

Exhibit No.: 43P  
Issue: Financing  
Witness: Mark T. Timpe  
Type of Exhibit: Rebuttal Testimony  
Sponsoring Party: The Empire District  
Electric Company  
Case No. ER-2019-0374  
Date Testimony Prepared: March 2020

**Before the Public Service Commission  
of the State of Missouri**

**REBUTTAL TESTIMONY**

**of**

**MARK T. TIMPE**

**on behalf of**

**The Empire District Electric Company  
a Liberty Utilities Company**

**\*\* Denotes Confidential \*\***

**20 CSR 4240-2.135(4)**

**March 2020**



**PUBLIC VERSION**

**REBUTTAL TESTIMONY  
OF  
MARK T. TIMPE  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. ER-2019-0374**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by Liberty Utilities Service Corp., as the Director, Treasury for Liberty  
6 Utilities Co. (“LUCo”). I am responsible for, among other things, the day to day funding  
7 needs of all LUCo subsidiaries and management of banking services. LUCo is an indirect  
8 subsidiary of Algonquin Power & Utilities Corp. (“APUC”) and the direct or indirect  
9 owner of various regulated utilities, including The Empire District Electric Company  
10 (“Liberty-Empire” or “Company”).

11 **Q. PLEASE PROVIDE A BRIEF OVERVIEW OF YOUR EXPERIENCE AND**  
12 **EDUCATION.**

13 A. I received a bachelor’s degree in Business Administration from St. Louis University in  
14 1981 and a Master of Business Administration from St. Louis University in 1985.  
15 Following an initial 11-year career in banking, I was the treasurer of a Joplin Missouri-  
16 based truckload carrier, Contract Freighters, Inc., for 15 years and director of finance for  
17 approximately seven years with the successor company, Con-way, Truckload, Inc. In  
18 August 2014, I was hired as Director of Financial Services for The Empire District

1 Electric Company and in October 2014 was elected its Treasurer. I continued in that  
2 capacity until the acquisition of Empire by an affiliate of LUCo, which was effective  
3 January 1, 2017, at which time I became Director, Treasury of LUCo. I have extensive  
4 experience in the areas of banking and finance.

5 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN ANY UTILITY REGULATORY**  
6 **PROCEEDINGS?**

7 A. Yes. I have provided direct testimony supporting LUCo's money pool applications in  
8 Missouri, Massachusetts and Illinois. I have also provided direct testimony before the  
9 New York Public Service Commission on the issuance of long-term indebtedness in the  
10 acquisition docket involving Liberty Utilities (St. Lawrence Gas) Corp.

11 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**  
12 **MATTER BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION**  
13 **(“COMMISSION”)?**

14 A. The purpose of my testimony is to rebut several allegations made by Office of the Public  
15 Counsel (“OPC”) witness Robert Schallenberg in his Direct Testimony in this matter  
16 dated January 15, 2020.

17 **Q. WHICH PARTS OF MR. SCHALLENBERG’S TESTIMONY ARE YOU**  
18 **REBUTTING?**

19 A. I am providing rebuttal testimony regarding the portions of Mr. Schallenberg’s testimony  
20 that critiques the financing arrangement between the Company and LUCo. As I will  
21 explain further in my testimony, the Company actually benefitted from this transaction,  
22 contrary to Mr. Schallenberg’s criticism.

23 **Q. WHAT IS THE NATURE OF MR. SCHALLENBERG’S CRITICISM?**

1 A. On page 11 of his Direct Testimony, beginning at line 14, Mr. Schallenberg makes  
2 reference to a financing Liberty-Empire received from LUCo on June 1, 2018 in the  
3 amount of \$90 million, which LUCo funded under its bank credit facility. He states that  
4 “LUCo used short-term debt financing to replace EDE’s long-term debt. EDE had the  
5 capability to execute LUCo’s short-term debt financing on better terms than LUCo since  
6 EDE had the ability to get commercial (“*paper*” – *word missing*) financing with a lower  
7 interest cost, which was not available to LUCo and its credit facility at this time.”

