STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Docket No. DG 17-XXX

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities
Petition for Issuance of Long-Term Debt

DIRECT TESTIMONY

OF

MARK T. TIMPE

August 25, 2017

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I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your full name and business address.

A. My name is Mark T. Timpe. My business address is 602 S. Joplin Avenue, Joplin, Missouri.

Q. Please state by whom you are employed and your position?

A. I am employed by Liberty Utilities Service Corp., a subsidiary of Algonquin Power & Utilities Corp. ("APUC"), as the Director, Treasury, for Liberty Utilities Corp. (LUCo). LUCo is also a subsidiary of APUC and the direct or indirect owner of regulated utilities, including Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities ("EnergyNorth" or "the Company"). As Director, Treasury, I am responsible for, among other things, the day-to-day funding needs of all LUCo subsidiaries and the management of banking services.

Q. Please describe your educational background and training.

A. I received a Bachelor's degree in Business Administration from St. Louis University in 1981 and a Master of Business Administration from St. Louis University in 1985. Following an initial 11 year career in banking, I was the treasurer of a Joplin, Missouri-based truckload carrier for 15 years and director of finance for almost seven years with the successor company. In August 2014, I was hired as Director of Financial Services for The Empire District Electric Company and, in October 2014, was elected its Treasurer. I continued in that capacity until the acquisition of Empire by an affiliate of LUCo, which was effective January 1, 2017, at which time I became Director, Treasury, of LUCo. I have extensive experience in the areas of banking, finance, contract review and administration, and retirement plan investments.

II. PURPOSE AND OVERVIEW OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support EnergyNorth's request for authority to: (i) issue long-term debt in an amount not to exceed $18.2 million, which equals the amount of a maturing intercompany promissory note discussed below (the "Replacement Financing"); and (ii) to issue additional long-term debt in an amount not to exceed $69.6 million to replace existing short-term debt (the "New Debt Financing").

III. ENERGYNORTH'S EXISTING LONG-TERM DEBT

Q. Please describe EnergyNorth's existing outstanding long-term debt.

A. As shown at the top of the following page, EnergyNorth's existing outstanding long-term debt is all in the form of intercompany indebtedness previously approved by the Commission in Order No. 25,370 (May 30, 2012) in Docket No. DG 11-040. The Replacement Financing is driven by the need to re-finance the first promissory note listed on the following page, which matures later this year. As such, this request does not represent new indebtedness for EnergyNorth, but merely a refinancing of existing debt.

Borrower	Lender	Loan Amount	Interest Rate	Maturity Date
EnergyNorth	LUCo	$18,181,818.18	3.51%	12/20/17
EnergyNorth	LUCo	$41,818,181.82	4.49%	12/20/22
EnergyNorth	LUCo	$21,818,181.82	4.89%	12/20/27
EnergyNorth	LUCo	$8,181,818.18	4.89%	12/20/27

IV. RE-FINANCING EXISTING LONG-TERM DEBT

Q. What is EnergyNorth seeking regarding the Replacement Financing?

A. EnergyNorth is seeking authorization to re-finance its existing $18.2 million intercompany debt, which matures on December 20, 2017. In order to provide sufficient time to prepare all of the required documentation to enable EnergyNorth to close the transaction on or before December 20, 2017, we are seeking a Commission order approving the transaction by November 1, 2017.

Q. What is the proposed term of the Replacement Financing indebtedness?

A. EnergyNorth is proposing a 15-year maturity for the Replacement Financing indebtedness. The intercompany notes listed above were issued in December 2012 for 5-, 10-, and 15-year maturities. It is EnergyNorth's and LUCo's desire to replace the promissory note maturing December 20, 2017, with a 15-year note in order to preserve the original maturity ladder of the intercompany indebtedness approved by the Commission.

Q. How will the Replacement Financing debt be priced?

A. Following receipt of Commission approval, the interest rate for the new intercompany promissory note will be set based on the 15-year U.S. Treasury rate published by Bloomberg approximately one business day prior to closing, plus a credit spread of one hundred sixty basis points (1.60%). This credit spread is equal to the average credit spread of LUCo's 10- and 20-year private placement notes issued on March 24, 2017, its most recent debt issuance, which were issued at credit spreads of one hundred forty-five and one hundred seventy-five basis points, respectively.

V. ENERGYNORTH'S EXISTING SHORT-TERM DEBT

Q. Please describe EnergyNorth's existing short-term debt.

A. As of June 30, 2017, EnergyNorth had approximately $82,164,108 million of existing short-term debt outstanding. That short-term debt consists of notes payable to LUCo with maturities of less than one year. The debt is currently in the form of intercompany advances which bear interest at a rate of 30-day Libor plus 125 basis points, floating daily, which is the cheapest cost of funds available to LUCo under its $200 million bank credit facility.

