services that benefits both Liberty Utilities and Liberty Power businesses is referred to as LABS U.S. The LABS U.S. indirect costs for services from the shared services staff and functions within LUSC that cannot be directly assigned are allocated between the regulated and unregulated business units, Liberty Utilities and Liberty Power, and are distributed in the same manner per CAM Tables 4a and 4b described for shared services staff and functions within LUC. Consistent with the practices within LUC, the costs allocated from LUSC to the regulated companies as a group (i.e. to Liberty Utilities) are then reallocated to individual utility companies within the Liberty Utilities structure using the Utility Four-Factor Methodology set forth in CAM Table 2, resulting in utility-specific allocated charges from LUSC.

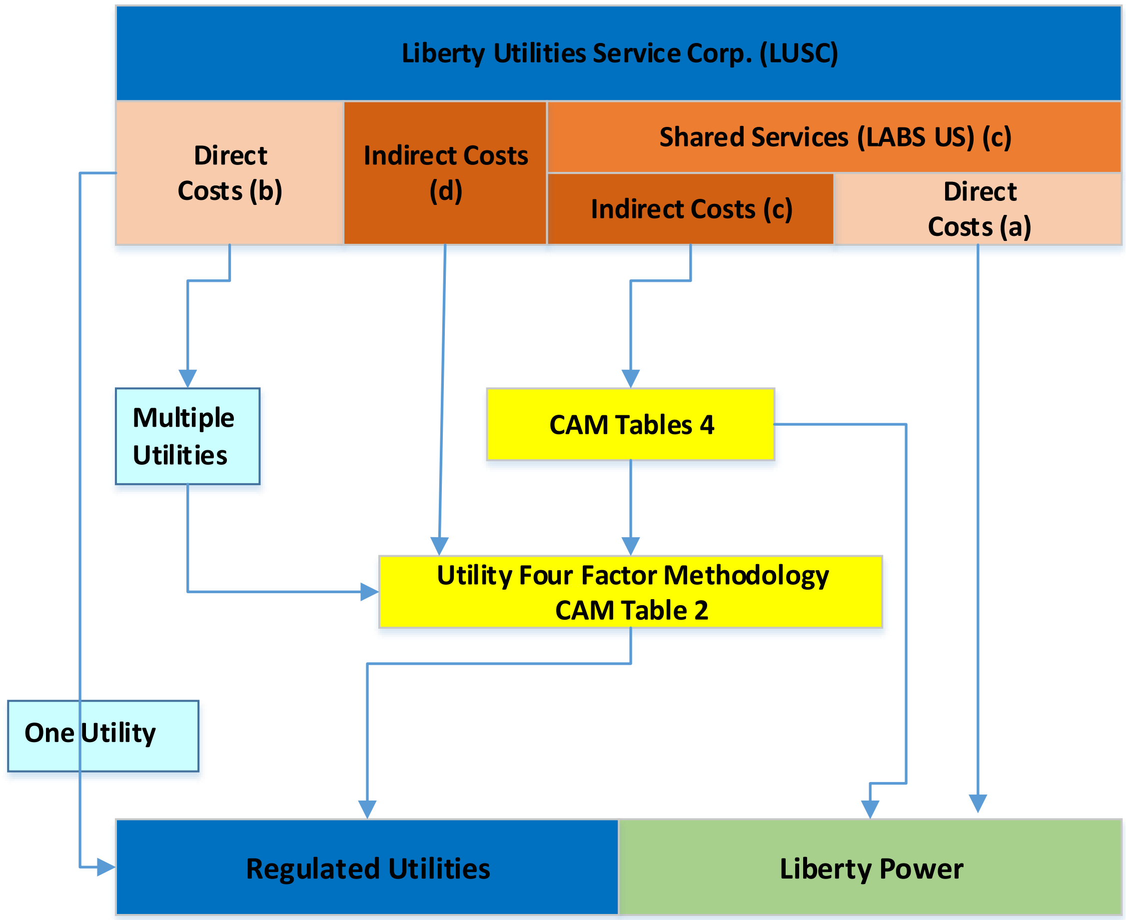
The indirect costs from the U.S. shared services that only benefit the regulated utilities are distributed using the Utility Four-Factor Methodology set forth in CAM Table 2, resulting in utility-specific allocated charges from LUSC.

Figure 5 below depicts the various flows of costs from LUCS.

