STATE OF NEW HAMPSHIRE
Before the
PUBLIC UTILITIES COMMISSION

DE 09-___

UNITIL ENERGY SYSTEMS, INC.

PETITION FOR AUTHORITY TO ISSUE SECURITIES

DIRECT TESTIMONY

OF

DAVID L. CHONG

NOVEMBER 20, 2009

Q. Please state your full name and business address.

A. My name is David L. Chong. 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 the Director of Finance for Unitil Service Corp. ("Unitil Service"), which provides various professional and administrative services to Unitil Energy Systems, Inc. ("UES" or the "Company"), as well as to Unitil Corporation's ("Unitil") other utility subsidiaries. As Director of Finance, I am responsible for the management of treasury operations and banking relationships; planning and execution of financing programs; development, preparation and presentation of financial forecasts and plans; overseeing insurance programs; interfacing with the financial community and investors; and supporting the company's regulatory and ratemaking objectives.

Q. Please summarize your professional and educational background.

A. I have worked in the energy industry for over 8 years, principally in the areas of engineering and finance. From 2001 through 2005, I worked for Exxon Mobil Corporation as a project engineer. From 2005 through 2008, I worked for RBC Capital Markets Corporation in the energy investment banking group, where I provided financial advisory services including corporate finance and mergers and acquisitions analyses. While at RBC, I raised both equity and debt capital on numerous occasions for various energy companies. From 2008 through 2009, I worked for El Paso Exploration & Production Company in its business development group. I began working for Unitil

Service in August 2009 as the Director of Finance. I hold a Master's Degree in Business Administration from Tulane University and a Bachelor of Science degree in Mechanical Engineering with Honors from the University of Texas at Austin.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain and support UES' petition requesting authorization to issue to institutional investor(s) first mortgage bonds evidencing secured long-term debt in an aggregate amount of up to $15,000,000 (hereinafter referred to as the "Bonds").

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

A. UES is seeking the Commission's approval to issue an aggregate principal amount of up to $15,000,000 of Bonds. The Bonds will be sold at par and will have a target maturity of 10 years and bear a fixed coupon of not more than 7.8%.

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

A. UES completed its last long-term debt financing in September 2006. In this financing, UES issued $15,000,000 principal amount of its 6.32% First Mortgage Bonds, Series O due September 15, 2036.

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

A. UES is seeking to issue, at par, to institutional investors first mortgage bonds in an aggregate amount of up to $15,000,000. 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 and thirteenth supplemental indentures. The Bonds will be marketed with a 10-year maturity / 9-year average life. The Bonds will have sinking fund and redemption provisions that are designed to allow UES to pay off the Bonds in equal increments over the final three years. However, the ultimate maturity / average life, sinking fund provisions, coupon and other terms will depend on market conditions and investor interest at the time of pricing.

Q. What do you expect UES' indicative credit rating to be for the offering?

A. Unitil and its subsidiaries do not have a public rating. Unitil's placement agent, Banc of America Securities LLC (the "Placement Agent"), has indicated that based on recent issuances and a review of UES' credit statistics, they believe the implied rating of UES would be Baa2/BBB. UES' current outstanding long-term debt has a private rating of NAIC-2 by the National Association of Insurance Commissioners (NAIC). The NAIC-2 rating is the equivalent of the BBB rating by Standard and Poor's rating agency, reflecting the NAIC's view of UES as an investment grade credit.

Q. What are the current indicative coupon rates for this long-term debt offering?

A. The indicative coupon rates for this long-term debt offering are shown in the indicative term sheet in Schedule DLC-1. The indicative coupon rates are shown at the bottom of the schedule for a variety of maturities ranging from 10 to 20 years. As shown, the coupon rates are derived by applying a projected credit spread to the appropriate US Treasury benchmark rate (as of November 17, 2009). The coupon rate for the 10-year maturity / 9-year average life is currently estimated at 4.94-5.69%. The 15-year and 20-year maturity are currently estimated at 5.49-6.24% and 5.91-6.66%, respectively. UES plans to target the 10-year maturity / 9-year average life. UES believes that this structure is advantageous because of the lower cost of debt. This structure results in a lower coupon rate of approximately 1% compared to the 20-year maturity, primarily because of differences in the treasury benchmark rate at the different maturities. However, the ultimate maturity depends on market conditions and investor appetite at the time of pricing for a 10-year security; therefore it is possible that UES may have to price outside of a 10-year maturity to attract sufficient investor interest.

