

NORTHERN UTILITIES, INC.

TESTIMONY OF

TODD R. DIGGINS

IN SUPPORT OF ISSUANCE OF UP TO \$50,000,000 IN LONG-TERM DEBT

New Hampshire Public Utilities Commission  
Docket No. DG 19-\_\_\_\_

1 **Q. Please state your name and business address.**

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

4 **Q. What is your position and what are your responsibilities?**

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

12 **Q. Please describe your business and educational background.**

13 A. I have over 20 years of professional experience in the utility industry focused within the  
14 finance, accounting and regulatory areas. I joined Unitil Service in 1998 as a Systems  
15 Financial Analyst. In 2004 I accepted a position within the Accounting Department as a  
16 General Accountant and was promoted to Corporate Accounting Manager in 2009. In  
17 2018 I assumed my current responsibilities as Director of Finance. I hold a Bachelor of  
18 Science degree from the University of New Hampshire and a Master of Science in  
19 Finance from Southern New Hampshire University as well as a Master of Global  
20 Business Administration from Southern New Hampshire University.

21 **Q. Do you hold any professional licenses?**

1 A. Yes, I am a Certified Public Accountant in the states of New Hampshire and Maine.

2 **Q. What is the purpose of your testimony?**

3 A. I am testifying on behalf of Northern Utilities, Inc. (“Northern” or the Company”), a  
 4 subsidiary of Unitil Corporation and affiliate of Unitil Service. Northern provides natural  
 5 gas service in southeastern New Hampshire and portions of southern and central Maine.  
 6 The purpose of my testimony is to explain and support the Company’s F-4 petition  
 7 requesting authorization to issue to institutional investor(s) senior notes evidencing  
 8 unsecured long-term debt in an aggregate amount of up to \$50,000,000 (hereinafter  
 9 referred to as the “Notes”). The Company is filing, at the same time, a similar petition  
 10 for authorization to issues securities with the Maine Public Utilities Commission.

11 **Q. What specific approval is the Company requesting of the New Hampshire Public  
 12 Utilities Commission (“Commission”)?**

13 A. Northern Utilities is seeking the Commission's approval to issue an aggregate principal  
 14 amount of up to \$50,000,000 of Notes. The Notes will be sold at par and bear a fixed  
 15 coupon of not more than 5.50%.

16 **Q. What tranches of long-term debt does the Company currently have outstanding?**

17 A. Please see the table below.

Type	Original Amount	Date Issued	Maturity Date	Outstanding Balance	Interest Rate	Docket Number
Sr. Notes	\$50,000,000	Dec-08	Dec-38	\$50,000,000	7.72%	DG 08-079
Sr. Notes	\$25,000,000	Mar-10	Mar-20	\$16,600,000	5.29%	DG 09-239
Sr. Notes	\$50,000,000	Oct-14	Oct-44	\$50,000,000	4.42%	DG 14-101
Sr. Notes	\$20,000,000	Nov-17	Nov-27	\$20,000,000	3.52%	DG 17-019
Sr. Notes	\$30,000,000	Nov-17	Nov-47	\$30,000,000	4.32%	DG 17-019

18

1 **Q. What capital improvements have been made to the Company's distribution system**  
2 **since the last financing in November 2017?**

3 A. The Company has spent \$64.3 million on distribution system capital expenditures from  
4 November 2017 through December 31, 2018 in New Hampshire and Maine combined.  
5 In addition, the Company has \$61.4 million of capital expenditures budgeted for calendar  
6 year 2019. A summary of this spending by major category is included in Exhibit NU-1,  
7 Schedule TRD-1.

8 **Q. How does the Company finance its capital expenditures?**

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

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

17 A. Northern Utilities' short-term borrowings were \$58.2 million as of December 31, 2018.  
18 Additionally, according to the Company's cash forecasts, excluding the proceeds of this  
19 financing, the Company expects its short-term borrowings to increase in 2019 to  
20 approximately \$65 million by December 31, 2019. The Company's capital expenditure  
21 program and historical and future sinking fund redemptions of \$8.2 million in 2020 are  
22 driving the Company's short-term borrowings in the near term. The Company believes it

1 is an appropriate time to pursue a long-term debt financing to address its projected capital  
2 needs.