Table 5 – List of Shared Services provided by Liberty Utilities Service Corp.

Customer Care and Billing
IT/Tech Support
Human Resources
Gas Control
Legal
Compliance
Regulatory & Government Relations
Environmental, Health, Safety and Security
Procurement
Operations
Engineering; Dispatch and Control
Outage Management
GIS/Mapping
Vegetation Management
Energy Procurement
Accounting and Finance
Managerial
Utility Planning
Customer Communication

Figure 5: Illustration of LUSC Cost Distributions



Notes:

(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.

The allocation methodology may 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, to the two utilities within New Hampshire. Labor costs associated with energy procurement are directly billed to the utilities requiring energy procurement services using timesheets.

6. COST DISTRIBUTION AT THE REGIONAL OR STATE UTILITY LEVEL

Within the Liberty Utilities organization, the organizational structure and reporting relationships may evolve as the organization grows and develops. Costs and services provided to the regional or state utility level from other corporate entities are directly assigned to the extent possible and distributed over the utilities within the state or region for which they are provided. Any services and costs which cannot be directly assigned will be allocated to the utilities within the region or state using the Regional Four-Factor Methodology (25% weighting for the factors of: customer count, utility net plan, non-labor expenses, and labor expenses), unless another method of allocation is legally required.

In addition, each of the regulated entities will distribute costs amongst their affiliated entities in accordance with applicable laws/rules and affiliated service agreements. These cost allocation methods are consistent with the principles of this CAM.

7. CORPORATE CAPITAL

APUC or LUC will make capital investments such as corporate headquarters, IT systems, etc. that benefit the various operating businesses. The costs of these investments may be distributed monthly in the form of an intercompany operating expense charge, that captures the depreciation expense and cost of capital associated with the particular assets, or an alternate method of capital allocation based on the particular needs of the project. All costs associated to service the investment will be allocated to Liberty Power and Liberty Utilities, if applicable, typically based on the allocation method from which 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, and all other associated costs. From time to time, the distribution of costs associated with a corporate capital investment may use an alternate method. Any corporate capital charges allocated or assigned to LUC are then reallocated to individual Liberty Utilities distribution utilities, or a sub-set of one or multiple distribution utilities, using the Utility Four-Factor Methodology set forth in CAM Table 2.

8. CAM TEAM AND TRAINING

The oversight of the CAM is the responsibility of the corporate Regulatory Department. Any updates or revisions are coordinated and completed by this Department. A CAM Team will be created consisting of trained employees to oversee the operations and management of the CAM principles throughout the organization.

The CAM, and any support material, is available to all employees via the Company intranet. Employee training on the CAM will be provided via the Company's Learning Management System.

9. AUDIT, RECORD KEEPING & AFFILIATE TRANSACTION RULES

Records of each company will be maintained such that all affiliate transactions are auditable. The records will document the cost of transactions, the methods used to distribute the costs, and descriptions of the services provided. The records will be retained for a minimum of three years or as required by law or regulation. The regulator will have access to records, consistent with applicable laws, regarding transactions between the regulated utility and its affiliates. All companies subject to affiliate transaction rules, whether state or federal, will comply with such requirements.

10. UPDATING ALLOCATIONS

Allocation percentages[17] 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. The Utility Four-Factor Methodology allocation percentages are also updated as an entity is either acquired or sold.

[17] 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.

11. 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 New York Stock Exchange ("NYSE") and the Toronto Stock Exchange ("TSX"), leading financial markets. 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 NYSE and the TSX, 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 NYSE and the TSX, 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 NYSE and the TSX 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