Q. Why is UES proposing a 7.8% maximum coupon rate in its petition?

A. Market conditions can rapidly change, and UES does not anticipate pricing until early December 2009. Therefore, UES used the maximum yield for the 10-year treasury in the last five years (from 11/16/2004 to 11/16/2009) as a proxy in anticipation of potential changes in the treasury market. The maximum yield for the 10-year treasury was 5.3% during this five-year period according to our Placement Agent. We then added a credit spread of 250 bps (corresponds to the spread ranges given under a 10-year maturity in the indicative term sheet in Schedule DLC-1) to obtain a total coupon rate of 7.8%.

Q. How does the current US treasury yield benchmark compare to yields in prior market periods?

B. From a longer term perspective, treasury yields are near historically low levels, although they have risen recently compared to the low levels earlier this year, as shown in Schedule DLC-2. In the last 20 years, the 10-year treasury yield has been higher than today's yield 97% of the time. However, credit spreads have widened significantly reflecting the global repricing of credit risk, offsetting the recent fall in the benchmark. Nevertheless, the resulting long-term coupon rates remain at comparatively low levels from a historical perspective and provide UES with an opportunity to lock-in these favorable yields for the long-term.

Q. Please explain how the pricing benchmarks shown on schedule DLC-1 were determined?

A. The pricing benchmarks for private placements are typically the most liquid or actively traded U.S. Treasury issues that have a maturity closest to the average life of the notes being issued. The 10-year treasury meets this liquidity criterion. For the 15-year and 20-year benchmarks, there is no liquid or actively traded bond that will mature in that time. Therefore, the pricing benchmarks for these maturities are interpolated. When investors make their pricing bids, they will often determine their desired all-in coupons and back into the spreads based upon the specific pricing benchmarks selected.

Q. How were the current spreads over the treasury benchmarks determined?

A. Unitil's views on the expected credit spreads over the benchmarks are based upon our most recent discussions and feedback from our Placement Agent. Our Placement Agent has provided us with a synopsis of comparable utility transactions as shown in Schedule DLC-3. In this schedule, the Placement Agents analyzed the Baa2/BBB spreads for both 2009 utility private placement new issuances and secondary market transactions to determine indicative credit spreads as shown in Schedule DLC-1.

Q. How does UES intend to use the net proceeds of the issuance of the Bonds?

A. The Company intends to utilize the proceeds of the Bond financing as follows: (1) to repay outstanding short-term indebtedness incurred for additions, extensions and betterments to the Company's property, plant and equipment; (2) to defray the costs and expense of the financing; and (3) for other lawful corporate purposes.

UNITIL ENERGY SYSTEMS, INC.
SOURCES AND USES OF FUNDS
Proposed Sale of $15,000,000 First Mortgage Bonds
($ In Thousands)

Sources of Funds	
Proposed Sale of First Mortgage Bonds	$15,000
Equity Contribution from Unitil Corporation	5,000
Total Sources of Funds	**$20,000**
Uses of Funds	
Repay Short-Term Debt	$16,696
General Corporate Purposes	2,754
Fees and Expenses	550
Total Uses of Funds	**$20,000**

Q. How will the long-term debt financing affect the capital structure, including short-term debt of the Company?

A. In addition to the Bond financing, Unitil is planning to provide a $5,000,000 equity contribution. As shown below, the long-term debt to capitalization ratio (excluding short-term debt) for UES will increase slightly by this financing, which is partially mitigated by the equity contribution of $5,000,000 from Unitil. The total debt to capitalization ratio (including short-term debt of the Company) will be strengthened since the use of proceeds from both the proposed long-term Bond offering and the equity contribution are to repay short-term debt. For both cases, excluding and including short-term debt, the equity ratio is 44% pro forma for the financing.

UNITIL ENERGY SYSTEMS, INC.
CAPITAL STRUCTURE AS OF SEPTEMBER 30, 2009
Proformed for the Issuance and Sale of $15,000,000 First Mortgage Bonds
($ In Millions)

Excluding Short-Term Debt

	Actual		Adjustments	Pro Forma	
	Amount	% of Total	Amount	Amount	% of Total
Long-Term Debt	$65.0	52.7%	$15.0	$80.0	55.8%
Common Equity	58.2	47.2%	5.0	63.2	44.1%
Preferred Stock	0.2	0.2%	0.0	0.2	0.1%
Total	**$123.4**	**100.0%**	**$20.0**	**$143.4**	**100.0%**

