UNITIL ENERGY SYSTEMS, INC.

DIRECT TESTIMONY

OF

TODD R. DIGGINS

EXHIBIT TRD-1

New Hampshire Public Utilities Commission

Docket No. DE 21-030

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SCHEDULES

I. INTRODUCTION

Q. Please state your name and business address.

A. Todd R. Diggins, 6 Liberty Lane West, Hampton, New Hampshire 03842.

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

A. I am the Treasurer and Director of Finance for Unitil Service Corp. ("Unitil Service"), a subsidiary of Unitil Corporation ("Unitil Corp") that provides managerial, financial, regulatory, engineering and information technology services to Unitil Corp's subsidiaries. I am also the Treasurer of Unitil Energy Systems, Inc. ("UES" or "Company") and Unitil Corp's other utility subsidiaries. My responsibilities are primarily in the areas of financial planning and analyses, regulatory projects, treasury operations, investor relations, and insurance and loss control programs.

Q. Please describe your business 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 was promoted to Director of Finance and in 2020 became Treasurer and Director of Finance. I hold a Bachelor of Science degree from the University of New Hampshire, a Master's Degree of Science in

Finance from Southern New Hampshire University, and a Master's of Global Business Administration from Southern New Hampshire University.

Q. Do you hold any professional licenses?

A. Yes, I am a Certified Public Accountant in the State of New Hampshire.

Q. Have you previously testified before this Commission?

A. Yes, I have testified before the New Hampshire Public Utilities Commission ("NHPUC" or "Commission") on various financial matters. Most recently I submitted testimony supporting the Company's application to issue securities in Docket DE 20-076. I have also testified before the Maine Public Utilities Commission and Massachusetts Department of Public Utilities on several occasions.

Q. Were your testimony and exhibits prepared by you or under your direct supervision?

A. Yes, they were.

II. SUMMARY AND OVERVIEW OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support the Company's proposed capital structure to be used for ratemaking purposes, support the Company's proposed long-term cost of debt rate, support the proposed rate of return on rate base, and petition the Commission for a waiver to change the Company's existing short-term debt formula pursuant to RSA 369:7 and N.H. Admin. Rule Puc 307.05. My testimony also discusses rating agency actions and other factors that may affect the Company's ability to efficiently and effectively access long-term capital.

Q. Please summarize the Company's proposed capital structure for ratemaking purposes.

A. As detailed on Schedules RevReq-5[1] and RevReq-5-1, the Company's proposed capital structure consists of 52.91% common equity, 0.10% preferred stock equity, 46.99% long-term debt, and 0.00% short-term debt.

Q. Please summarize the Company's proposed cost of long-term debt.

A. The calculation of the cost of long-term debt for UES is detailed on Schedule RevReq-5-4, which shows the weighted cost rate of 5.49% that was calculated by using the "Net Proceeds" methodology, consistent with Commission precedent.

Q. Please summarize the Company's proposed overall Return on Rate Base.

A. As summarized on Schedule RevReq-5, the Company's proposed Return on Rate Base is 7.88%.

Q. Please summarize the Company's proposed change to the existing short-term debt limit.

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[1] References in my testimony to "Schedule RevReq-XX" are to the revenue requirement schedules sponsored by UES witness Christopher J. Goulding and Daniel T. Nawazelski.

A. The current authorized borrowing limit is based on a formula sets the short-term debt limit at the sum of (1) 10% of Net Utility Plant reported on the most recent Federal Energy Regulatory Commission ("FERC") Form 1 report, and (2) a constant of $10 million. For the reasons discussed in more detail in Section VI, the Company proposes to increase the constant from $10 million to $20 million.

III. CAPITAL STRUCTURE

Q. Please describe the framework for the proposed capital structure.

A. The proposed capital structure represents the five quarter average as of December 31, 2020 after incorporating a pro forma adjustment for $3.5 million of scheduled debt retirements in 2021. Schedule RevReq 5-1 provides the calculation for the proposed capital structure.

Q. Please explain the pro forma adjustment removing $3.5 million of long-term debt from the average capital structure.

A. The pro forma adjustment reflects required, known and measurable debt retirements that will take place prior to the date new permanent distribution rates are expected to take effect in this proceeding. The pro forma adjustment includes a required debt retirement payment of $2 million of the Company's 6.96% notes in September 2021, and $1.5 million of its 8.49% notes in October 2021.