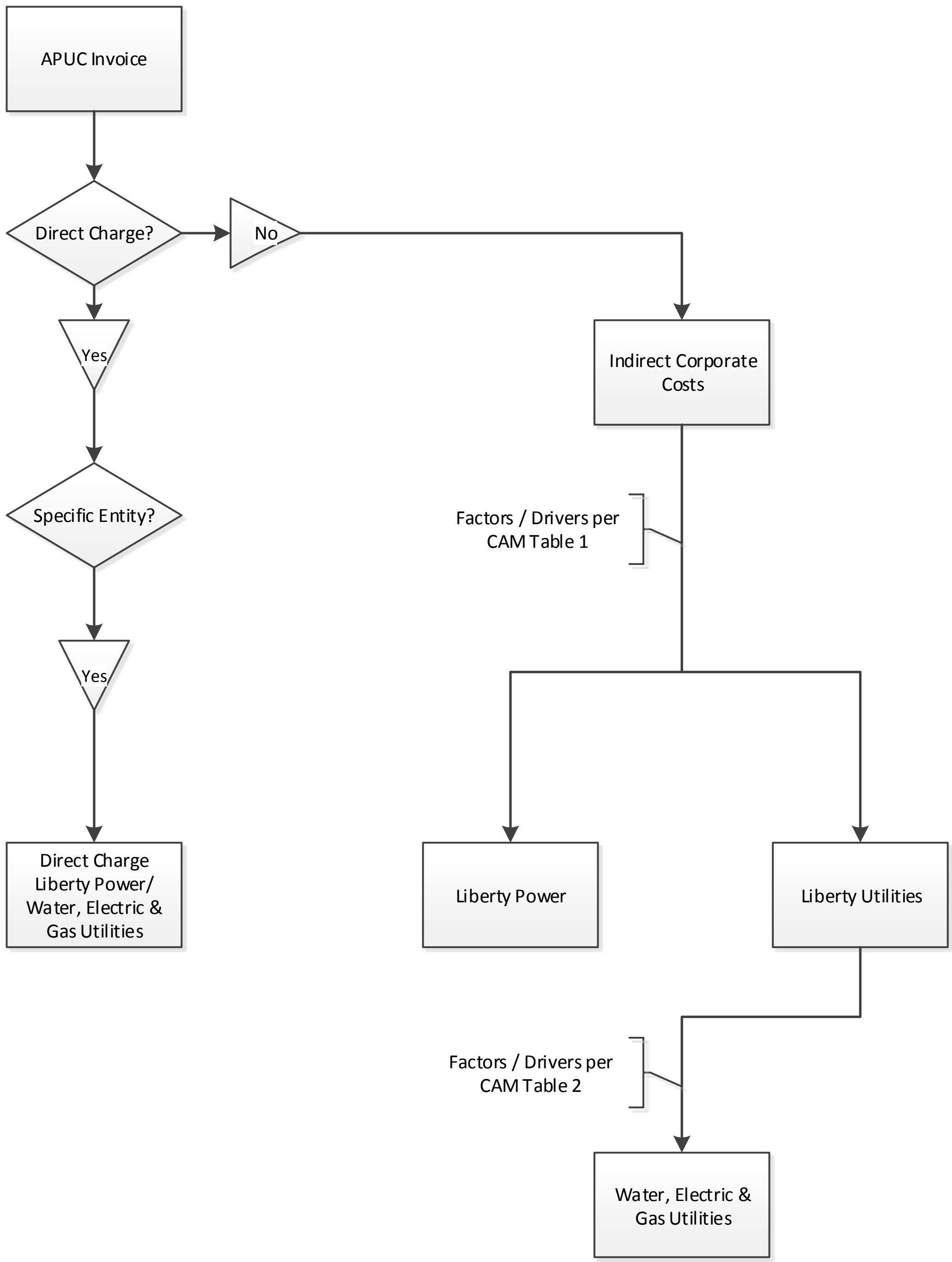
Taxes are paid on behalf of the regulated utilities at the parent level as part of a consolidated United States tax return. Tax services such as planning and filing are provided by third parties. Filing tax returns on a consolidated basis benefits each regulated utility by reducing the costs that otherwise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

4. APUC ADMINISTRATIVE COSTS

Finally, administrative costs incurred by APUC, in some cases via other corporate entities, 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 throughout the APUC organization could not perform their work and provide the necessary services to the regulated utilities. These administrative costs also include training for corporate employees.