Including Short-Term Debt

	Actual		Adjustments	Pro Forma	
	Amount	% of Total	Amount	Amount	% of Total
Long-Term Debt	$65.0	46.4%	$15.0	$80.0	55.8%
Short-Term Debt	16.7	11.9%	(16.7)	0.0	0.0%
Common Equity	58.2	41.5%	5.0	63.2	44.1%
Preferred Stock	0.2	0.1%	0.0	0.2	0.1%
Total	**$140.1**	**100.0%**	**$3.3**	**$143.4**	**100.0%**

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

A. Under the terms of our engagement letter with the Placement Agent, UES will pay a placement fee of $135,000, which is equal to 0.90% 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 are more extensive and costly than an unsecured financing. UES received an estimate of $250,000 from Dewey & LeBoeuf (UES' outside counsel for corporate financing services). UES 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. UES also estimates $100,000 for lender's counsel. UES also estimates $55,000 for fees associated with the trustee, trustee's counsel and title work. Lastly, UES estimates $10,000 for miscellaneous expenses including potential out-of-pockets expenses for the Placement Agent under the terms of our engagement letter. The current estimate is that the total fees and expenses associated with the issuance of the Bonds will be about $550,000.

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 UES' current investors (four) and to a few other external private placement investors that are active participants in the utility sector 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 UES' 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 Agents has indicated that a $15,000,000 issuance is relatively small and therefore a competitive market can be established with the above strategy. The Placement Agent expects that 2-3 of the investors to whom the offering has been marketed will make competitive offers. The Placement Agent also anticipates that several investors will opt to not make a bid once they realize they may not be competitive on the price guidance provided by the Placement Agents during the marketing period.

Q. Have you obtained an assessment of the current state of the Private Placement Market?

A. Yes. A normal part of Unitil's due diligence and preparatory work before going to the market for a private placement is to have several strategic discussions with the Placement Agent and other advisors on overall market conditions. As shown in Schedule DLC-4, our Placement Agent has indicated that current investor demand exceeds available supply and investors are submitting increasingly aggressive bids. Over $23 billion of transactions have been completed year-to-date in 2009 with approximately $7 billion of transactions completed in the third quarter of 2009. The private placement market has not been constrained by the same liquidity issues as in other sectors of the global financial markets. In the bond market and especially in the private placement market, the Placement Agent expects that investor liquidity will increase due to ongoing receipt of interest payments, bond redemptions and scheduled maturities.

Q. **Does UES expect the Private Placement Market to be receptive to this offering?**

A. Yes. Unitil believes that the private placement market will be receptive to this offering, similar to the previous deal completed in 2006, where the Company was viewed favorably by the private placement market. According to the Placement Agent, investors have been attracted by Unitil's stable growth and performance in its sector, regulatory climate and strong management team, and will welcome the opportunity to invest further in Unitil and its subsidiaries. From a broader perspective, the fact that the utility sector has been viewed favorably by investors is evidenced by the high levels of new issuance in the past few years and year-to-date. As shown in Schedule DLC-4, page 2, utility issuances have represented 17% of the total new issuances year-to-date 2009. Additionally, the Placement Agent has informed us that there has been significant demand for longer-dated securities in the private placement market, as investors are looking for debt to match their longer dated liabilities.

Q. Please explain the Amendment and Waiver that UES is seeking from its current investors.

A. To issue additional debt, UES has to meet two tests under its twelfth and thirteenth supplemental indentures: 1) Earnings Available for Interest Charges ("EAIC") and 2) Net Bondable Expenditures. In the first test, UES currently has a ratio of 1.9x of Earnings Available for Interest Charges to Annual Interest Requirements, which is slightly below the required minimum ratio of 2.0x pro forma for a new issuance. The severe on-going recession has resulted in reduced sales which is a significant contributor to the Company's current "per books" revenue deficiency of $3.5 million as of September 30, 2009. If this revenue deficiency were proformed in, then UES would comply with the EAIC debt incurrence test as shown in the table below.