Q. Does the proposed capital structure include short-term debt?

A. No, the proposed capital structure includes only the sources of long-term capital that fund the long-lived assets included in rate base. Those sources do not include short-term debt. The Company believes it is important to match the long-lived nature of utility assets with similarly termed capital. Short-term debt is used principally to fund seasonal working capital requirements, construction work in process ("CWIP") and long-term debt sinking fund redemptions. As CWIP is not included in rate base, the short-term debt funding associated with CWIP should not be considered in the Company's regulatory capital structure for rate setting purposes. Over time, capital spending and sinking fund requirements will result in short-term debt balances that accumulate to levels that can be rolled into long-term financings. Under that financing cycle, short-term debt balances fall, and the capital structure's term is aligned with the long-term nature of utility assets. For these reasons, the Company does not rely on short-term debt as a permanent element of its capital structure, and does not believe it should be included in the regulatory cost of capital for rate setting purposes.

Q. Why is it appropriate to use a five quarter average capital structure?

A. A five quarter average is more representative of the Company's target capital structure going forward than the point in time capital structure as of December 31, 2020. The point in time capital structure at December 31, 2020 is not illustrative of the Company's planned capital structure as a result of the timing of its recent $27.5 million debt financing in September 2020. I discuss the Company's target capital structure, and the need to maintain that target capital structure, later in my testimony.

Q. How does the proposed capital structure compare to the proxy group?

A. Please refer to Page 1 of Exhibit JEN-10 in Jennifer E. Nelson's testimony. The five quarter average proxy group equity ratio is 53.00%. This is consistent with the Company's proposed equity ratio of 52.91%.

Q. Please explain the primary goals the Company considers when managing its capital structure.

A. The primary goals to consider and balance when managing the capital structure are to (1) minimize the weighted average cost of capital and (2) maintain sufficient equity funding to support the Company's balance sheet and creditworthiness. Capital structure is a measure of financial risk. Debt typically carries a lower cost than equity, but has fixed payment obligations, unlike common equity. Therefore, although debt is less costly, higher debt leverage results in additional financial risk. The Company requires an equity ratio that manages its financial risk and supports its existing investment grade credit ratings. Later in my testimony I discuss other credit rating and market factors that must be considered when determining an appropriate capital structure.

Q. Does the capital structure impact the Cost of Equity?

A. Yes. Investors expect returns to be commensurate with the relative risk of an investment. Given the impact capital structure has on financing risk, it must be considered when determining the Cost of Equity. There is more detailed support of this topic in the direct testimony of Jennifer E. Nelson filed in this Docket.

Q. Do you believe the proposed capital structure for the Company is appropriate?

A. Yes. The proposed capital structure is consistent with the average equity ratio of the proxy group companies, and reflects the industry practice of matching long-term nature of its rate base with the sources of capital used to finance those assets.

IV. COST OF DEBT

Q. What cost of debt has the Company requested in this proceeding?

A. The calculation of the cost of long-term debt for UES is detailed on Schedule RevReq-5-4, which shows the weighted cost rate of 5.49%.

Q. Please discuss your analysis of the Company's proposed Cost of Debt.

A. Please refer to Schedule TRD-1 which tests the reasonableness of the proposed cost of debt. This schedule compares the Company's cost of debt, excluding transaction costs, to the Moody's Bond Yield for both A-Rated Utilities and BAA-Rated Utilities as of the offering dates of the Company's outstanding debt. Given that the Company's cost of debt rate is consistent with these Utility Bond Indices, I conclude that the Company's proposed cost of debt is appropriate and reasonable.

V. RETURN ON RATE BASE

Q. Please summarize the Company's proposed rate of return on rate base.

A. As summarized on Schedule RevReq-5, the Company's proposed return on rate base is 7.88%. This is the sum of the weighted cost of common equity, the cost of preferred equity, and the cost of debt.

Q. Please describe how the cost of capital is weighted.

A. The cost of the various capital components are weighted by the Company's proposed capital structure which is described above.

Q. Please summarize the costs of the various capital components.

A. The cost of common equity of 10.00% to be used for ratemaking purposes as proposed in the prefiled testimony of Robert B. Hevert is below the cost of common equity recommended in the prefiled testimony of Jennifer E. Nelson, and toward the lower end of Ms. Nelson's recommended range. The preferred equity outstanding carries a fixed cost of 6.00%, and the proposed cost of debt is 5.49%.