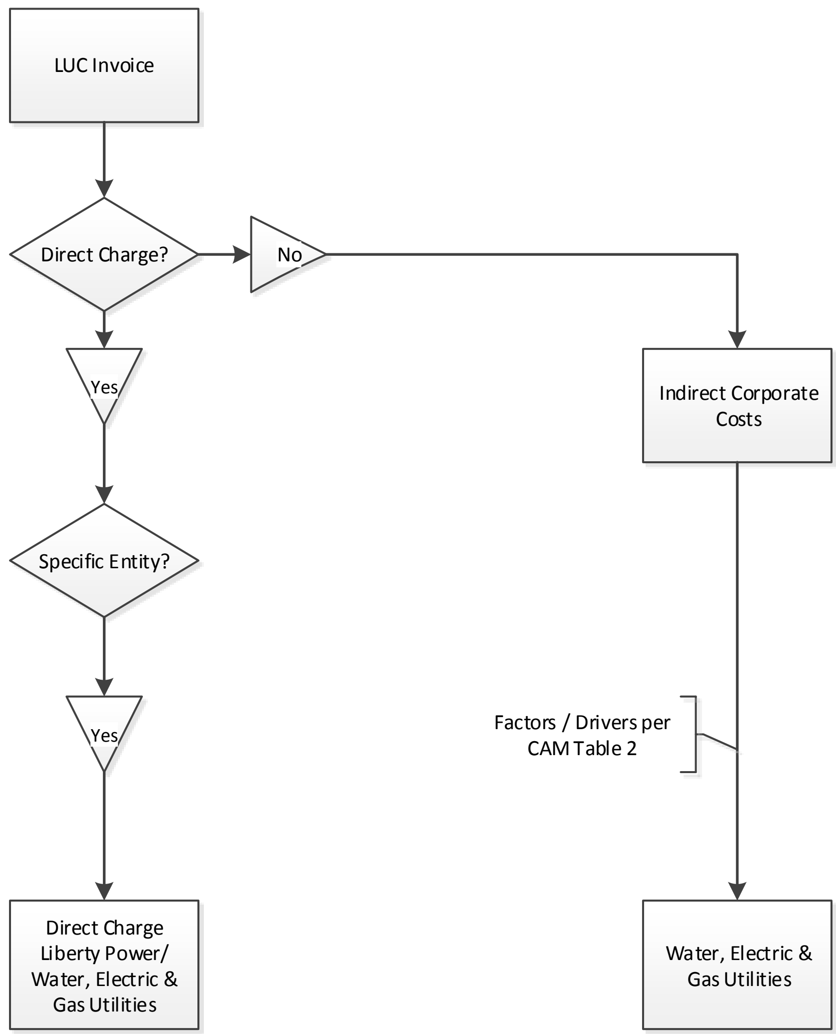
APPENDIX 3 – LIFE OF AN APUC INVOICE

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 Liberty Power and Liberty Utilities companies.