3 **Q. You indicated that the Company has sinking fund retirements. Please provide a**  
4 **schedule of the Company's long-term debt maturity profile.**

5 A. Please see Exhibit NU-1, Schedule TRD-2 for a schedule beginning with activity in 2017.

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

7 A. Northern Utilities is targeting to fund this offering in September 2019. The Company  
8 expects to refinance a portion short-term debt at the time of funding.

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

10 A. Northern Utilities is targeting to issue, at par, to institutional investors unsecured senior  
11 notes in an aggregate amount of up to \$50 million. The Notes are expected to be issued  
12 under similar terms and provisions of the Note Purchase Agreements of the existing  
13 senior note tranches. The Company is targeting a long-term maturity of up to a 30-year  
14 maturity. A 30-year tenor allows for the Company to match the long-lived nature of its  
15 utility assets with the long-term average life of the securities while achieving an attractive  
16 and market-based overall weighted yield. The treasury yield curve is currently extremely  
17 flat. The 10 year versus 30 year rate differential is approximately 40 basis points (bps).  
18 Both of these factors make longer dated issuances attractive for both the issuer and  
19 investors. The Company will work closely with its Placement Agent, to determine the  
20 ultimate size of the offering, maturities, coupon and other terms based on market  
21 conditions and investor interest at the time of pricing.

1 **Q. What is the Company's credit rating?**

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

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

9 A. As part of its initial due diligence for this offering, the Company met with its Placement  
10 Agents to obtain market and preliminary pricing information. Based on this review, the  
11 Company is requesting a maximum coupon rate of not more than 5.50%. The Placement  
12 Agents indicate that credit spreads for comparable BBB+ recently completed utility deals  
13 have been in the 140-160 bps area for a 30-year issuance over the comparable U.S.  
14 Treasury yields. This would imply indicative all-in coupon rates as of May 3, 2019 for a  
15 30-year maturity of 4.30-4.50% (assuming the current 30-year U.S. Treasury of 2.91%).  
16 Please refer to Exhibit NU-1, Schedule TRD-3 for a summary of proposed terms that was  
17 provided by the Company's Placement Agent. Market conditions can rapidly change, and  
18 the Company does not anticipate pricing until the end of May or in June 2019. Therefore,  
19 the Company is requesting a coupon rate that provides for flexibility in the credit spread  
20 and maturities, and in the event treasury yields widen from the date of the filing of this  
21 petition to the date of pricing. The Company respectfully requests that the Commission  
22 proceed expeditiously with its review of the proposed financing to reduce the risk of

1 interest rate volatility. As explained later, the Company will submit an update to the  
 2 Commission of the final coupon rate once the Notes have been priced.

3 **Q. How will the Notes offering affect the capital structure of the Company?**

4 A. The Company's actual and pro forma capital structure is shown below. On a total  
 5 leverage basis, including short-term debt, the Company's net debt-to-net capitalization  
 6 ratio will remain at 53.1% on an actual and pro forma basis, since the net proceeds of the  
 7 offering will be used to repay short-term debt. With the reduction in short-term debt, the  
 8 Company will have the benefit of having a stronger balance sheet to finance its ongoing  
 9 capital construction program.

NORTHERN UTILITIES, INC.  
 CAPITAL STRUCTURE AS OF DECEMBER 31, 2018  
 Proformed for the Issuance and Sale of \$50,000,000 Senior Unsecured Notes  
 (\$ in Millions)

	Actual 12/31/2018	Adjustments 12/31/2018	Pro Forma 12/31/2018
Cash	\$ 0.7	\$ -	\$ 0.7
Short-Term Debt	\$ 58.2	(49.6)	\$ 8.6
Senior Unsecured Notes, Net of Issuance Costs	165.5	49.6	215.1
<b>Total Debt</b>	<b>\$ 223.7</b>	<b>\$ -</b>	<b>\$ 223.7</b>
Common Equity	197.2	-	197.2
<b>Net Capitalization</b>	<b>\$ 420.2</b>	<b>\$ -</b>	<b>\$ 420.2</b>
10 Net Debt / Net Capitalization	53.1%		53.1%