Q. How does the proposed return on rate base compare to the return authorized in the Company's previous rate case?

A. In Docket DE 16-384 the Commission approved a settlement agreement with Staff and the Office of the Consumer Advocate authorizing a rate of return of 8.34%. The proposed rate of return of 7.88% in this filing is 46 basis points lower, largely due to the lower cost of debt. Our ability to refinance maturing debt at lower rates depends on the strength of our credit profile, including constructive regulatory outcomes.

Q. Do you believe the proposed rate of return on rate base is appropriate?

A. Yes, for the reasons described in my testimony and the testimonies of Mr. Hevert and Ms. Nelson, the Company's proposed rate of return on rate base is reasonable and appropriate.

VI. SHORT-TERM DEBT LIMIT

Q. Please describe the Company's financing cycle.

A. The Company's funding 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. UES supplements internally generated funds through short-term borrowings under the Unitil Corp Cash Pool, which is supported by bank borrowings under Unitil Corp's credit facility. As noted earlier, when UES's short-term balance builds to a sufficient level, it will seek long-term financing to reduce the short-term debt and to appropriately match the long-term utility asset lives with long-term funding.

Q. What is the Company's current short-term borrowing limit?

A. The short-term borrowing limit currently in effect is $34.8 million, which became effective June 1, 2020.

Q. Please explain the current process for establishing the short-term borrowing limit.

A. The borrowing limit is based on a formula filed with the Commission by May 1 each year for effect June 1. The formula consists of 10% of Net Utility Plant reported on the most recent FERC Form 1 report plus a fixed amount of $10 million.

Q. Explain how the current formula for the short-term borrowing limit was established and authorized.

A. On June 12, 2008 UES filed a petition for authority to increase its short-term debt limit and to establish a short-term debt limit formula in Docket DE 08-085. On July 23, 2008, the Commission issued an Order authorizing the Company to increase its short-term debt limit from $16 million to $24 million but deferred a decision on the Company's request to establish a formula pending further examination (Order No. 24,875). On October 22, 2009, the Commission waived Puc Rule 307.05, which limits a utility's short-term indebtedness to 10% of net fixed plant, and approved a Settlement Agreement between Staff and the Company establishing a short-term debt limit formula equal to 10% of Net Utility Plant plus $10 million. Please refer to Schedule TRD-2 which illustrates the authorized borrowing limits over the past 10 years.

Q. Why did the Company file a petition to increase its short-term borrowing limit in Docket DE 08-085?

A. The Company's prior petition to increase the short-term borrowing limit was largely predicated on higher working capital as a result of increasing purchased power and transmission expense, cash obligations for credit assurance as a participant in New England ISO, ongoing energy-related stranded cost obligations and increasing capital expenditures. The Company testified that reducing the frequency of long-term permanent financings created savings by reducing transaction costs and better optimized the offering size of the permanent financings.

Q. Is the Company requesting a waiver of Puc 307.05 to change the short-term borrowing limit formula in this docket?

A. Yes. The Company is requesting a waiver from the Commission of Puc 307.05 to change its existing short-term debt formula pursuant to Puc 201.05 regarding requests for waivers of Commission rules.

Q. Does this petition meet the requirements of Puc 201.05?

A. Yes, the proposed formula change is consistent with Puc 201.05 allowing the Commission to waive the provisions of a rule. As I explain in more detail later in my testimony, the proposed formula change to the short-term debt limit will serve the public's interest by allowing the Company more flexibility in the timing of issuing permanent financing, lowering transaction costs and decreasing the amount of Company resources allocated to issuing permanent financing. The proposed formula change is justified in that it reflects the Company's current borrowing requirements, and is a reasonable alternative method that will allow for the orderly and efficient determination of the Company's short-term debt authorization.

Q. What is the Company's proposed change to the currently authorized borrowing limit formula?

A. The Company is proposing to continue using 10% of net plant as the basis for the formula, but change the fixed component of $10 million, currently authorized in the formula, to $20 million.

Q. When do you propose the new formula take effect?

A. The Company requests that the formula first take effect June 1, 2022, after a final order is expected in this docket.

Q. Are you proposing to change or add anything else to the existing process for establishing the Company's short-term borrowing limit?

