

**LIBERTY UTILITIES (TALL TIMBERS SEWER) CORP.
LIBERTY UTILITIES (WOODMARK SEWER) CORP.**

**FREQUENTLY ASKED QUESTIONS FROM TYLER COMMUNITY
TOWN HALL MEETINGS
(October 2016)**

Thank you to all our customers who attended our two Town Hall meetings held in Tyler on October 21 and 22, 2016. Your interest and feedback is greatly appreciated. As promised in the meetings, the following are detailed answers to the questions asked during the meetings. In some cases, we have summarized multiple questions that were similar into one question.

RATE QUESTIONS

Q. Do you really want our suggestions?

A. Yes. We want to have an ongoing, two-way dialogue with our customers. Liberty Utilities organized and held Town Hall meetings to listen to our customers and understand their concerns regarding the pending rate cases. At the Town Halls, customers and other interested parties were provided with an opportunity to voice their concerns and make suggestions regarding the pending rate case. We have heard and considered your feedback and we are acting on it.

Q. Why are your rates going up?

A. The Public Utility Commission of Texas (PUC) will set rates for Liberty Tall Timbers and Liberty Woodmark based on the cost of service, which reflects expenditures needed to provide service to customers and pay operating expenses. Rates also reflect a return on capital improvements in utility plant and facilities that have been implemented and are useful in providing safe, reliable sewer service to our customers. The rate increases for Liberty Tall Timbers and Liberty Woodmark reflect increased operating expenses and significant plant improvements.

Here is a summary of plant improvements and capital projects undertaken and discussed in the rate application:

- **Woodmark Plant Expansions.** Liberty Woodmark has completed several expansions of its wastewater treatment plant from the previous 250,000 gallons per day to 363,000 gallons per day in 2014; and then to a total of 400,000 gallons per day in 2015. The prior Liberty Woodmark rate case did not account for all of these expansions.
- **Facility Improvements.** Since the last rate case, Liberty Woodmark has spent approximately \$1.8 million in capital improvements to ensure that we continue to provide safe and reliable wastewater service. Notably, we have invested approximately \$500,000 in lift station improvements. Of this amount, \$170,000 was for our Highway 69 lift station rehabilitation. Approximately \$200,000 for a “digester” at the wastewater treatment plant. These improvements included a modification of the treatment technology at the plant from a “conventional activated sludge system” to a state-of-the-art “integrated fixed film activated sludge system” (IFAS).

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- **Liberty Woodmark Current Plant Expansion.** The Texas Commission on Environmental Quality (TCEQ) has required that Liberty Woodmark expand the capacity of its wastewater treatment plant. This plant expansion is currently underway and is expected to be complete in February 2017. The project involves expanding the capacity of the plant to 700,000 gallons per day by installing a new clarifier, a new aeration basin with the IFAS media, and expanding the chlorine contact basin. We also are adding: an additional influent pump to the existing influent pump station, an influent pump station splitter box, an aeration basin process blower, a scum pumping station, and upgrading the chemical feed equipment and chemical storage, as well as other much needed items. The expected cost of this expansion is \$3.45 million.
- **Relocation of FM 2493 Force Main.** The Texas Department of Transportation is requiring the removal and relocation of our FM 2493 force main to be outside of future roadways and to avoid conflicts with expansion of the Old Jacksonville Highway. The cost of relocation is approximately \$890,000. Liberty Tall Timbers also completed hydraulic improvements to the Liberty Tall Timbers wastewater treatment plant in 2015 which was necessary to achieve compliance with TCEQ regulations. That improvement cost approximately \$440,000.
- **Liberty Tall Timbers Wastewater Treatment Plant Expansions:** Since the last rate case for Liberty Tall Timbers using a 2008 test year, we completed an expansion of the Liberty Tall Timbers wastewater treatment plant, increasing treatment capacity from 312,000 to 455,000 gallons per day. This expansion cost \$2.1 million of the approximately \$4.1 million made in capital improvements during this period.
- **Additional Projects:** Since the last rate case, Liberty Tall Timbers also has made additional upgrades, including modification of bio solids separation and balancing through the capital additions of a clarifier splitter box, ancillary pumping valves and piping improvements to re-direct the clarifier flows to the newly constructed splitter box. These improvements were necessary to maximize the treatment capability of the existing treatment plant based on diurnal flows entering the plant.
- **Re-Routing of Liberty Tall Timbers Customers:** As part of the current Woodmark plant expansion project, we are re-routing 500 Liberty Tall Timbers customers to that facility. Those customers will use 100,000 gallons per day of treatment capacity. The cost to install the additional capacity is estimated at \$500,000, compared to the approximate \$3.6 million it would have cost to expand the Liberty Tall Timbers treatment plant. The result is a savings of approximately \$3.1 million and will allow Liberty Tall Timbers to postpone a plant expansion until a future date, in turn avoiding an immediate rate increase associated with such plant expansion.

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Q. Are Liberty Tall Timbers customers both inside and outside the city limits going to be charged the same rate?