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

2 A. The Company's weighted cost of long-term debt is currently 5.46% which reflects the  
3 weighted cost of the Company's existing tranches of debt discussed previously. This  
4 offering, assuming a maximum coupon rate of 5.50%, will change the Company's  
5 weighted cost of long-term debt to a rate of 5.49%.

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

7 A. The Company selected one Placement Agent for this transaction. Under the terms of the  
8 engagement letter with the Placement Agent, Northern Utilities will pay a placement fee  
9 of 0.35% of the principal amount of the Notes at the time of closing. Additionally, the  
10 Company will be responsible for legal expenses, including all fees and expenses of both  
11 the Company's and investor's counsel incurred in commencing the offering and sale of  
12 the Notes. The Company has estimated total legal costs of \$200,000 for this transaction,  
13 including legal services for corporate financing and regulatory services as well as the cost  
14 for investor's counsel. In total, the Company estimates that the costs associated with the  
15 issuance of the Notes will be about \$375,000 if the full \$50 million is issued.

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

17 A. Typically, the investors for this type of transaction will be insurance companies that have  
18 a demand for longer term maturity securities and have a strong familiarity with the utility  
19 sector. The Placement Agent has recommended a strategy to market the Notes to a select  
20 handful of existing and prospective private placement investors that are active  
21 participants in the utility sector, are familiar with the Company's business and operations,  
22 and that have demand for long-term securities. The Placement Agent has a strong market



1 presence within the utility sector and has recommended this marketing strategy as the  
2 most appropriate for three reasons. First, this strategy recognizes the importance of the  
3 Company's existing relationship with current investors and gives them an opportunity to  
4 participate in a new issuance. Second, the Placement Agent is actively marketing deals  
5 within the utility sector and therefore knows which external investors are the most likely  
6 to show strong interest and make competitive offers. Third, the Placement Agent has  
7 indicated that given the size of the issuance of up to \$50 million, a competitive market  
8 can best be established with the above strategy. The Placement Agent expects this  
9 strategy will yield competitive offer(s) indicative of current utility BBB+ market  
10 conditions.

11 **Q. Does Northern Utilities expect the private placement market to be receptive to this**  
12 **offering?**

13 A. Yes. Northern Utilities believes that the private placement market will be receptive to  
14 this offering, similar to the previous deal completed by the Company in November 2017,  
15 where the Company was viewed favorably by the private placement market. According  
16 to the Placement Agent, investors have been attracted by the Company's growth and  
17 performance in its sector and strong management team, and will welcome the opportunity  
18 to invest further in Northern Utilities. In addition, the regulated nature of distribution  
19 utilities generally are targeted investment alternatives for some investors.

20 **Q. What is the timetable for the proposed Notes offering?**

21 A. The Company expects to market and price the Notes offering in late May or June 2019,  
22 subject to regulatory approval. Once the offering is priced, the Company will submit an

1 update to the Commission with the final pricing parameters including coupon rate. The  
2 Company is seeking funding in September 2019 (approximately three months after  
3 pricing.) While this timetable is currently the Company's best estimate, it is possible that  
4 due to unforeseen market or other conditions, the timing may be adjusted.

5 Based on this timeline, Northern Utilities is requesting an Order Nisi from the  
6 Commission approving the Notes offering on or before July 31, 2019. This will provide  
7 for the necessary expiration of the appeal period prior to the closing expected to occur in  
8 September 2019.

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

10 A. Yes, on April 24, 2019 the Company's Board of Directors approved an issuance of up to  
11 \$50,000,000 of Notes. A copy of the Board's resolution is provided in Exhibit NU-10.

12 **Q. Does this conclude your testimony?**

13 A. Yes, it does.