UNITIL ENERGY SYSTEMS, INC.

TESTIMONY OF

TODD R. DIGGINS

IN SUPPORT OF ISSUANCE OF UP TO $30,000,000 OF FIRST MORTAGE BONDS

New Hampshire Public Utilities Commission
Docket No. DE 18-___

Q. Please state your full name and business address.

A. My name is Todd R. Diggins. My business address is 6 Liberty Lane West, Hampton, New Hampshire, 03842.

Q. By whom are you employed and in what capacity?

A. I am Director of Finance for Unitil Service Corp. ("Unitil Service"), a subsidiary of Unitil Corporation that provides a variety of administrative and professional services including, regulatory, financial, accounting, human resources, engineering, operations, information systems technology and energy supply management services to Unitil Corporation's utility subsidiaries. My responsibilities are primarily in the areas of financial planning and analyses, regulatory projects, treasury operations, banking relationships, and insurance / loss control programs.

Q. Please summarize your professional and educational background.

A. I have over 20 years of professional experience in the utility industry focused within the finance, accounting and regulatory areas. I joined Unitil Service in 1998 as a Systems Financial Analyst. In 2004 I accepted a position within the Accounting Department as a General Accountant and was promoted to Corporate Accounting Manager in 2009. In 2018 I assumed my current responsibilities as Director of Finance. I hold a Bachelor of Science degree from the University of New Hampshire and a Master of Science in Finance from Southern New Hampshire University as well as a Master of Global Business Administration from Southern New Hampshire University. In addition, I've taken various business related courses at Granite State College and the University of Phoenix.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain and support Unitil Energy Systems, Inc. ("Unitil Energy" or the "Company") F-4 petition requesting authorization to issue to institutional investor(s) first mortgage bonds evidencing secured long-term debt in an aggregate amount of up to $30,000,000 (hereinafter referred to as the "Bonds").

Q. What is the Company specifically requesting at this time?

A. Unitil Energy is seeking the Commission's approval to issue an aggregate principal amount of up to $30,000,000 of Bonds. The Bonds will be sold at par and will have a maturity of up to 30 years and bear a fixed coupon of not more than 5.25%.

Q. When did the Company complete its last long-term debt financing?

A. Unitil Energy completed its last long-term debt financing in March 2010. In that financing, Unitil Energy issued $15,000,000 principal amount of its 5.24% First Mortgage Bonds, Series P, due March 2, 2020.

Q. What capital improvements have been made to the Company's distribution system since the last financing in March 2010?

A. The Company has spent $146.7 million on distribution system capital expenditures from March 2010 through May 31, 2018. In addition, the Company has $19.1 million of capital expenditures budgeted for calendar year 2018. A summary of this spending by major category is included in Schedule TRD-1.

Q. How does the Company finance its capital expenditures?

A. The funding to meet capital expenditures is derived primarily from internally generated funds, which consist of net operating cash flows including depreciation and amortization from operating activities and deferred income taxes. Unitil Energy supplements internally generated funds through short-term borrowings under the Unitil Corporation Cash Pool, which is supported by bank borrowings under Unitil Corporation's credit facility. When the Company's short-term balance builds to sufficient levels, it will seek a long-term financing to reduce the short-term debt and to appropriately match the long-term utility asset lives with long-term funding.

Q. Why is the Company looking to access the debt capital markets at this time?

A. Unitil Energy's short-term borrowings were $26.7 million as of March 31, 2018. Additionally, according to the Company's cash forecasts, excluding the proceeds of this financing, the Company expects its short-term borrowings to increase in 2018 to approximately $30 million by December 31, 2018. The Company's capital expenditure program and sinking fund redemptions of existing debt of $20.5 million over the next three years 2019-2021 will continue to drive the Company's short-term borrowings in the future. A schedule of the Company's long-term debt maturity profile is provided in Schedule TRD-2 The Company believes it is an optimal time to pursue a long-term debt financing to address its projected capital and debt refinancing needs.

Q. What is the use of proceeds of this offering?

A. Unitil Energy is targeting to price this offering in August 2018 and fund in November 2018 as further described below. The Company expects to refinance all its short-term debt at the time of funding, and any excess cash will be used for general corporate purposes including utility capital expenditures.

