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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

January 5, 2010 - 10:05 a.m.
Concord, New Hampshire

NHPUC JAN08'10 PM 4:03

RE: DG 09-236
UNITIL ENERGY SYSTEMS, INC.:
Petition for Authority to Issue
Securities.

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Clifton C. Below
Commissioner Amy L. Ignatius

Sandy Deno, Clerk

APPEARANCES: Reptg. Unitil Energy Systems, Inc.:
Meabh Purcell, Esq. (Dewey & LeBoeuf)

Reptg. Residential Ratepayers:
Rorie E. P. Hollenberg, Esq.
Office of Consumer Advocate

Reptg. PUC Staff:
Matthew J. Fossum, Esq., Esq.
Steven Mullen, Asst. Dir., Electric Division
Stephen Frink, Asst. Dir., Gas & Water Div.

Court Reporter: Steven E. Patnaude, LCR No. 52

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WITNESS: DAVID L. CHONG

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E X H I B I T S

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EXHIBIT NO.

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UES-1

UES's F-4 Petition for Authority
to Issue Securities, including
exhibits and Direct Testimony of
David L. Chong (11-20-09)

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UES-2

Supplemental Testimony of
David L. Chong, with attached
schedules (12-21-09)

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UES-3

Schedule 3(a) and Schedule 3(b)
to the Supplemental Testimony of
David L. Chong (12-23-09)

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UES-4

Response to Request No. Staff 2-1
(12-29-09)

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UES-5

Response to Request No. Staff 2-2
(12-29-09)

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UES-6

Response to Request No. Staff 2-3
(12-29-09)

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UES-7

Response to Request No. Staff 1-2,
including supplemental response
with Staff 1-2(a) Attachment 1
(responses dated 12-09-09 & 12-16-09)

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1 P R O C E E D I N G

2 CHAIRMAN GETZ: Okay. Good morning.

3 We'll open the hearing in docket DE 09-236. On
4 November 23, 2009, Unitil Energy Systems filed with the
5 Commission a petition for authority to issue securities.
6 The Company seeks to issue first mortgage bonds evidencing
7 secured long-term debt in an aggregate amount of up to
8 \$15 million for the purpose of paying off outstanding
9 short-term debt, defraying the costs and expenses of the
10 financing, and for other corporate purposes. An order of
11 notice was issued on December 17 setting the hearing for
12 this morning.

13 Can we take appearances please.

14 MS. PURCELL: Thank you. Representing
15 Unitil Energy Systems, Meabh Purcell, Dewey & LeBoeuf,
16 Boston.

17 CHAIRMAN GETZ: Good morning.

18 MS. PURCELL: Good morning.

19 MS. HOLLENBERG: Good morning. Rorie
20 Hollenberg, here for the Office of Consumer Advocate.

21 CHAIRMAN GETZ: Good morning.

22 MR. FOSSUM: And, good morning. Matthew
23 Fossum, from the Commission Staff. And, with me today,
24 Steven Mullen and Stephen Frink from the Staff of the

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[WITNESS: Chong]

1 Commission.

2 CHAIRMAN GETZ: Good morning. Ready to
3 proceed, Ms. Purcell?

4 MS. PURCELL: Yes. I don't think
5 Mr. Chong is still sworn. Okay. I would ask that he be
6 sworn please.

7 (Whereupon David L. Chong was duly sworn
8 and cautioned by the Court Reporter.)

9 MS. PURCELL: Oh, I just would like to
10 point out that I gave the affidavit of service to the
11 Clerk.

12 CHAIRMAN GETZ: Okay. Thank you.

13 DAVID L. CHONG, SWORN

14 DIRECT EXAMINATION

15 BY MS. PURCELL:

16 Q. Mr. Chong, could you please state your full name and
17 your title and your business address for the record.

18 A. Sure. David L. Chong, Director of Finance, 6 Liberty
19 Lane West, Hampton, New Hampshire 03842.

20 Q. Thank you. And, again, I'm going to mark seven
21 exhibits together. And, I'm going to start with copies
22 of documents under cover letter dated November 20th.
23 Could you please identify this package of materials for
24 me.