8 **Q. DO YOU AGREE WITH MR. SCHALLENBERG’S ASSESSMENT OF THIS**  
9 **TRANSACTION?**

10 A. No. Mr. Schallenberg ignores the purpose and essence of the \$90 million financing  
11 transaction whose goal was to provide Liberty-Empire with replacement long-term  
12 financing. The suggestion that Liberty-Empire should finance the maturing \$90 million  
13 bond with short-term commercial paper financing is flawed since it would ignore the  
14 basic financing principle of matching long-lived assets with long-term debt. Utilizing  
15 short-term commercial paper funding to replace Liberty-Empire’s \$90 million of long-  
16 term debt would expose Liberty-Empire and its customers to fluctuating interest rates and  
17 would not protect customers from increased expense should interest rates return to  
18 historical norms.

19 **Q. ARE LIBERTY-EMPIRE’S CUSTOMERS AT RISK AS A RESULT OF THE \$90**  
20 **MILLION FINANCING PROVIDED BY LUCO?**

21 A. No. Liberty-Empire received necessary long-term financing in the form of a 15-year  
22 fixed rate promissory note which provides cost certainty for its customers.

1 **Q. IS LUCO AT RISK BY PROVIDING LIBERTY-EMPIRE WITH THE \$90**  
2 **MILLION 15-YEAR FIXED RATE FINANCING?**

3 A. Yes. LUCo bears all of the risk of any increase in long-term interest rates until such time  
4 as it issues its own long-term debt to refinance its short-term borrowings which provides  
5 interim funding for the Liberty-Empire loan.

6 **Q. WHY WAS LUCO WILLING TO TAKE THE RISK OF MAKING THIS 15-**  
7 **YEAR FIXED RATE LOAN TO LIBERTY-EMPIRE WITHOUT FIRST**  
8 **OBTAINING ITS OWN FIXED RATE FINANCING?**

9 A. LUCo aggregates financing until it gets to a scale to be able to take it out in the debt  
10 capital markets efficiently. LUCo is willing to bear the risk of the rate increasing in the  
11 interim period, because it believes this is the most efficient and cost effective way to  
12 finance for all of our customers.

13 **Q. IF LONG-TERM INTEREST RATES RISE BETWEEN THE TIME LIBERTY-**  
14 **EMPIRE RECEIVED THE \$90 MILLION FIXED RATE LOAN FROM LUCO**  
15 **UNTIL LUCO ISSUES ITS OWN LONG-TERM FINANCING TO FUND THE**  
16 **LIBERTY-EMPIRE LOAN, WILL LIBERTY-EMPIRE'S LOAN RATE**  
17 **INCREASE?**

18 A. No. By receiving a 15-year fixed rate loan from LUCo, Liberty-Empire and its customers  
19 are protected from interest rate increases related to this loan. In my many years of  
20 experience, these terms are very beneficial to Liberty-Empire's customers.

21 **Q. IS IT COMMON THAT A UTILITY THAT IS HELD AS PART OF A LARGER**  
22 **CORPORATE FAMILY RELIES ON AN AFFILIATE TO OBTAIN ITS**  
23 **FINANCING?**

1 A. Yes, this is very common in the industry. \*\* \_\_\_\_\_  
2 \_\_\_\_\_

3 \_\_\_\_\_ \*\* I would also note that the Company has  
4 been transparent from the very beginning of its relationship with APUC that it intended to  
5 obtain financing from LUCo<sup>1</sup>. As I describe further in my testimony below, the nature of  
6 this financing is no different than the financing necessary to complete LUCo's acquisition  
7 of Liberty-Empire.