Q. Please describe the key terms of the proposed long-term debt financing.

A. Unitil Energy is targeting to issue at par to institutional investor's, first mortgage bonds in an aggregate amount of up to $30,000,000. The Bonds are expected to be issued under similar terms and provisions of all its other series of first mortgage bonds issued under the twelfth, thirteenth and fourteenth supplemental indentures. One modification for this Bond issuance is the implementation of a "fall-away" structure where the mortgage security ceases when all other outstanding secured debt matures. This provision is described in more detail below in this testimony. The Bonds will be marketed with up to a 30-year maturity, which allows the Company to match the long-lived nature of its utility assets with long-term financing, while achieving an attractive and market-based yield. The Company will work closely with TD Securities (USA) LLC (the "Placement

Agent"), to determine the ultimate size of the offering, maturity, coupon and other terms based on market conditions and investor interest at the time of pricing.

Q. Please describe the "fall-away" first mortgage bond structure referenced above.

A. Unitil Energy plans to market this offering with a fall-away first mortgage bond structure provision which many utility issuers have implemented in recent years. Essentially, the structure and documentation of the Bonds is similar to all of Unitil Energy's other tranches of first mortgage bonds with the exception of a "fall-away" provision. The purpose of the "fall-away" provision is to eventually replace an existing first mortgage bond indenture with an unsecured note financing platform. This provision provides that the first mortgage security of the Bonds will release or "fall-away" once all other first mortgage bonds of Unitil Energy are repaid, subject to certain customary conditions

Q. What date will all of Unitil Energy's first mortgage bonds be retired?

A. The Company's longest tenor first mortgage bonds mature on September 15, 2036.

Q. Will the Company be able to issue first mortgage bonds in the future after this Bond offering?

A. Yes. The implementation of the "fall-away" bond structure is not a permanent decision to implement an unsecured financing structure. The Company can decide to issue first mortgage bonds up until the last first mortgage bond is retired (maturing 2036). If the Company issues first mortgage bonds after this Bond offering, then effectively the "fall-away" provision becomes inoperable as long as the maturity of the new financing is after the maturity date of this Bond offering.

Q. Why is the Company proposing a fall-away first mortgage bond structure?

A. All of Unitil Corporation's other utility affiliates (Fitchburg Gas and Electric Light Company, Northern Utilities, Inc. and Granite State Gas Transmission, Inc.) are capitalized with unsecured long-term debt under similar note purchase agreements. Unsecured financings are extremely commonplace in the utility industry and reflect similar pricing to secured financings, but at significantly lower costs including legal, trustee and administration. According to conversations with the Placement Agent, unsecured financings price comparable to secured financing, depending on market conditions. This is primarily because of the restrictions on liens requirements in unsecured financings which prohibit any meaningful secured debt once unsecured debt capitalizes a company. Essentially, utility companies primarily choose either all secured debt or unsecured debt in their capital structure. Therefore, the Company is trying to maximize flexibility in this offering if in the future the market bears little pricing favorability for secured financings, so that the Company can save on legal, trustee and administrative costs.

Q. Please explain the difference in costs between secured and unsecured financings.

A. Administrative and legal fees associated with first mortgage bond structures are far more expensive than unsecured note issuances. For example, in Unitil Energy's last first mortgage bond issuance in 2010 legal costs totaled $317,734. In comparison, Northern

Utilities, Inc. incurred legal costs of $140,685 in its last unsecured issuance in 2017. The discrepancy in legal costs for each issuance is caused by the extensive legal and administrative work that is associated with a first mortgage bond issuance, which includes numerous certificates and legal opinions (issuer counsel, investor counsel, real estate counsel, trustee counsel). These are far above and beyond an unsecured financing, and are required to ensure that the Company's utility property is properly bonded under the first mortgage indenture. Second, the Company experiences administrative issues because all payments and communications are coordinated through its trustee. The Company is required to monitor the activities of the trustee to ensure payments are handled correctly and the level of service provided to investors meets the Company's standards. However, in the event the Company is not satisfied with the trustee, changing the trustee would be cost-prohibitive because of the first mortgage indenture. Lastly, the Company has to comply with various other cumbersome requirements under the indenture, such as annual real estate counsel opinions as well as opinions and legal counsel (real estate and trustee) on certain property transactions.