A. No. The only proposed change is to the fixed component.

Q. Please elaborate on the need for the proposed change to the current formula approved by the Commission.

A. The Company is requesting a higher short-term borrowing limit primarily to account for retirements of long-term debt. The Company has several Serial Bonds outstanding that have been maturing at regular intervals since 2015. Unlike Term Bonds where the entirety of the principal matures on a single date, Serial Bonds mature at staggered dates and therefore provide more flexibility to the Company to recapitalize the maturing debt at appropriate times and reduce refinance risk. The Company's various Serial Bonds have maturity dates spanning up to 10 years. The staggered debt retirements are often referred to as sinking fund payments. From 2016 to 2020, sinking fund payments at UES totaled $28 million, and over the next five years payments will total $19 million. Please refer to Schedule TRD-3, which illustrates both the historical and projected sinking fund payments. When sinking fund payments are due, unless the Company has sufficient cash on hand, the sinking fund payments are immediately funded with short-term debt. Due to the Company's sinking fund payment schedule, short-term borrowings are increasing at a faster rate than they were before 2015. As a result, the Company has had to pursue long-term financings more frequently. Without additional flexibility the benefits of the Serial Bond structure are diminished.

Q. Please summarize the Company's recent long-term financings.

A. The Company has recently issued long-term debt twice within a span of two years. In November of 2018, the Company closed on $30 million of long-term debt at a rate of 4.18%, and in September of 2020, the Company closed on $27.5 million of long-term debt at a rate of 3.58%. Prior to these financings, the Company had not issued long-term debt since 2010 when it closed on $15 million of debt with an interest rate of 5.24%. Please refer to Schedule TRD-4 which shows the last 10 years of financing history at UES and illustrates the increasing frequency of financing activity in recent years. The reason for the recent financings were not entirely as a result of sinking fund payments, but they were a significant driver. As of December 31, 2020 the sinking fund payments that have retired since 2015 total $31 million; over that same period of time the Company has issued $57.5 million of long-term debt. The Company is responsible for managing its capital structure and borrowing requirements in a prudent manner, and will continue to rely on long-term financings to better match the long-term nature of the utility assets and recapitalizing short-term debt as appropriate. However, without increasing the short-term borrowing limit the Company has less long-term financing flexibility and is prevented from increasing the size of the offerings.

Q. Does the Company have any permanent financings planned over the next two years?

A. No. The Company is regularly evaluating its capital needs, but at this point has no definitive plans for its next permanent financing with regard to structure, timing or sizing.

Q. Can you illustrate the relative pressure the Sinking fund payments are having on short-term borrowings?

A. Yes. Please refer to Schedule TRD-5 for a 10 year history of the Company's short-term borrowings and accompanying limits. This schedule illustrates how borrowings have increased quicker in recent years, in large part due to sinking fund payments. Please also refer to Schedule TRD-6 for an illustrative example of the Company's short-term borrowing forecast from 2021 to 2023. This Schedule also shows the short-term borrowing forecast excluding the funding of all debt retirement payments. The increasing divide between the two lines reflects the relative pressure on the borrowing limit as a result of the sinking fund payments. In this illustrative scenario, the Company would need to seek a permanent financing approximately a full year sooner without the higher proposed borrowing limit. The proposed borrowing limit allows the Company to reduce the frequency of long-term financings.

Q. Please explain how you arrived at the proposed increase of $10 million.

A. The Company would prefer to pursue debt financings at a minimum interval of three years to keep transaction costs low and to lessen the demands on Company's resources when issuing securities. To achieve this, the Company needs to be able to fund debt retirement payments with short-term borrowings between permanent financings. Please again refer to Schedule TRD-3 which shows the rolling three year total of sinking fund payments. Over the next 10 years, the average rolling three year total of sinking fund payments is approximately $11.9 million. The Company believes that a $10 million increase to the limit approximates the amount of sinking fund payments that short-term borrowings must fund over a three year period to provide financing flexibility.

Q. Please explain why it is beneficial to ratepayers to increase the short-term borrowing limit.

A. It is beneficial to ratepayers to increase the short-term borrowing limit because the result will be less frequent long-term debt offerings. By increasing the short-term debt limit the Company has flexibility to access capital markets during more favorable periods and increase the size of the financings. Larger debt offerings tend to be more efficient and can attract more investor interest in the private placement market, which the Company accesses to issue long-term debt, resulting in more competitive pricing. Less frequent financings also have the benefit of spreading issuance costs, such as legal fees, over larger amounts of capital and reducing the Company's resources used when organizing and executing long-term financings.