A. This question only applies to Liberty Tall Timbers customers as the City of Tyler does not have authority to set rates for Liberty Woodmark, which operates wholly outside the city. In our rate application we have requested and proposed that the PUC and the City of Tyler collectively approve equal rates for all customers of Liberty Tall Timbers (both inside and outside city limits) and Liberty Woodmark. If the city denies the application for Liberty Tall Timbers, we may appeal that decision to the PUC as we are trying to set a fair rate structure by correcting the rate disparity that exists between customers within the city and those outside. The PUC will ultimately determine the rates for customers of Liberty Tall Timbers and this may potentially include rates for customers located within the Tyler city limits.

Q. Why is there such a difference in rates from each neighborhood (\$25-72)?

A. The current rates for customers of Liberty Tall Timbers reflect final rates set in prior rate cases, which include lower rates for customers in the City of Tyler. The current rates for customers of Liberty Woodmark reflect the rates previously approved by regulators in the company's prior rate cases. In the pending rate case, Liberty Tall Timbers and Liberty Woodmark have requested and proposed that the PUC and City of Tyler collectively approve equal rates for all customers of Liberty Tall Timbers both inside and outside city limits and Liberty Woodmark.

Q. What recourse is there for the consumer regarding the rate increases when Liberty seems to be the sole service provider for sewer in the Running Meadows or other subdivisions in the Flint area?

A. All customers of Liberty Tall Timbers and Liberty Woodmark have the option to intervene in the pending rate cases and contest the proposed rate increases, including reviewing all of the company rate case filings and data, and presenting testimony and evidence at the rate hearing. Customers also may file public comments with the PUC and, if applicable, the City of Tyler regarding rate cases. Liberty Utilities encourages its customers to monitor and participate in its pending rate cases for its utilities.

Q. If the rate increase occurs, will you decrease rates after recovering costs for upgrades?

A. No. Rates are not determined or set for regulated utilities with the goal of the utility recovering the cost of utility plant. Customers pay for service, not for the property used to rent it. Put simply, regulated utility rates are set by regulators by determining a "total revenue requirement," often referred to as a "total cost of service." Utility rates are then set or adjusted to allow the utility an opportunity to achieve that total revenue requirement or total cost of service. Rates set by regulators should be sufficient to cover the utility's costs (including taxes and depreciation), plus an adequate dollar return on the capital invested by the utility in plant and facilities used in providing service to customers. For Liberty Tall Timbers and Liberty Woodmark, the future rates will depend on future costs of service as set in future rate cases.

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Q. Why was this not funded by the additional customer base?

A. All customers benefit from the capital projects and plant upgrades and improvements.

Q. What's to stop you from another increase in the next 12 months to \$200?

A. Liberty Tall Timbers and Liberty Woodmark have proposed a multi-step rate increase to avoid the need for a rate case in the near future. If the two-step rate increase is approved in this rate case, Liberty Utilities does not anticipate filing another rate case for Liberty Tall Timbers and Liberty Woodmark until future plant additions are necessary.

Q. Why could you not foresee these needed improvements to implement a slower and more gradual increase in rates?

A. Major plant upgrades and treatment plant additions cannot be done in small increments in a cost effective and efficient manner. The relocation of the force main under FM 2493 and expansion of the Woodmark treatment plant were required by Texas regulatory agencies. The PUC does not have an approved ratemaking mechanism for seeking gradual rate increases for future plant improvements before they are made and constructed, which means that improvements like the Woodmark Wastewater Treatment Plant expansion and the FM 2493 force main project result in significant rate changes because of substantial costs.

Q. Of the \$2 million for improvements, how much is to "improve" the salaries of the administrative staff?

A. Zero.

FINANCIAL QUESTIONS

Q. What are your operating expenses, what is your current return on investment and what will it be in the future?

A. In 2015, Liberty Woodmark and Liberty Tall Timbers had total operating expenses excluding income taxes of \$2,888,687 with total revenue of \$2,796,622 for negative earnings on a proposed combined rate base of approximately \$7,100,000. This amount does not include the second step capital improvements (the Woodmark Plant Expansion, hydraulic improvements and the FM2493 pipeline project). When the second step capital improvements are included, the combined rate base totals approximately \$11,900,000. In layman's terms, rate base generally consists of the value of utility property that is used and useful by a utility in providing service to customers. In turn, utilities are entitled to earn a rate of return on rate base. In the pending rate case, Liberty Woodmark and Liberty Tall Timbers seek a rate of return of 8.6%, resulting in a revenue requirement of \$3,806,414. The final approved rate of return and revenue requirement will be determined by the Public Utilities Commission.

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Q. Where does Liberty Utilities operate and who is your parent company?

A. Liberty Utilities owns and operates regulated gas, electric, water and wastewater utilities serving approximately 560,000 customers in eleven states (Arizona, Arkansas, California, Georgia, Illinois, Iowa, Massachusetts, Missouri, Montana, New Hampshire, and Texas). Algonquin Power & Utilities Corp. (“APUC”) is the parent company.

Q. What is the net profit for Liberty and your parent company (Algonquin) for the last 5 years?

A. APUC’s annual reports are available online at:
<http://investors.algonquinpower.com/FinancialDocs.aspx?iid=4142273>
Those annual reports include information for APUC and its subsidiaries including Liberty Utilities Co. and Algonquin Power Company.