Q. What is the Company's issuer credit rating?

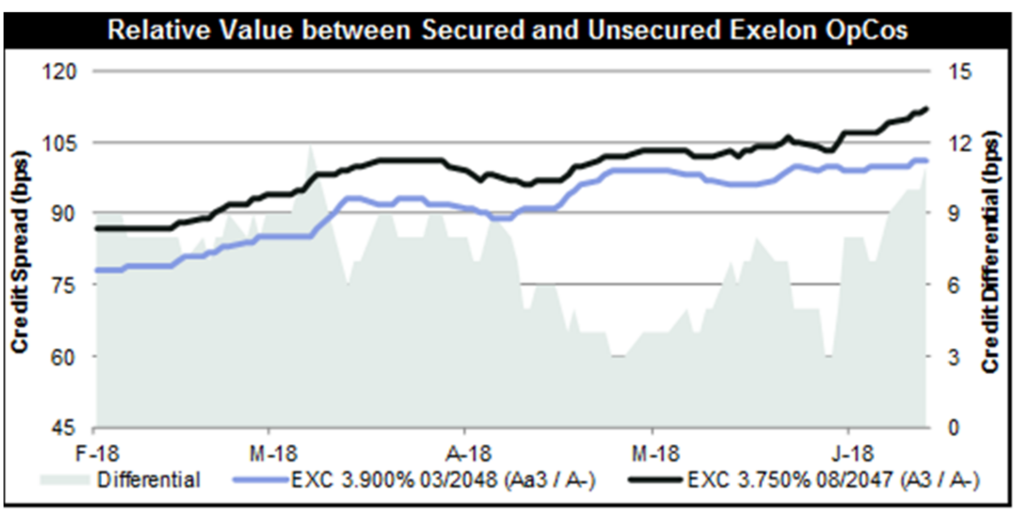
A. Unitil Energy has an issuer rating of BBB+ by Standard & Poor's rating agency and an issuer rating of Baa1 by Moody's rating agency. The Company also has a private rating of NAIC-2, which is equivalent to the BBB/Baa S&P/Moody's ratings, by the National Association of Insurance Commissioners (NAIC) which is the regulatory agency of the Company's existing insurance investors.

Q. Has the Company obtained a security rating for the issuance?

A. While the Company currently only has issuer ratings, the Company is in the process of obtaining a senior security rating which rates the actual first mortgage bond security from Moody's rating agency.

Q. Why has the Company chosen to obtain a security rating at this time?

A. Moody's has indicated that it generally views the security rating to be approximately two notches above the issuer rating. If Unitil Energy achieves this notching differential, it would imply a rating of A2. The Placement Agent indicates that in today's market (see table below) the improvement in the rating of a security compared to an issuer rating could improve pricing by 5 to 10 basis points.



Q. Is the cost of the Moody's security rating cost-effective?

A. Yes. A 10 basis point interest savings on $30,000,000 of principal over 30 years results in a present value of $425,954, compared to the cost of the rating of $110,000. See Exhibit UES-1 Schedule TRD-3 page 1. In addition, a rating in the "A" category by an independent rating agency elevates the credit profile of the Company and also triggers an NAIC-1 rating, the highest provided by the NAIC.

Q. **How was the maximum coupon rate the Company is proposing in this petition derived?**

A. As part of its initial due diligence for this offering, the Company has met with its Placement Agent to obtain market and preliminary pricing information. Based on this review the Company is requesting a maximum coupon rate of not more than 5.25%. The Placement Agent indicated (see Exhibit UES-1 Schedule TRD-4) that it expects a credit spread of approximately 125 basis points over the 30-year U.S. Treasury, which is currently at approximately 3.00%, and would imply an all-in fixed coupon rate of 4.25%. Market conditions can rapidly change, and the Company does not anticipate pricing until August 2018. Therefore, the Company is requesting the Commission to approve a maximum coupon rate of 5.25% (100 basis points over expected current market pricing) to provide for flexibility in the credit spread and possible wider treasury yields from the date of the filing of this petition to pricing. The Company asks that the Commission proceed expeditiously with its review of the proposed financing to reduce the risk of interest rate volatility. As explained later, the Company will submit an update to the Commission of the final coupon rate once the Bonds have been priced.

Q. How will the Bond offering affect the capital structure of the Company?

A. The Company's actual and pro forma capital structure is shown below. On a total leverage basis, including short-term debt, the Company's total debt-to- capitalization ratio will remain at approximately 54%-55% on an actual and pro forma basis, since the net proceeds of the offering will be used to repay short-term debt. With the reduction in short-term debt, the Company will have the benefit of having a stronger balance sheet to finance its ongoing capital construction program.