APPENDIX 4 – LIFE OF A LIBERTY UTILITIES INVOICE

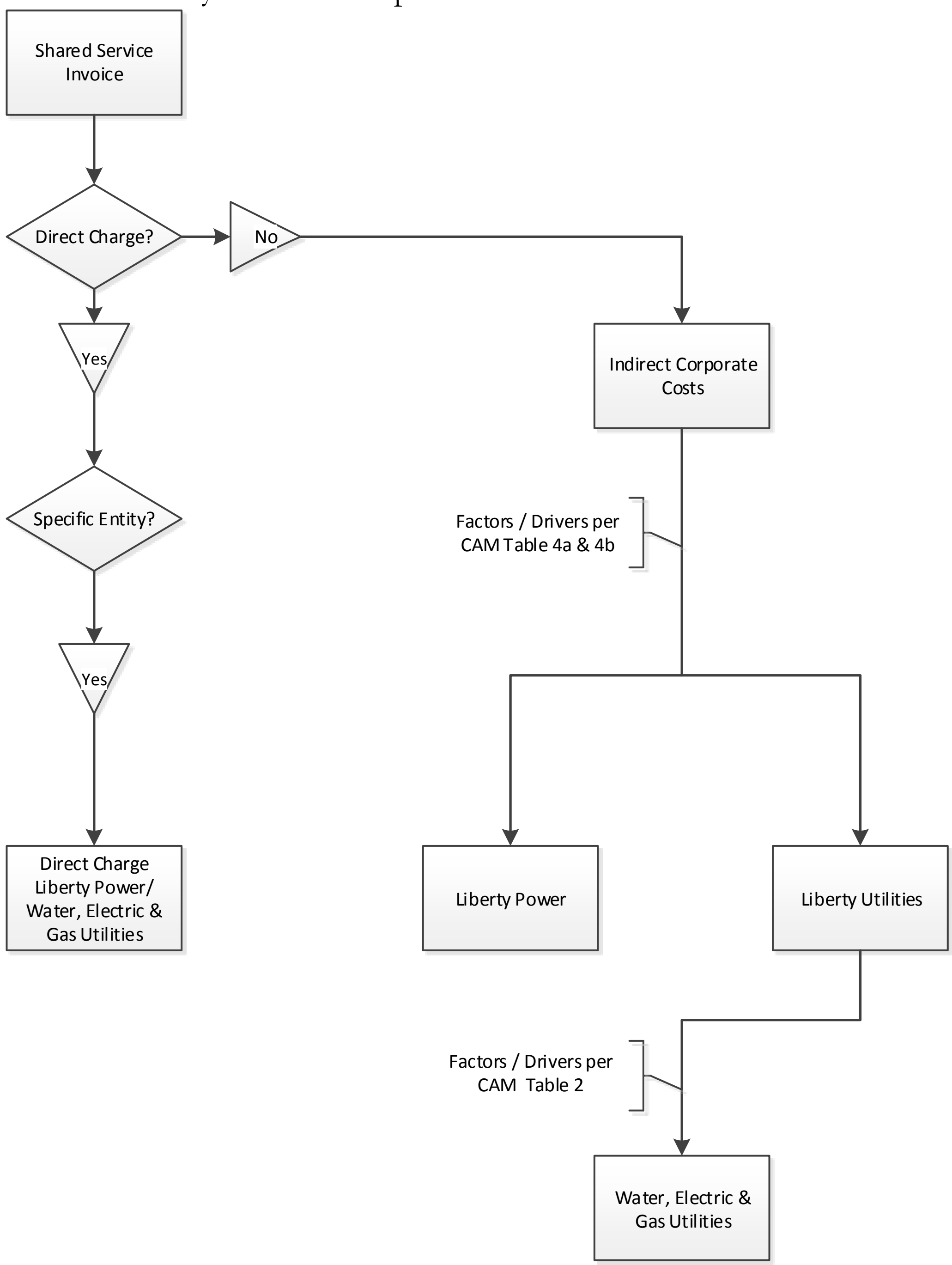
A schematic is provided below showing the trail of an invoice received by Liberty Utilities (LUC) for services to be charged to its utility subsidiaries[18]. The schematic is intended to visually explain the distribution of charges from LUC to Liberty Utilities companies.



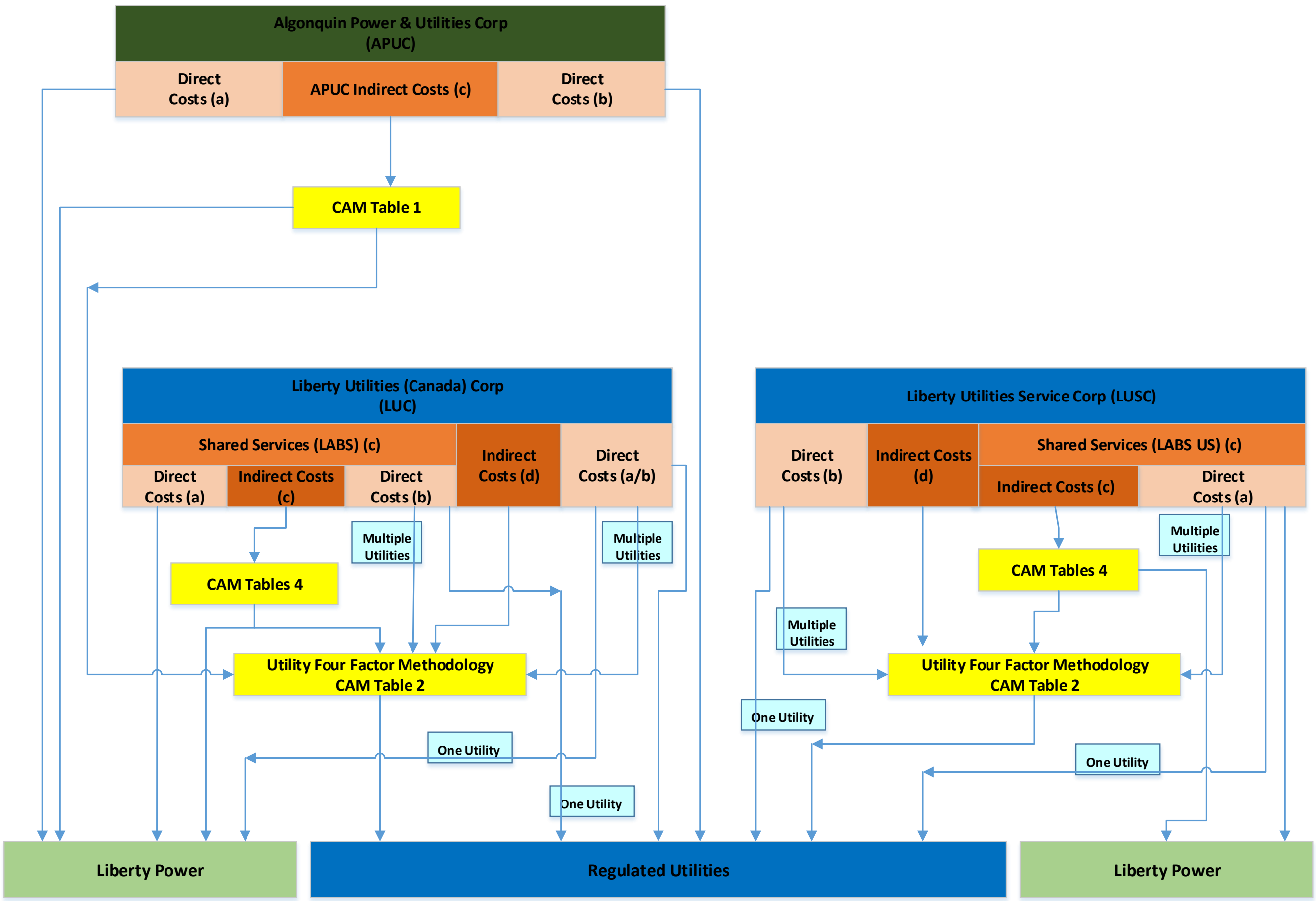
[18] This is for utility-dedicated LUC staff and services (not shared services staff).