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[WITNESS: Chong]

1 A. Sure. This is the F-4 financing petition for Unitil
2 Energy Systems, UES. It also contains my prefiled
3 testimony and various schedules and exhibits in support
4 of UES's request for approval to issue first mortgage
5 bonds in an amount not to exceed \$15 million. And, my
6 testimony also describes a parent equity contribution
7 in an amount of \$5 million.

8 MS. PURCELL: Thank you. I'd like to
9 mark this as "Exhibit UES-1".

10 CHAIRMAN GETZ: So marked.

11 (The document, as described, was
12 herewith marked as Exhibit UES-1 for
13 identification.)

14 BY MS. PURCELL:

15 Q. And, as "Exhibit UES-2", could you please identify this
16 document.

17 A. Certainly. This is my Supplemental Prefiled Testimony,
18 dated December 21st, 2009. This testimony was filed
19 after circling, to provide the Commission and the
20 relevant parties an update of UES's final coupon rate
21 of 5.24 percent. The supplemental testimony also
22 addresses certain issues that arose during the
23 discovery process.

24 (The document, as described, was

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1 herewith marked as Exhibit UES-2 for
2 identification.)

3 BY MS. PURCELL:

4 Q. Thank you. And, I'm going to show you a cover letter
5 dated December 23rd, and ask you identify this.

6 MS. PURCELL: And, I'm not sure I have
7 extras of this one, but it was filed with Ms. Howland.

8 CHAIRMAN GETZ: We have this.

9 MS. PURCELL: You have this. Okay.

10 BY THE WITNESS:

11 A. Certainly. This letter dated December 23rd contains
12 Schedule 3(a) and Schedule 3(b), which are detailed
13 project description lists of UES's historical bondable
14 additions filed as a supplement to the supplemental
15 testimony.

16 (The document, as described, was
17 herewith marked as Exhibit UES-3 for
18 identification.)

19 BY MS. PURCELL:

20 Q. Thank you. And, I'm just going to pause here for a
21 second. And, do you have any corrections to your
22 prefiled testimony, which was in "Exhibit UES-1", your
23 initial testimony, or in the supplemental testimony, in
24 Exhibit UES-2?

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[WITNESS: Chong]

- 1 A. Yes. I have a minor correction in my supplemental
2 testimony, Exhibit UES-2, Page 1, Lines 11 to 12,
3 should read "secured long-term debt", instead of
4 "unsecured long-term debt".
- 5 Q. Okay. I just want to make sure that people have got
6 that. Do you adopt your prefiled testimony, your
7 initial prefiled testimony and your supplemental
8 prefiled testimony in Exhibits 1 and 2 as your sworn
9 testimony in this proceeding?
- 10 A. Yes, I do.
- 11 Q. And, I'm going to mark some data responses. First, as
12 "Exhibit UES-4, could you identify this response.
- 13 A. Yes. Exhibit UES-4 is UES's response to Request Staff
14 2-1. And, the nature of the response is regarding the
15 temporary 100 basis point fee.
- 16 Q. Thank you. And, I'm also going to mark, from the same
17 series, as "Exhibits UES-5" and "6", if you could
18 identify these for me.
- 19 A. Certainly. Exhibit UES-5 is a request to -- is a
20 response to Staff 2-2. And, the response pertains to
21 the waiver fee of 10 basis points. Exhibit UES-6 is
22 response to Staff 2-3. And, this pertains to the 10
23 basis point waiver fee and 100 basis point temporary
24 fee.

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[WITNESS: Chong]

1 Q. And, lastly, I'm going to mark as "Exhibit UES-7", it's
2 two responses, but one was the supplemental to the
3 initial. So, we're marking them together. Identify
4 this please.

5 A. Certainly. Exhibit UES-7 is UES's response to Staff
6 1-2. The nature of the response deals with historical
7 capital expenditures and forecast capital expenditures.
8 The supplemental response is an account detail of
9 historical capital additions.

10 MS. PURCELL: Thank you.

11 CHAIRMAN GETZ: Okay. The discovery
12 described by Ms. Purcell will be marked respectively as
13 "Exhibits 4", "5", "6", and "7" for identification.

14 (The documents, as described, were
15 herewith marked as Exhibits UES-4,
16 UES-5, UES-6, and UES-7, respectively,
17 for identification.)