	Actual 3/31/2018	Adjustments 3/31/2018	Pro Forma 3/31/2018
Short-Term Debt	$ 26.7	$ (26.7)	$ -
Senior Unsecured Notes	67.5	30.0	97.5
Total Debt	**$ 94.2**	**$ 3.3**	**$ 97.5**
Common Equity	80.6	-	80.6
Total Capitalization	**$ 174.8**	**$ 3.3**	**$ 178.1**
Total Debt / Capitalization	54%		55%

Q. How will the Bond offering affect the Company's weighted cost of long-term debt?

A. The Company's weighted cost of long-term debt is currently 7.24%, which reflects the weighted cost of the Company's existing tranches of debt discussed previously. This offering, at a maximum coupon rate of 5.25%, will lower the Company's weighted cost of long-term debt to a rate of 6.69%. See Exhibit UES-7 page 1 of 1.

Q. What are the projected issuance costs for the proposed offering?

A. Under the terms of the engagement letter with the Placement Agent, Unitil Energy will pay a placement fee of $120,000, which is equal to 0.40% of the principal amount of the Bonds at the time of closing of the Bonds. Additionally, the Company will be responsible for legal and other fees and expenses required to execute a secured financing which, as explained earlier, are more extensive and costly than an unsecured financing. The Company expects to incur approximately $275,000 of outside counsel fees for corporate financing services. The Company is utilizing outside counsel to provide corporate financing services because of the specialized legal expertise required for corporate financings. It is not economical to hire in-house legal staff to perform highly specialized legal work of this nature, particularly given that the legal skills and acumen for corporate financings are required on a relatively infrequent basis. Unitil Energy estimates $100,000 for lender's counsel. The Company also estimates $50,000 for fees associated with the trustee, trustee's counsel, real estate and title work. As mentioned earlier, the Company has incurred $110,000 of security rating fees from Moody's rating agency. Finally, Unitil Energy estimates $20,000 for miscellaneous expenses including potential out-of-pockets expenses for the Placement Agent under the terms of our engagement letter. In total, the Company estimates that the costs associated with the issuance of the Bonds will be about $675,000, assuming the full $30,000,000 is issued. Importantly, the Company has taken many efforts to minimize financing costs, including the use of in-house regulatory counsel to obtain the New Hampshire Public Utilities Commission approval. The Company has also included a fall-away first mortgage bond structure to provide the option to reduce issuance costs in the future.

Q. What types of investors participate in the private placement process?

A. Typically, the investors for this type of transaction will be insurance companies that have a demand for longer term maturity securities and have a strong familiarity with the utility sector. The Placement Agent has recommended a strategy to market the Bonds to a select handful of existing and prospective private placement investors that are active participants in the utility sector, are familiar with the Company's business and operations, and that have demand for long-term securities. The Placement Agent has a strong market presence within the utility sector and has recommended this marketing strategy as the most appropriate for three reasons. First, this strategy recognizes the importance of the Company's existing relationship with current investors and gives them an opportunity to participate in a new issuance. Second, the Placement Agent is actively marketing deals within the utility sector and therefore knows which external investors are the most likely to show strong interest and make competitive offers. Third, the Placement Agent has indicated that a $30,000,000 issuance is relatively small and therefore a competitive market can be established with the above strategy.

Q. **Does Unitil Energy expect the private placement market to be receptive to this offering?**

A. Yes. Unitil Energy believes that the private placement market will be receptive to this offering, similar to the previous deal completed by the Company in March 2010, where the Company was viewed favorably by the private placement market. According to the

Placement Agent, investors have been attracted by the Company's growth and performance in its sector and strong management team, and will welcome the opportunity to invest further in Unitil Energy. In addition, the regulated nature of distribution utilities generally are targeted investment alternatives for some investors.

Q. What is the timetable for the proposed Bonds offering?

A. The Company expects to market and price the Bonds offering in August 2018, subject to regulatory approval. Once the offering is priced, the Company will submit an update to the Commission with the final pricing parameters including coupon rate. The Company expects investors will allow a 90-day period after pricing to close the transaction. This would place closing of the offering in November 2018. While this timetable is currently the Company's best estimate, it is possible that due to unforeseen market or other conditions, the timing may be adjusted.

Based on this timeline, Unitil Energy is requesting an Order Nisi from the Commission approving the Bonds offering on or before September 30, 2018. This will provide some flexibility for timing considerations discussed above and will also provide for the necessary expiration of the appeal period prior to the closing expected to occur in November 2018.

Q. Has the Company's Board of Directors approved the proposed financing?

A. Yes, on April 25, 2018 the Company's Board of Directors approved an issuance of up to $30,000,000 of Bonds. A copy of the Board's resolution is provided in Exhibit UES-12.

Q. Does this conclude your testimony?

A. Yes, it does.