STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

DG 11-040

In the Matter of:
National Grid USA et al. and Liberty Energy Utilities Co. et al.
Joint Petition for Authority to Transfer Ownership of Granite State Electric Company and EnergyNorth Natural Gas, Inc. to Liberty Energy Utilities Corp.

Direct Testimony

of

Steven E. Mullen
Assistant Director – Electric Division

April 10, 2012

I. Introduction and Summary

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

A. My name is Steven E. Mullen. I am employed by the New Hampshire Public Utilities Commission as Assistant Director of the Electric Division. My business address is 21 South Fruit Street, Suite 10, Concord, New Hampshire.

Q. Have you previously testified before this Commission?

A. Yes. I have testified before the Commission on numerous occasions.

Q. Did you previously submit testimony in this proceeding?

A. Yes. I filed testimony, along with other Commission Staff witnesses, on October 7, 2011.

Q. Please summarize your educational background and work experience.

A. My background and work experience were provided in that earlier testimony, so I have not duplicated the information here.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide an update of certain issues pertaining to the settlement agreement before the Commission, particularly issues related to financing the proposed stock transfer transactions[1] as well as ongoing short-term debt requirements, that were raised in my initial testimony. In addition, I will also provide some brief comments regarding the settlement agreement.

[1] The stock transfer transactions referred to are the proposed ownership transfer of Granite State Electric Company (Granite State) from National Grid USA and EnergyNorth Natural Gas, Inc. (EnergyNorth) from National Grid NE Holdings 2 LLC to Liberty Energy Utilities (New Hampshire) Corp. (Liberty Energy NH). Throughout the remainder of my testimony, "Liberty" is used in a generic manner to refer to companies within the Algonquin/Liberty family of companies unless otherwise specifically identified.

Q. Have the plans for financing the stock transfer transaction changed since the filing of your original testimony?

A. No. Liberty still plans to finance the transactions using a combination of debt and equity that will result in a capital structure comprised of 55% equity and 45% debt.

Q. Has any additional information been filed with respect to the proposed long-term debt financing since the initial filing?

A. Yes. On March 14, 2012, Liberty filed two technical statements—one for Granite State and one for EnergyNorth—providing support along with additional detailed information related to the requested approval of the issuance of long-term debt. That filing was supplemented by an April 2, 2012 letter providing a technical correction to the March 14 filing, along with further details concerning the expected interest rate and maturity of the proposed debt.[2]

Q. Are the terms and conditions of the proposed long-term debt issuance described in those recent filings consistent with the terms and conditions previously discussed with Liberty and described in your October 7, 2011 testimony?

A. Yes. In my original testimony, I stated that Liberty was targeting a 10-year maturity. That testimony also included indicative pricing provided by Liberty over various debt maturities as follows:

Maturity	5 yrs	7 yrs	10 yrs	12 yrs	15 yrs
Yield Range	3.07–3.57%	3.71–4.21%	4.43–4.93%	4.58–5.08%	4.83–5.33%

Although the final terms and conditions will not be known until closing, in its April 2, 2012 letter, Liberty stated that "the interest rate on the long term debt is expected to be between 275 and 350 basis points over the yield for 10-year U.S. Treasury bonds, which

[2] The March 14 and April 2, 2012 filings will be entered as exhibits during the hearing in this proceeding.

would result in an all-in interest rate of between 4.75% and 5.50%." Further, Liberty indicated that "[t]he Final decision regarding the maturity term will also be determined at the time of pricing of the debt, but is expected to be between ten years and fifteen years (and possibly longer), with a preference for a longer term given the historically low interest environment that currently exists." As shown in the table above, the range of interest rates recently provided by Liberty are consistent with those provided at the time of filing my original testimony.