8 **Q. IF LIBERTY-EMPIRE WASN'T OWNED BY LUCO, WOULD IT HAVE**  
9 **REFINANCED THE \$90 MILLION MATURING BOND WITH COMMERCIAL**  
10 **PAPER FINANCING?**

11 A. No. Empire would have sought to replace the maturing long-term debt with new long-  
12 term debt.

13 **Q. DOES MR. SCHALLENBERG MAKE ANY OTHER ALLEGATIONS**  
14 **REGARDING THE \$90 MILLION FINANCING PROVIDED BY LUCO?**

15 A. Yes. Beginning on page 11 at line 22 and carrying over onto page 12 through line 2 of  
16 his Direct Testimony, Mr. Schallenberg alleges that Liberty Utilities Service Corp.  
17 ("LUSC") and LUCo would not allow Liberty-Empire to utilize its commercial paper  
18 program to fund the maturing \$90 million bond because LUCo would not have realized a  
19 profit if Liberty-Empire did so.

20 **Q. DO YOU AGREE WITH THIS ALLEGATION?**

21 A. No, I disagree on several levels. First, as discussed above, utilizing short-term  
22 commercial paper to replace long-term debt is imprudent. Therefore, LUCo's action to

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<sup>1</sup> See Direct Testimony of Peter Eichler in Docket No. EM-2016-0213.

1 provide Liberty-Empire with fixed rate long-term financing is sound financially and  
2 reduces risk for the Company and its customers. Secondly, Mr. Schallenberg suggests  
3 that LUCo carries out these financing activities only to benefit itself, which is plainly  
4 incorrect. As my testimony demonstrates, there are certain synergies that can be obtained  
5 when utility financing is done on a collective basis on behalf of a number of members of  
6 a corporate family, which benefits all the utilities. Because LUCo receives a fee for  
7 doing so does not make the undertaking inappropriate.

8 **Q. WHAT OTHER ALLEGATIONS ARE MADE BY MR. SCHALLENBERG?**

9 A. On page 12 of his Direct Testimony, beginning on line 4, Mr. Schallenberg alleges that  
10 the “make whole” provision in the promissory note provided by Liberty-Empire makes  
11 repayment difficult and that this provision’s purpose is to provide another profit avenue  
12 for LUCo.

13 **Q. DO YOU AGREE WITH THIS ALLEGATION?**

14 A. No, I do not. Mr. Schallenberg ignores the fact that make whole provisions are usual and  
15 customary in the banking and financial markets when long-term debt is arranged. In my  
16 combined 38+ years of banking and treasury experience, I have never seen medium-term  
17 or long-term fixed rate loans which did not contain a make whole provision.

18 **Q. DOES MR. SCHALLENBERG MAKE ANY OTHER ALLEGATIONS**  
19 **REGARDING THE \$90 MILLION FINANCING?**

20 A. Yes. Again on page 12 and beginning at line 12, he refers to the \$90 million loan as a  
21 “refinancing scheme” and not a normal business transaction. Mr. Schallenberg again  
22 ignores the purpose and essence of the transaction, which was to obtain a prudent form of  
23 financing, not simply the cheapest (e.g. overnight or short-term) financing.

1 **Q. DOES MR. SHALLENBERG CRITICIZE OTHER ASPECTS OF THE**  
2 **FINANCING ARRANGEMENT ON THE BASIS THAT IT VIOLATES THE**  
3 **COMMISSION'S AFFILIATE TRANSACTION RULES?**

4 A. Yes. Beginning at the bottom of page 12 of his Direct Testimony, at line 21, Mr.  
5 Schallenberg takes issue with the \$450,000 origination fee charged by LUCo to Liberty-  
6 Empire for the \$90 million loan, which Mr. Schallenberg refers to as a “hypothetical debt  
7 security that was never issued” and that LUCo never incurred the fee.