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 or LUSC for services to be charged to affiliates and subsidiaries. The schematic is intended to visually explain the distribution of charges from shared services to Liberty Power and Liberty Utilities companies.



APPENDIX 6 – COMPOSITE ILLUSTRATION OF ORGANIZATIONAL COST DISTRIBUTION



Notes:

(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.

APPENDIX 7 – GLOSSARY OF TERMS

Algonquin Power & Utilities Corp. ("APUC")- is a publicly traded company and the ultimate corporate parent of Liberty Utilities and Liberty Power subsidiaries. It provides financial and strategic management, corporate governance, and oversight of administrative and support services to all its subsidiaries.

Algonquin Power Co. ("Liberty Power")- is a subsidiary of APUC whose primary business is in energy generation through renewal (solar and wind) sources and thermal generating facilities.

Cost Allocation Manual (CAM) – a document that explains how service company costs are assigned to affiliate companies and explains the nature of the services to be provided between affiliates.

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

Fully Distributed Cost (FDC)– means a methodology that examines all costs of an enterprise in relation to all the goods and services that are produced. FDC requires recognition of all costs incurred directly or indirectly used to produce a good or service. Costs are assigned either through a direct or allocated approach. Costs that cannot be directly assigned or indirectly allocated (e.g. general and administrative) must also be included in the FDC calculation through a general allocation.

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

Liberty Utilities Co.- is a subsidiary of APUC and the direct or indirect owner of regulated utilities.

Liberty Utilities (Canada) Corp. ("LUC") - is a subsidiary of APUC and employs Canadian-based employees.

Liberty Utilities Service Corp. ("LUSC")-is a subsidiary of APUC and employs U.S.-based distribution utility employees and those U.S. based employees providing shared services.

Liberty Algonquin Business Services ("LABS")- is a business unit with staff employed within LUC and LUSC. These employees provide shared services to both the utility and non-utility businesses within APUC.

NARUC – National Association of Regulatory Utility Commissioners.

Service Agreement – a written agreement specifying the terms and conditions upon which services are provided to and from affiliated entities.
Utility Four-Factor – is an allocation methodology used to allocate indirect costs to regulated utilities based on the following factors: Utility Net Plant, Customer Count, Non-Labor expenses, and labor expenses.

APPENDIX 8 - VERSION LOG

1. Base Year- January 1 2014
2. V2014, July 1, 2015
3. V2017, January 1 2017 (Includes April 2017 Updates)