Q. Will Granite State and EnergyNorth be the issuers of the debt?

A. No. The debt will be issued by Liberty Utilities Co., the entity in the corporate family that conducts the regulated utility business, and assigned to Granite State and EnergyNorth. Granite State and EnergyNorth will then repay the debt to Liberty Utilities Co. pursuant to promissory notes that reflect the terms and conditions of the original debt issuance.[3]

Q. What amounts of long-term debt are expected to be assigned to Granite State and EnergyNorth?

A. As detailed in the technical statements of David Bronicheski, the Chief Financial Officer of Algonquin Power and Utilities Corp., that were included in the March 14, 2012 filing, the amounts of debt assigned to Granite State and EnergyNorth will be consistent with the plan to capitalize each company with 45% debt. Translating that to dollars, Granite State and EnergyNorth will issue promissory notes to Liberty Utilities Co. in amounts up to $20 million and $90 million, respectively.

Q. Are you aware of any changes to the long-term debt financing plans or the overall plans for financing the stock transfer transactions that would cause you to change

[3] Draft versions of the promissory notes were included in Liberty's March 14, 2012 filing.

the opinion expressed in your original testimony that Liberty's plan is "reasonable in structure"?

A. No. The structure of the plan has not changed, and the resulting capital structures of Granite State and EnergyNorth will still be comprised of 55% equity and 45% debt consistent with the plan as originally described.

Q. Taking into account the comments in your original testimony as well as this supplemental testimony, what is your recommendation with respect to Liberty's proposed issuance of long-term debt?

A. I recommend that the proposed issuance of long-term debt for Granite State and EnergyNorth be approved.

Q. Did Liberty request waivers of any filing requirements with respect to the long-term debt?

A. Yes. In its March 14, 2012 filing, Liberty requested waivers of Puc 308.12(b), Puc 308.12(c)(5) and (6) which apply to electric utilities, and Puc 509.03(b) and Puc 509.03(b)(10) which apply to gas utilities. Puc 308.12(b) and Puc 509.03(b) both require information listed in those sections to be provided on "form F-4." While Liberty has provided the required information, its request to waive these two rules is really one of form over substance as Liberty is simply requesting waiver of the use a form F-4.

Puc 308.12(c)(5) and Puc 509.03(b)(10) relate to the provision of a resolution of the board of directors authorizing the proposed financing. As explained by Liberty,

> The board of directors resolution is not being provided at this time because a resolution authorizing the loan transaction cannot be obtained until the change in Granite State's [and EnergyNorth's] ownership has occurred and a new board of directors has been installed by Liberty Energy NH, the

new parent company.[4]

Further, "...the purpose of the rules will be satisfied by...the submission of the relevant board of directors resolutions promptly after consummation of the loan transactions."[5]

Puc 308.12(c)(6)—applicable to Granite State—requires "a statement of capitalization ratios after giving effect to the proposed financing, including 3 years of history and 3 years of forecast data."[6] While Liberty has provided "before and after" capitalization ratios, it has not provided the multi-year historical and forecast data, stating that "the sole purpose of the debt issuance is to modify the current debt/equity ratio, rather than to finance additions to rate base or for other purposes."[7] Having reviewed the waiver request, I view it as reasonable and recommend that it be approved with respect to each of the rules for which a waiver was requested.

Q. Regarding the availability of short-term debt to Granite State and EnergyNorth, what were the concerns expressed in your original testimony?

A. Based on Liberty's plans at the time I filed that testimony, I was concerned that the then-proposed short-term credit facility of $60 million could prove to be insufficient—or funds could be unavailable—to serve the short-term credit needs of Granite State and EnergyNorth due to both the size of the facility and the fact that any current or future

[4] March 14, 2012 filing at 2.
[5] Id. at 3.
[6] It should be noted that the respective rule applicable to gas utilities regarding the provision of capitalization ratios, Puc 509.03(b)(6), does not contain the "including 3 years of history and 3 years of forecast data" language.
[7] March 14, 2012 filing at 2.

Liberty affiliate could draw upon the facility on an unlimited basis.