8 **Q. DO YOU AGREE WITH MR. SCHALLENBERG'S ALLEGATION**  
9 **REGARDING THE ORIGINATION FEE?**

10 A. No. Origination fees for long-term financing are usual and customary in the banking and  
11 financial markets. In fact, Liberty-Empire paid an origination fee of 65 basis points for  
12 its \$60 million of long-term debt financing funded in December 2014 and a 50 basis point  
13 fee for another \$60 million long-term debt financing funded in August 2015. The  
14 \$450,000 fee for the \$90 million loan from LUCo equates to a 50 basis point fee.  
15 Therefore, it is clear this is a “market-based” fee. Additionally, LUCo incurred a like 50  
16 basis point fee for its last long-term debt financing in March 2017 which was used to  
17 finance the Liberty-Empire acquisition, and it expects to incur a like fee level for future  
18 long-term debt issuances.

19 **Q. WHAT OTHER ALLEGATIONS DOES MR. SCHALLENBERG MAKE**  
20 **REGARDING LIBERTY-EMPIRE'S FINANCING?**

21 A. On page 13 beginning at line 6 and running through line 21 on page 14 of his Direct  
22 Testimony, Mr. Schallenberg asserts that Liberty-Empire provided a financial advantage



1 to LUCo by agreeing to less favorable financing terms than Liberty-Empire could have  
2 obtained were it an independent company. .

3 **Q. DO YOU AGREE WITH THIS ASSERTION?**

4 A. No. The 15-year fixed rate \$90 million financing Liberty-Empire received was based on  
5 the weighted average life of LUCo's March 2017 financing and was equivalent to the  
6 term of Liberty-Empire's last pre-acquisition financing in August 2015, thereby making  
7 the term consistent with past practice at "old Empire." Additionally, the \$90 million  
8 financing was priced based on the credit spreads LUCo obtained from its highly  
9 competitive \$750 million unsecured financing in March 2017. While Mr. Schallenberg  
10 suggests Liberty-Empire should have sought secured financing, he ignores the testimony  
11 this witness provided in Commission Case AO-2018-0179 on June 27, 2019, which  
12 indicated that during its March 2017 financing, LUCo received bids totaling \$2.4 billion,  
13 a nearly 3 times over-subscribed offering, with 33 debt investors submitting bids.  
14 Compare this to Liberty-Empire's 2015 financing when it only received bids from 4 debt  
15 investors. The size of LUCo's debt offerings, the number of interested bidders, and its  
16 more diverse credit profile make a compelling case for the appropriateness of using  
17 LUCo's competitively set credit spreads as the basis for pricing Empire's \$90 million  
18 loan. Mr. Schallenberg also takes issue with the existence of a make-whole provision but  
19 this same provision exists in Liberty-Empire's other existing long-term debt instruments.

20 **Q. ARE THERE ANY OTHER ALLEGATIONS MADE BY MR. SCHALLENBERG**  
21 **IN HIS DIRECT TESTIMONY WHICH YOU WOULD LIKE TO COMMENT**  
22 **ON?**

1 A. Yes. Beginning at line 22 on page 14 and running through line 7 on page 16, Mr.  
2 Schallenberg repackages his previously made allegations about how LUCo profited from  
3 Liberty-Empire by not using its commercial paper financing to refinance the maturing  
4 \$90 million bond in June 2018. I am unable to verify the computational accuracy or  
5 inaccuracy of Mr. Schallenberg's calculations surrounding the alleged overpayment, as  
6 he did not provide a schedule or workpaper to support his calculations. What we do know  
7 is that Mr. Schallenberg's calculations ignore the fact that LUCo will obtain its own long-  
8 term financing at some point. In total, Mr. Schallenberg's allegations are off base for the  
9 reasons previously mentioned including: the failure to understand that Liberty-Empire  
10 sought to obtain long-term financing; that financing long-lived assets with short-term  
11 financing runs counter to the finance matching theory; and that the type of financing  
12 used, how it was priced, and the origination fee charged are all competitively set in the  
13 market place and are usual and customary and would have been incurred by Liberty-  
14 Empire in a non-affiliated transaction. Additionally, the Company was spared substantial  
15 debt issuance costs by obtaining its \$90 million loan from LUCo. For Liberty-Empire's  
16 December 2014 and August 2015 (pre-acquisition) financings, it incurred origination,  
17 legal, trustee and other fees in excess of \$510,000 and \$420,000, respectively.