VII. CREDIT RATINGS AND OTHER MARKET CONSIDERATIONS

Q. Please discuss the Company's current credit ratings.

A. UES has an issuer rating of BBB+ from Standard & Poor's ("S&P") rating agency and an issuer rating of Baa1 from Moody's, both of which are considered "investment grade." The S&P credit rating is determined based on Unitil Corp's entire suite of subsidiaries. The Moody's credit rating is specific to UES.

Q. Are the Company's credit ratings consistent with the peer group?

A. Yes. The table below compares the Company's credit ratings to the credit ratings of the holding companies of the utility peers group introduced in the testimony of Jennifer E. Nelson. The results reflect that the Company's credit ratings are largely consistent with its peers.

Table 1: Credit Rating Benchmarking

Issuer Credit Rating					
S&P			Moodys		
Rating	Peer #	Peer %	Rating	Peer #	Peer %
A-	10	41.7%	A3	3	12.5%
BBB+	8	33.3%	Baa1	11	45.8%
BBB	5	20.8%	Baa2	10	41.7%
BBB-	1	4.2%	Baa3	0	0.0%
	24	100.0%		24	100.0%

Notes
Credit Ratings as of 02/23/2021. The peer group is the same as the holding companies used in the capital structure benchmarking.

Q. Have there been any recent changes to the Company's credit ratings?

A. Yes. S&P recently revised Unitil Corp's outlook from stable to negative. Please refer to Schedule TRD-7 for a publication of the announcement on November 5, 2020.

Q. Please summarize the reason for the outlook change and the potential implications.

A. S&P cited Unitil Corp's smaller size relative to peers, weaker financial measures expected in the future as a result of deteriorating economic conditions related to the pandemic and warmer than normal winter weather in 2020. S&P observes that Unitil Corp's sales margins have become more uncertain as a result of the pandemic without decoupled revenue mechanisms in place. Credit rating agencies are quick to respond to negative events or elevated risk, but are slower to reestablish or upgrade an issuer when positive developments occur. They instead will wait for an extended period of time to ensure the measure leads to a long-lasting improvement rather than only a temporary measure. S&P indicated it could downgrade the Company if the funds from operations to debt ratio doesn't improve and consistently achieve at least 16%. The impact of a credit downgrade would increase the perceived investment risk of Unitil Corp to current and prospective investors, and likely increase the Company's cost of capital. The ability to attract competitive sources of capital, especially in times of economic stress, is key to UES continuing to provide exceptional service to the communities it serves at competitive rates.

Q. When considering the Company's proposed capital structure are there any other significant factors that should be considered?

A. Yes. Credit rating agencies make a variety of adjustments to the financial statements when determining credit metrics. The most significant adjustment is the inclusion of Unitil Corp's retirement benefit obligations as imputed debt. Imputed debt unfavorably impacts solvency metrics that compare cash flow to debt. Schedule TRD-8 shows the recent history of the underfunded retirement benefit obligations as well as the discount rate used to determine the benefit obligation. As of December 31, 2020 the imputed debt for these obligations was approximately $129 million. This is equal to about 22% of Unitil Corp's total debt on the books as of December 31, 2020, reflecting the materiality of this credit rating adjustment. Under the S&P methodology, the underfunded obligation is lowered by the federal income tax when calculating the imputed debt. The impact of the lower federal income tax rate, as a result of the Tax Cuts and Jobs Act of 2017, had the impact of increasing the level of imputed debt. Using the S&P methodology, the imputed debt for retirement benefit obligations has increased over $30 million from 2016 to 2020 and is largely due to the lower federal tax rate and a lower discount rate. To maintain investment grade credit metrics Unitil Corp (and its subsidiaries, including UES) must maintain a strong equity ratio to offset the retirement benefit debt imputed by credit rating agencies.

Q. Please describe the Company's plan to support its credit ratings.

A. The Company has increased its target equity ratio range in order to strengthen its balance sheet and offset the impact of the imputed debt. Secondly, the Company has proposed a decoupled revenue mechanism in this docket[2] which will be credit supportive as a result of more stable revenues. Finally, by implementing multiyear rate plans the Company can recover capital costs quicker, thereby reducing the volatility of financial metrics over time. The Company's proposed multiyear rate plan in this filing is included in the joint testimony of Messrs. Daniel T. Nawazelski and Christopher J. Goulding. The importance approval of a multiyear rate plan similar to what the Commission approved in UES' recent base rate case proceedings cannot be overstated. A multiyear rate plan supports the Company's

[2] Please see the Testimony of Timothy S. Lyons.

investment in the distribution system and helps maintain consistent financial health.