Q. How has Liberty addressed your concerns?

A. On January 18, 2012, Algonquin Power & Utilities Corp, the parent of Liberty, executed a short-term credit facility with a higher ultimate credit limit of $80 million.[8] In addition, the settlement agreement in this proceeding guarantees minimum levels of funds from that facility that will be specifically available for the needs of Granite State and EnergyNorth[9], thereby ensuring that those funds could not be drawn upon by other Liberty affiliates.

Q. Has the short-term credit facility been amended since it was executed on January 18th?

A. Yes. On March 30, 2012, an amendment was executed that would expand the credit limit to $100 million upon Liberty's completion of its acquisition of certain gas distribution assets of the Atmos Energy Corporation in Iowa, Illinois and Missouri.

Q. Would that amendment have any detrimental impact to the amount of short-term debt available to Granite State and EnergyNorth?

A. No, in fact it could be beneficial. The guaranteed minimum levels of available short-term debt funding established in the settlement agreement would remain intact. In addition, the incremental $20 million would increase the pool of available funds upon which Granite State and EnergyNorth could draw if needed.

Q. Does the Commission need to approve the short-term credit facility?

A. No. Liberty is not requesting any short-term debt borrowing authority for either Granite

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[8] See copy of January 19, 2012 press release included as Attachment SEM-1.
[9] See, Settlement Agreement, Section V.D.6.

State or EnergyNorth in excess of the authority that currently exists either through rule[10] or order.[11] Additional information regarding the existing short-term debt limits was provided on page 21 of my October 7, 2011 testimony.

Q. Turning to the settlement agreement, could you provide a brief description as well as some general comments regarding the goals and accomplishments of the agreement?

A. Yes. As is clear from a review of the testimony filed by Staff and its consultants earlier in this proceeding, Staff had a number of concerns regarding the proposed stock transfers and its position at that time was that the transfers of Granite State and EnergyNorth should not be approved as filed. Related to those identified areas of concern, Staff put forth numerous recommendations that would improve the opportunity for both short term and long term success of the transfers with respect to financial, technical, managerial, customer service and safety considerations, among others. The procedural schedule has been quite lengthy in this proceeding and was expanded more than once, requiring patience of all involved. However, such expansions of the schedule were necessary to fully explore the multitude of aspects of the proposed transfers and arrive at a settlement agreement.

In order to address Staff's original concerns as well as the concerns raised by other parties, the settlement agreement contains many mechanisms and requirements that apply not only to the acquiring company (Liberty) but also to the current owner (National Grid). Those mechanisms and requirements include:

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[10] See Puc 307.05 for Granite State.
[11] See Order No. 24,824 (February 29, 2008) in Docket No. DG 06-122 for EnergyNorth.

- Reporting requirements covering both Liberty and National Grid;
- No recovery of the acquisition premium, transaction or transition costs;
- A rate case stay-out period for EnergyNorth;
- Limitations on the recovery of rate case expenses in the first rate base following closing for both Granite State and EnergyNorth;
- Many commitments regarding information technology (IT) development, migration and testing processes, including a limitation on the recovery of IT capital costs;
- Customer service and safety metrics and reporting requirements applicable as part of the transition process;
- Maintenance of certain low-income initiatives;
- Safety commitments;
- Operational commitments;
- Financial commitments; and
- A $28.5 million multi-tiered escrow arrangement designed to help ensure an orderly transition period, adherence to prescribed performance metrics, and continued commitment to the transition by National Grid both during and after the transition period.

The mechanisms and requirements highlighted above are designed not only to help ensure a successful transfer and transition, but also to provide continued success in the future. In addition, Staff has worked hard to develop procedures for monitoring the commitments of both Liberty and National Grid in providing for a successful transition. While no transfer of utility franchises is without its risks, Staff believes that the risks it identified in its original testimony have been sufficiently addressed by the many provisions of this settlement agreement.

Q. In light of your comments above, what is Staff's recommendation regarding the settlement agreement?

A. Staff recommends the Commission approve the settlement agreement.

Q. Does this conclude your testimony?

A. Yes, it does.