Q. What is EnergyNorth's short-term debt limit?

A. EnergyNorth's short-term debt limit was established in Docket No. DG 06-122, and the amount is determined annually in the Winter Cost of Gas proceeding. The short-term debt limit is the sum of: (i) 30 percent of total gas costs projected for the upcoming winter period; and (ii) 20 percent of forecasted net plant for the next calendar year. In the most recent Winter Cost of Gas proceeding, the limit was set at $88,678,180, which is the sum of the fuel-related short-term debt amount of $19,066,764 and the non-fuel short-term debt amount of $69,611,416.

Q. Why does EnergyNorth incur short-term debt?

A. EnergyNorth incurs short-term debt to provide funds for purchasing fuel and to provide funds for ongoing construction needs such as Cast Iron/Bare Steel replacement, distribution system growth, and system upgrades.

VI. REFINACING EXISTING SHORT-TERM DEBT

Q. What is EnergyNorth seeking regarding the New Debt Financing?

A. EnergyNorth is seeking authority to issue up to $69.6 million of long-term debt which will be used to replace a corresponding amount of short-term debt. The debt will be issued by LUCo.

Q. What is the proposed term of the New Debt Financing indebtedness?

A. As in the case of the Replacement Financing, the New Debt Financing will have a 15-year maturity.

Q. How will the New Debt Financing be priced?

A. As with the Replacement Financing, pricing for the New Debt Financing will be set, upon receipt of Commission approval, based on the then current 15-year U.S. Treasury rate published by Bloomberg approximately one business day prior to closing, plus a credit spread of one hundred sixty basis points (1.60%). This credit spread is equal to the average credit spread of LUCo's 10- and 20-year private placement notes issued on March 24, 2017, which were one hundred forty-five and one hundred seventy-five basis points, respectively.

Q. Why is EnergyNorth proposing to replace only approximately $69.6 million of short-term debt when it has over $80 million of short-term debt currently outstanding?

A. EnergyNorth is seeking to replace only that portion of its short-term debt that is primarily related to construction activities, since those activities involve investment in long-lived assets. The remainder of the short-term debt is used for fuel financing, the cost of which is recovered from customers over a relatively short time period through the Cost of Gas adjustment.

Q. What impact will issuance of New Debt Financing have on EnergyNorth's debt ratio?

A. While there will be no impact on EnergyNorth's total debt as a result of the requested transactions which merely replace short-term debt with long-term debt, there will be an impact on net income resulting from the added interest cost and amortization of the debt issuance fee which in turn lowers EnergyNorth's project retained earnings. However, as shown in the Form-4, the impact on EnergyNorth's debt ratio is quite small (50.8% proforma vs. 50.5% existing). EnergyNorth is targeting a debt ratio of approximately 50%, which is a reasonable debt ratio for gas utilities.

Q. In view of EnergyNorth's existing short-term borrowing limit of $88.9 million, how will EnergyNorth continue to remain at or below this limit if the Commission's order isn't issued promptly?

A. While we are requesting prompt Commission action on this request, in the event that EnergyNorth would otherwise exceed its short-term borrowing limit, there would be a capital infusion from its parent, Liberty Utilities New Hampshire Corp. that would be used to repay a portion of the outstanding short-term debt, thus keeping EnergyNorth below the short-term debt limit.

VII. SUPPORTING SCHEDULES AND DOCUMENTATION

Q. Have you prepared a statement showing the estimated cost of the financings?

A. Yes, I have. The estimated cost of the financings is shown on Exhibit 1 to Form F-4. Form F-4 is included as Attachment MTT-1, which shows that the estimated cost of the financings is $90,909.09 for the re-financing of its maturing LUCo promissory note and $348,000 for the replacement of short-term debt with long-term debt (assuming the entire $69.6 million is converted to long-term debt. For ease of review, I have combined the effect of both the Replacement Financing and the New Debt Financing into the schedules shown in Form F-4. As shown on Form F-4, the costs include issuance fees of fifty basis points for each issuance, which is the identical fee rate paid by LUCo to issue its most recent series of private placement notes, totaling $750 million, on March 24, 2017 (see Attachment MTT-2 for copies of invoices evidencing this fee rate). This fee level is appropriately included here because a portion of the proceeds from this recent private placement was used by LUCo to repay an existing $50 million private placement issued in 2012, a portion of which was lent by LUCo to EnergyNorth in the form of the promissory note maturing December 20, 2017 (see the 3.51% $18,181,818.18 loan listed in Section III above, which was previously approved by the Commission).

Q. Will there be any costs associated with the proposed financings?

A. The only costs associated with the issuance of the Replacement Financing and the New Debt Financing are the above noted issuance fees, since the funds will be loaned by LUCo.