Q. Are there any other market considerations you would like to address?

A. Yes. Unitil Corp's small size relative to our utility peers poses challenges to the Company's credit ratings and to equity investors.

Q. Please outline the small size risk on credit ratings.

A. As noted above, both S&P and Moody's consider Unitil Corp's smaller relative size and scale to be a credit challenge. Specifically, S&P considers Unitil Corp's smaller relative customer base as a risk to the Company's business profile. Please see Schedule TRD-9, Confidential and Schedule TRD-10, Confidential for the most recent credit reports published by S&P and Moody's, respectively.

Q. Please demonstrate Unitil Corp's size relative to its utility peers.

A. The table below illustrates the market capitalization of Unitil Corp and its peer utilities. Unitil Corp has the smallest market capitalization of its utility peer group. Unitil Corp's market capitalization is less than half the size of Otter Tail Corporation, the smallest market capitalization company in the peer group.

Table 2: Market Capitalization Benchmarking

Average Daily Capitalization for Calendar Year 2020 ($ millions)		
COMPANY	**TICKER**	**MARKET CAPITALIZATION**
NextEra Energy, Inc.	NEE	$ 130,734
Duke Energy Corporation	DUK	64,530
Southern Company	SO	61,312
American Electric Power Company, Inc.	AEP	42,761
Xcel Energy Inc.	XEL	35,016
WEC Energy Group, Inc.	WEC	29,719
Eversource Energy	ES	29,205
Public Service Enterprise Group Incorporated	PEG	27,186
Consolidated Edison, Inc.	ED	26,416
DTE Energy Company	DTE	22,270
Entergy Corporation	ETR	20,988
Ameren Corporation	AEE	19,160
CMS Energy Corporation	CMS	17,540
Evergy, Inc	EVRG	13,350
Alliant Energy Corporation	LNT	13,010
Pinnacle West Capital Corporation	PNW	9,143
OGE Energy Corp.	OGE	6,752
IDACORP, Inc.	IDA	4,692
Hawaiian Electric Industries, Inc.	HE	4,234
Portland General Electric Company	POR	4,076
ALLETE, Inc.	ALE	3,166
NorthWestern Corporation	NWE	3,002
Avista Corporation	AVA	2,717
Otter Tail Corporation	OTTR	1,736
Unitil Corporation	UTL	710

Q. Explain how the smaller relative size increases risk to shareholders.

A. Unitil Corp's relatively small market capitalization typically results in lower trading volumes and less liquidity due to fewer shares outstanding. Market liquidity risk is the risk that an investor cannot quickly buy or sell an asset without impacting the market price. To put it another way, investors that would like to materially increase or decrease their positon in a smaller company have a harder time doing so without causing price changes given the relatively low liquidity. The table below further illustrates that Unitil Corp's daily trading volume is notably lower than the utility peer group average.

Table 3: Average Daily Volume Benchmarking

Average Daily Volume to Average Daily Shares Outstanding						
DESCRIPTION	**2016**	**2017**	**2018**	**2019**	**2020**	**Avg.**
Unitil Corporation	0.32%	0.31%	0.32%	0.33%	0.51%	0.36%
Peer Group Mean	0.60%	0.51%	0.66%	0.56%	0.64%	0.59%
Peer Group Median	0.60%	0.50%	0.65%	0.57%	0.64%	0.59%

Notes
Source: S&P Global Market Intelligence

Q. Is lower liquidity a concern for some investors?

A. Yes, liquidity is an important consideration to institutional investors as they tend to buy and sell large equity positions of a company. The term "institutional investors" refers to large organizations that make substantial investments, such as banks, hedge funds, pension funds, investment advisors, etc. These investors usually require a minimum dollar amount to invest in a particular asset in order to efficiently manage their portfolio. As mentioned previously, these companies could face difficulty acquiring or divesting a position without adversely affecting the market price of the shares.

