STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Docket No. DE 17-XXX

Liberty Utilities (Granite State Electric) 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 (Granite State Electric) Corp. d/b/a Liberty Utilities ("Granite State" 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 Granite State's request for authority to issue long-term debt in an amount not to exceed $3.44 million, which equals the amount of a maturing intercompany promissory note discussed below (the "Replacement Financing").

III. GRANITE STATE'S EXISTING LONG-TERM DEBT

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

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

Borrower	Lender	Loan Amount	Interest Rate	Maturity Date
Granite State	LUCo	$3,434,343.43	3.51%	12/20/17
Granite State	LUCo	$7,898,989.90	4.49%	12/20/22
Granite State	LUCo	$4,121,212.12	4.89%	12/20/27
Granite State	LUCo	$1,545,454.55	4.89%	12/20/27

IV. RE-FINANCING EXISTING LONG-TERM DEBT

Q. What is Granite State seeking regarding the Replacement Financing?

A. Granite State is seeking authorization to re-finance its existing $3,434,343.43 of intercompany debt, which matures on December 20, 2017. In order to provide sufficient time to prepare all of the required documentation to enable Granite State 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. Granite State 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 Granite State'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. 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 $17,172 for the re-financing of the maturing LUCo promissory note. As shown on Exhibit 1 to Form F-4, the costs includes an issuance fee of fifty basis points for replacement debt 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 Granite State in the form of the promissory note maturing December 20, 2017 (see the 3.51% $3,434,343.43 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 is 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, there is no change in Granite State's total debt. However, there will be a small decrease of $13,257 (tax adjusted) in Granite State's projected retained earnings resulting from the slightly higher projected rate of interest on the replacement debt and the annual amortization of the debt issuance fee. The maturity of the existing debt and the issuance of the Replacement Financing debt will be evidenced by internal accounting entries between Granite State 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 Granite State'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 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) for the Replacement Financing as compared to the rate of 3.51% on the existing long-term debt ($3,434,343.43).

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. Interest rates for longer term notes are normally higher than interest rates for shorter term notes. However, 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%*

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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 Replacement Financing 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. Credit markets in the U.S. may change such that the ultimate promissory note rate is 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 US 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 Granite State's assets, maintaining the originally approved debt maturity ladder, which utilized 5-, 10-, and 15-year tranches, is an appropriate financing structure to maintain. Therefore, we have requested to replace the maturing note with a 15-year note 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. Granite State requests that the Commission issue an order by November 1, 2017, authorizing Granite State to issue $3,434,343.43 in new debt for the purpose of re-financing its existing intercompany debt maturing December 20, 2017.

Q. Does this conclude your testimony?

A. Yes, it does.