UNITIL ENERGY SYSTEMS, INC.
EARNINGS COVERAGE TESTS
TWELVE MONTHS ENDED September 30, 2009

(In millions)			Actual	Pro Forma New Bonds	Pro Forma New Bonds & Rate Relief
Earnings Available for Interest Charges			$9.8	$9.8	$9.8
Plus: Revenue Deficiency Per Books			-	-	3.5
Pro Forma Earnings Available for Interest Charges			$9.8	$9.8	$13.3
Annual Interest Requirements:					
UES Debt	Principal	Interest			
FMB due 2024	$15.0	8.49%	$1.3	$1.3	$1.3
FMB due 2028	20.0	6.96%	1.4	1.4	1.4
FMB due 2031	15.0	8.00%	1.2	1.2	1.2
FMB due 2036	15.0	6.32%	0.9	0.9	0.9
ST Borrowings	16.7	2.00%	0.3	-	-
New Bonds - Coupon Estimated (1)	15.0	5.32%	-	0.8	0.8
Total			$5.1	$5.6	$5.6
Earnings To Fixed Charges Coverage			1.9 x	1.7 x	2.4 x
Minimum Coverage			2.0 x	2.0 x	2.0 x

(1) Assumes mid-point of coupon rates for the 10-year maturity / 9-year average life provided by the Placement Agent

UES meets the second test, Net Bondable Expenditures, by a significant margin. Schedule DLC-6 shows bondable additions and retirements since UES' last financing in September 2006. The Net Bondable Expenditures test states that additional bonds may be issued up to 68% of Net Bondable Expenditures for Property Additions. As of September 30, 2009, Net Bondable Expenditures were $77 million which would imply UES could issue up to $52 million of additional debt.

Overall, since long-term interest rates are currently favorable for issuers, UES decided it is advantageous to go to market now by seeking a one-time Waiver and Amendment to waive the EAIC debt incurrence test for this Bond issuance. Furthermore, our Placement Agent has indicated that there should be no material pricing difference as a result of UES not meeting its EAIC incurrence test. Our Placement Agent has indicated that this offering will be marketed as a utility Baa2/BBB credit and should obtain similar pricing as other comparable utility Baa2/BBB credits.

UES has been negotiating with its current investors regarding the terms of the Waiver and Amendment and anticipates that the Waiver and Amendment will be executed by the time of Pricing of the Bonds. To approve the Waiver and Amendment, UES' investors are currently requesting:

1) A temporary fee of 100 bps per annum paid to all of UES bondholders if any UES bondholder would be required under applicable insurance regulations to post additional reserves with respect to UES' bonds. If the fee were to go in effect, UES

would be able to eliminate the fee by obtaining external ratings from an accredited rating agency such as Moody's, S&P, Fitch or DBRS. This entire provision would expire four consecutive quarters after the next final rate order from the Commission, and therefore has a temporary effect on the indentures. UES believes the fee has little chance of occurring, because the NAIC reaffirmed its 2 investment grade rating this fall. Our Placement Agent has stated the NAIC typically assesses securities on an annual basis.

2) Certain representations and warranties.

3) Certain other provisions designed to update the UES indentures which may include provisions commonly found in issuances today such as compliance with environmental laws; calculation of debt at not less than 100% principal value; and additional events of default in the case of a material adverse judgment, false or incorrect representation or warranty, and a material adverse event relating to employee benefit plans.

4) A waiver fee in the amount of 10 bps of the principal amount of bonds held by each investor.

UES is currently negotiating the specific terms and language of the above requests from the bondholders. Therefore, the final Waiver and Amendment may result in different provisions, but we do not expect it to differ significantly from the above. In no event will UES agree that Request 1 above be a permanently effective provision in the indentures. Ultimately, UES and the bondholders may not be able to come to terms with an acceptable Waiver and Amendment. In this case, UES would most likely wait until the next rate case and subsequent rate order to go to market. In UES' indenture, there is a provision to annualize a rate order, so that UES would be able to more quickly go to market rather than wait for the income statement impact of several quarters of the rate order to meet its EAIC test.

Q. What is the timetable for the proposed financing?

A. Schedule DLC-5 is a timetable for each of the major activities associated with the proposed debt offering. While this timetable is currently UES' and the Placement Agent's best estimate of timing, it is possible that due to unforeseen market or other conditions, the timing of this offering may be adjusted.

UES is requesting an order *nisi* from the Commission approving the transaction on or before December 18, 2009. This will provide for the necessary expiration of the appeal period prior to the final Closing. The final Closing on the Bonds is currently targeted for late January 2010. In its financing petition on this matter, the Company is requesting the Commission's authorization for the proposed financing without hearing. In previous UES financings, the Commission has recognized the tight time frames under which market transactions of this nature must necessarily take place and has therefore provided for an expeditious discovery process without hearing and issued its approvals by Order *Nisi*. The Company is again seeking this approval process with respect to this Bond financing.

Q. Does this conclude your testimony?

A. Yes, it does.