Q. Can institutional investors be a benefit to a company like Unitil Corp?

A. Yes, capital intensive companies such as UES, and its parent Unitil Corp, can benefit from institutional investors because they provide an efficient source of capital due to the amount of resources they are able to invest. Institutional investors typically account for 70% to 80% of utility share ownership. The peer group's institution ownership currently has an average of 75%, compared to Unitil

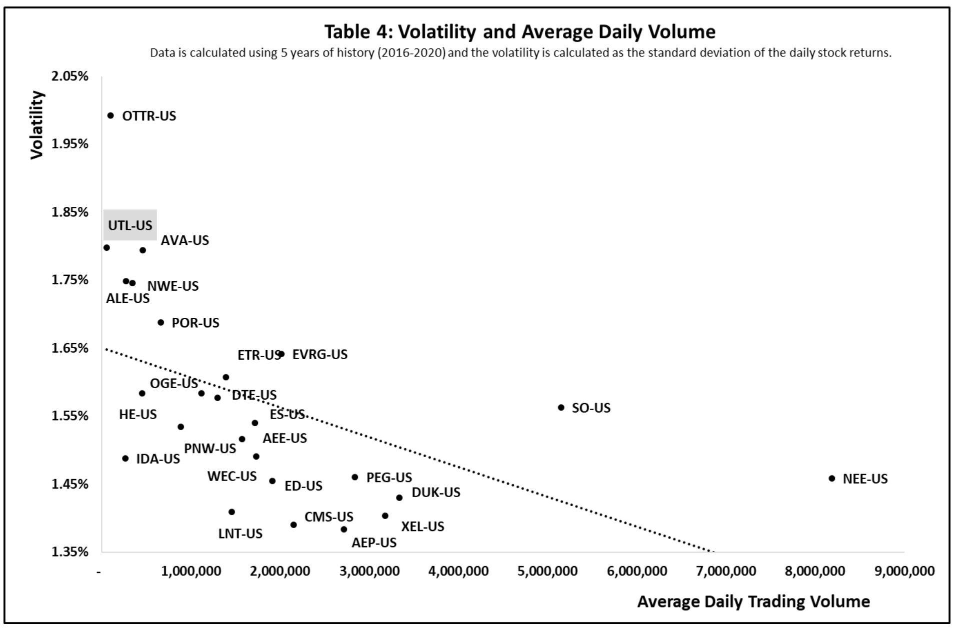
Corp's institutional ownership of 67%. In order to attract institutional investors the expected return must compensate investors for the associated risk of the investment. Specifically, all else held constant the expected return associated with a company with relatively more market liquidity risk would need to be higher than a company with relatively less market liquidity risk.

Q. Can you further demonstrate the effects of Unitil Corp's small size in relation to the cost of equity?

A. Yes, unlike debt that has contractually defined characteristics and a specific assigned interest rate the cost of equity is harder to estimate. Debt holders are given priority to cash flows before equity investors. This uncertainty and additional risk is what compels equity investors to require a higher return than debt investors.

One method of assessing equity risk is to view an equity security's market volatility compared against similar equity securities. The greater the riskiness of the stock the higher the required return is for investors. In this testimony I have referred to the peer group developed in Jennifer E. Nelson's testimony. When looking at this group compared to Unitil Corp some key features stand out. I have already discussed the low average daily trading volume of Unitil Corp compared against it peers. Another attribute is the higher stock volatility of Unitil Corp. Stock volatility is the measure of fluctuation of the price of a stock over a period of time. When analyzing the two measures (average daily trading volume and stock volatility) in Table 4, it is clear that Unitil Corp has higher volatility and lower average daily trading volume compared against other companies in the peer group.

The combination of low daily trading volume and increased volatility are characteristics that can drive investment decisions of investors. Unitil Corp is much smaller in size and has higher volatility than its peers, so it requires a return that is higher than its peers to compensate investors.



Q. What consideration should be given in this docket pertaining to UES's credit metrics, small company size, low liquidity and high volatility?

A. The pressure on credit metrics, the Company's small size, liquidity risk and high volatility should be considered when the Commission is considering the Company's proposed Cost of Equity and capital structure. In Jennifer E. Nelson's direct testimony she approximates that the small size risk premium to the cost of equity is approximately 180 basis points. These considerations support a Cost of

Equity result in the upper end of Jennifer E. Nelson's range, especially when comparing against a peer group that does not face similar difficulties.

VIII. CONCLUSION

Q. Do you believe the proposed capital structure, proposed return on rate base, and the petition to increase the short-term borrowing limit are reasonable?

A. Yes.

Q. Does this conclude your testimony?

A. Yes.

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