18 **Q. AS NOTED ON PAGE 16 BEGINNING AT LINE 15 AND RUNNING THROUGH**  
19 **LINE 4 ON PAGE 17 OF HIS DIRECT TESTIMONY, MR. SCHALLENBERG**  
20 **CONTENDS THAT ALL OF LIBERTY-EMPIRE'S AFFILIATE**  
21 **TRANSACTIONS ARE NOT IN COMPLIANCE WITH THE COMMISSION'S**  
22 **AFFILIATE TRANSACTION RULES (20 CSR 4240-20.015). DO YOU AGREE**  
23 **WITH THIS CONTENTION?**

1 A. No. As previously stated, and with respect to that portion of Mr. Schallenberg's Direct  
2 Testimony related to the \$90 million loan transaction between LUCo (lender) and  
3 Liberty-Empire (borrower), I believe Mr. Schallenberg ignores the following: a) the  
4 purpose of the transaction (e.g. replacing maturing long-term debt with new long-term  
5 debt); b) the fact that the interest rate for the \$90 million loan was based on a highly  
6 competitive bidding process for a significantly larger transaction that attracted bids for  
7 nearly 3 times the amount of debt sought and from a sizable pool of investor competitors;  
8 c) the 15-year term of the \$90 million loan is wholly appropriate based on the Company's  
9 past practice; d) substantial external fees were avoided which is a direct savings for  
10 customers; and e) the origination fee paid by Liberty-Empire is both reasonable and  
11 customary based on Liberty-Empire's past financing transactions and at fair market value  
12 and is identical to the fee level incurred by LUCo for its most recent financing.

13 **Q. ARE THERE ANY OTHER IMPORTANT FACTS THAT MR. SCHALLENBERG**  
14 **LEFT OUT OF HIS TESTIMONY?**

15 A. Yes. Mr. Schallenberg failed to mention that, as a result of terminating Liberty-Empire's  
16 \$200 million bank credit facility on February 23, 2018, the Company has generated  
17 significant line of credit savings for its customers. \*\* \_\_\_\_\_

18 \_\_\_\_\_

19 \_\_\_\_\_

20 \_\_\_\_\_

21 \_\_\_\_\_ \*\* Mr.

22 Schallenberg's view that LUCo is motivated only by the opportunity to profit off of  
23 Liberty-Empire's customers is belied by the fact that LUCo has not charged and is not

1 charging the Company for any fees to support its commercial paper program. It is not  
2 atypical for LUCo to provide its subsidiaries with no-cost intercompany advances on a  
3 short-term basis.

4 **Q. HAS LUCO PROVIDED LIBERTY-EMPIRE WITH ANY OTHER SIMILAR**  
5 **COST SAVINGS?**

6 A. Yes. From November 8, 2019 through January 23, 2020, LUCo provided intercompany  
7 advances to the Company which negated the need for Liberty-Empire to issue  
8 commercial paper. \*\* \_\_\_\_\_

9 \_\_\_\_\_  
10 \_\_\_\_\_ \*\* LUCo has not charged Liberty-Empire for the cost of making those  
11 advances.

12 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

13 A. Yes.

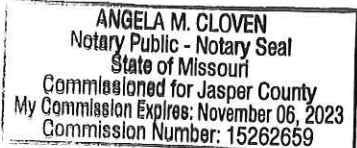
AFFIDAVIT OF MARK TIMPE

STATE OF MISSOURI )  
  ) ss  
COUNTY OF JASPER )

On the 2nd day of March, 2020, before me appeared Mark Timpe, to me personally known, who, being by me first duly sworn, states that he is Director – Treasury of The Empire District Electric Company – Liberty Utilities Central and acknowledges that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.

Mark T. Timpe  
Mark Timpe

Subscribed and sworn to before me this 2nd day of March, 2020.



Angela M. Cloven  
Notary Public

My commission expires: 11/06/23.