Q. Usually when a business wishes to expand, they take out a loan to do so. Why do you not do this, rather than customers having to bear this burden?

A. In this rate case, Liberty Utilities proposes to use a balanced capital structure of 30% debt and 70% equity for Liberty Tall Timbers and Liberty Woodmark. We believe that capital structure is consistent with the risk of small sewer systems such as Liberty Tall Timbers and Liberty Woodmark. By adding debt to their capital structure in this rate case, Liberty Tall Timbers and Liberty Woodmark have added debt to the benefit of customers in the rate setting process.

Q. Does Liberty Utilities have any ties with Southern Utilities? Any thoughts of tying sewer to water usage?

A. Liberty Tall Timbers and Liberty Woodmark are willing to utilize a water usage approach – called volumetric rate design – to set sewer rates. Unfortunately, right now we do not have access to water usage data for our sewer customers. We have contacted Southern Utilities about sharing water usage data, and Southern Utilities may be willing to share such data with PUC approval. We also have contacted the City of Tyler about sharing water-usage data for our sewer customers receiving water service from the city.

Q. What about seniors? We are on a fixed income and will have a very hard time paying the increase.

A. Liberty Utilities is willing to propose a low income program for qualifying low income customers. We have low income programs for some of our other regulated utilities in other states. A low income program typically works by a small surcharge on the bills of other customers, and those amounts are used to reduce the rates of those who are qualified for the low income program. Any low income program is subject to review and approval by the PUC.

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OPERATIONAL QUESTIONS

Q. Concrete on Wood Hollow was broken during work done on a project in Wood Hollow. Do you plan on fixing what was broken?

A. This issue is resolved. The concrete repairs were completed during the last week of October 2016.

Q. Is there any reason we were not notified of the huge amount of utility work done on Sandstone Circle in Wood Hollow the past 2 weeks? We have over 12 school-age children on this street and you had a large amount of dangerous equipment unattended. The open man hole left was a huge concern as well.

A. In the future, we will make sure that customers are notified of such utility projects. For this project, we provided customer door tags after we became aware of the issue. We also ensure that our contractors maintain a safe work site. When we investigated, the manhole mentioned was not open, but was covered and fenced.

Q. Are the sewer trucks going in and out of Tall Timbers hauling in or out? If out, why and to where?

A. The trucks haul waste out of the Liberty Tall Timbers plant and deliver it to the Woodmark plant for processing of solids.

Q. Why can't you use hydrogen sulfide resistant cement to reduce cost?

A. Liberty Woodmark replaced, relined and sealed certain manholes that were damaged by hydrogen sulfide. These repairs utilized sulfide resistant materials.

Q. When you "upgraded" in Flint during the last month (the FM 2493 Force Main Relocation Project), why did you not notify the residents?

A. Liberty Utilities will make better efforts to notify customers in advance of major work being done in their area.

Q. If I decide to install a septic system, will Liberty seek to stop me? I am rural and have the space.

A. No.

GENERAL QUESTIONS

Q. How many customers does Liberty Tall Timbers serve?

A. 1,751.

Q. How many customers does Liberty Woodmark serve?

A. 1,734.

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Q. How many new customers have come into the Woodmark and Tall Timbers systems in the last five (5) years?

A. The following chart contains the connection count for Liberty Tall Timbers and Liberty Woodmark from 2011-2015:

Year	2011	2012	2013	2014	2015
Liberty Tall Timbers	1484	1541	1596	1691	1751
Liberty Woodmark	1582	1603	1663	1701	1734

Q. Why did you refile your rate increase without informing your customers first?

A. We did not refile our rate case. Rather, Liberty Utilities responded to an Administrative Law Judge’s order of October 4, 2016 directing Liberty Woodmark and Liberty Tall Timbers “to cure” certain “deficiencies” in the original rate case application that were identified by PUC staff. Liberty Woodmark and Liberty Tall Timbers filed “Liberty’s Response to Order No. 4” on October 17, 2016, the date required in the order.

Q. How were customers notified of the Town Hall meetings?

A. The Town Halls occurred on October 20-21, 2016. Liberty Utilities conducted significant public outreach prior to the Town Halls:

- On October 12, 2016, we published details of the Town Halls on the Tyler Texas page of our website. The event link also was included in a press release where we notified the public we requested to have the rate case suspended. That website link is <https://texas.libertyutilities.com/tyler/residential/>.
- On October 13, 2016, we issued a press release announcing our Town Hall meetings to the local media. Television news and the *Tyler Morning Telegraph* covered the announcement.
- On October 13, 2016, we also emailed the Town Hall press release to (1) Greg Morgan – Development Manager for the City of Tyler; (2) Julie Goodman – Interim Communications Manager for the City of Tyler; (3) Matt Schaffer – State Representative District 6; (4) Jeff Warr – County Commissioner Pct. 1; (5) Martin Heines – Mayor, City of Tyler; and (6) Edward Broussard – City Manager for the City of Tyler.