Q. Have you prepared a balance sheet showing the effect of the transactions?

A. Yes. The balance sheet is in Exhibit 3 of Form F-4. I note that because the Replacement Financing will simply replace an equal amount of existing debt, the change to EnergyNorth's balance sheet is almost entirely attributable to the New Debt Financing. The maturity of the existing debt, the reduction of short-term debt, the issuance of the Replacement Financing debt, and the issuance of the New Debt Financing debt will be evidenced by internal accounting entries between EnergyNorth and LUCo.

Q. Have you prepared an income statement showing the effect of the transactions?

A. Yes. The income statement is in Exhibit 4 of Form F-4.

Q. What other information are you providing in support of EnergyNorth's requests?

A. We are providing a statement of capitalization (Exhibit 5 of Form F-4) and the weighted average cost of debt before and after the financings (Exhibit 6 of Form F-4). The statement of capitalization shows the effect on EnergyNorth's capitalization of the issuance of the New Debt Financing. The pro forma weighted average cost of debt is based on an indicative all-in interest rate of 4.12% (15-year U.S. Treasury rate of 2.52% as of June 30, 2017, plus 160 basis points) on both the Replacement Financing and the New Debt Financing as compared to the rate of 3.51% on the existing long-term debt ($18,181,818.18) and 2.50% on the intercompany advances ($82,164,108) (as of June 30, 2017).

Q. Why is the assumed interest rate higher than the interest rate on existing debt?

A. The indicative interest rate on the Replacement Financing is higher than the existing 3.51% note rate for two reasons. First, interest rates are higher now than they were when the original debt was issued. Second, in order to maintain the debt maturity ladder previously approved by the Commission (e.g. having debt maturing at 5, 10, and 15 years), we are replacing a Note with an original 5-year term with a new 15-year Note. The New Debt Financing will also have a 15-year term. Interest rates for longer term notes are normally higher than interest rates for shorter term notes. For the Replacement Financing, the higher prevailing interest rate is partially offset by LUCo's lower credit spread today than in 2012.

The table below is provided for illustrative purposes only but it shows the increase in the level of interest rates experienced by LUCo for its May 2012 and March 2017 private placements.

US Treasury Rates	**5-year**	**10-year**	**15-year ***
May 2012	0.76%	1.74%	1.74%
March 2017	1.95%	2.49%	*2.64%*
Credit Spreads	**5-year**	**10-year**	**15-year ***
May 2012	2.75%	2.75%	3.15%
March 2017	1.35%	1.45%	*1.60%*
All-in Debt Issuance Rate	**5-year**	**10-year**	**15-year ***
May 2012	3.51%	4.49%	4.89%
March 2017	3.30%	3.94%	*4.24%*

* *As previously noted, LUCo did not issue 15-year debt In March 2017; therefore the rates shown in the 15-year column for March 2017 are the arithmetic averages for the 10 and 20-year debt it did issue.*

Q. What is the estimated interest rate that the notes would carry based on today's rates?

A. As of June 30, 2017, the yield on the 15-year U.S. Treasury bond was 2.52%. Adding the 160 basis point credit spread noted above yields an all-in promissory note rate of 4.12%. This rate is subject to change as the rate for the proposed financings will not be set until a business day or two before the closing. If the issuances close on different dates, they could have slightly different loan interest rates. Credit markets in the U.S. may change such that the ultimate promissory note rates are higher or lower than the maturing promissory note and the indicative rate noted above. However, it is important to note that, due to the improvement in LUCo's credit standing, as evidenced by the lower credit spreads for each of the 5-, 10-, and 15-year time periods noted above, the all-in interest rate for 15-year financing may be significantly less than the 15-year financing issued in 2012 even though U.S. Treasury rates have risen substantially since then.

Q. Is this the most cost effective approach to refinancing the existing debt and to issuing new debt to replace short-term debt?

A. Yes. Given the long-term nature of EnergyNorth's assets, maintaining the originally approved debt maturity ladder, which utilized 5-, 10-, and 15-year tranches, is an appropriate financing structure to maintain. Additionally, since the short-term debt that we are seeking to replace was issued primarily to fund construction activities, it is logical to replace that short-term debt with long-term debt that will be outstanding for a longer time period to more closely match the maturity of the debt with the lives of the assets. Therefore, we have requested to replace the maturing note with a 15-year note and to issue a 15-year note for the New Debt Financing in order to have tranches of debt outstanding that mature in 5, 10, and 15 years.

Q. Please summarize your request to the Commission.

A. EnergyNorth requests that the Commission issue an order by November 1, 2017, authorizing EnergyNorth to issue $18,181,818.18 in new debt for the purpose of re-financing its existing intercompany debt maturing December 20, 2017. EnergyNorth also requests that the Commission's order include authorization for EnergyNorth to issue up to $69.6 million in new long-term debt to replace a corresponding amount of existing short-term debt.

Q. Does this conclude your testimony?

A. Yes, it does.