18 MS. PURCELL: Thank you.

19 BY MS. PURCELL:

20 Q. Mr. Chong, can you briefly describe or summarize the
21 purpose of your testimony today.

22 A. Certainly. The purpose of my testimony is to explain
23 and support UES's petition, the petition to issue
24 \$15 million of first mortgage bonds at a coupon rate of

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[WITNESS: Chong]

1 5.24 percent. I will also address the concerns raised
2 by the OCA in a letter dated December 11, 2009.

3 Q. Thank you. And, first, could you describe the results
4 of the private placement process.

5 A. Certainly. The marketing of the bonds was done in an
6 "auction" format, where the Company's existing
7 investors and other external investors were invited to
8 participate in the process to create a competitive
9 solicitation process. The auction was performed
10 simultaneously with the Northern Utilities, and
11 approximately six external and six internal investors
12 were contacted. UES priced \$15 million first mortgage
13 bonds with a coupon rate of 5.2 percent, with a final
14 maturity of ten years, with a three year final sinking
15 fund, for a nine year average life. The pricing spread
16 of 185 basis points fits well within the range provided
17 in the initial testimony.

18 And, lastly, the coupon rate favors --
19 compares favorably with interest rates and -- with
20 historical interest rates and represents the lowest
21 cost component of UES's capital structure.

22 Q. Thank you. And, Mr. Chong, could you briefly describe
23 the amendment and waiver that UES is seeking from its
24 current investors?

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[WITNESS: Chong]

1 A. Certainly. UES cannot issue -- issue additional debt
2 under its indenture, because it does not meet one of
3 its incurrence tests, which is the Earnings Available
4 for Interest Charges. This test requires a minimum
5 ratio of two times proforma for a new issuance.

6 UES is seeking a one-time waiver of this
7 incurrence test, since debt capital markets and yields
8 are very low compared to historical interest rates, as
9 evidenced by the circled coupon rate of 5.24 percent.

10 UES plans to pay a waiver fee of 10
11 basis points to existing holders, which equates to
12 \$65,000, which UES proposes to amortize over the life
13 of the bond. The waiver has a temporary 100 basis
14 point fee provision, to which UES proposes to hold
15 customers harmless.

16 Q. And, Mr. Chong, you may have mentioned this, but is
17 there a data response or an exhibit that we've marked
18 that references this?

19 A. Yes. It's data response to Staff 2-3.

20 Q. I believe that is --

21 A. Exhibit UES-6.

22 Q. Yes. Thank you. And, just to be clear, Mr. Chong, the
23 waiver that UES is seeking, that's a waiver from UES's
24 investors?

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[WITNESS: Chong]

1 A. Correct.

2 Q. Not the Commission, just to clarify that point?

3 A. Correct.

4 Q. Thank you. Okay. Thank you. Could you briefly

5 describe the concerns raised by the OCA and UES's

6 proposal to or responses to those concerns?

7 A. Certainly. The OCA's concerns in her December 11, 2009

8 letter related to the proposed interest rate of UES's

9 initial petition; the proposed costs of the financing;

10 the sufficiency of the evidence regarding UES's

11 proposed use of the funds; the impact on UES's

12 customers; and, finally, the type of approval process

13 requested in UES's petition. I addressed each of these

14 concerns in detail in my supplemental testimony.

15 Q. And, please describe how UES intends to apply the net

16 proceeds from the financing.

17 A. Certainly. The net proceeds of the \$15 million first

18 mortgage bonds, in addition to the \$5 million equity

19 contribution, will be used primarily to refinance

20 short-term debt which was incurred for distribution

21 capital expenditures. The capital necessary to finance

22 capital expenditures is derived primarily from

23 internally-generated funds, which is supplemented by

24 short-term debt. Periodically, UES replaces the

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1 short-term debt with long-term financing, as in this
2 petition.

3 UES provided historical bondable
4 additions of \$43.6 million since its last financing in
5 2006, forecast capital spending of \$15.6 million in
6 2010, and a detailed project list of historical capital
7 expenditures. Once again, these capital expenditures
8 were incurred as part of UES's operations as a
9 distribution company.

10 Q. Thank you. And, the data responses that we've marked
11 that would provide --

12 A. Yes.

13 Q. -- support for what you just said. Would you identify
14 that please.

15 A. Yes. The data responses are Staff 1-2 and supplement
16 to Staff 1-2(a).

17 Q. And, we've marked those together as "Exhibit UES-7".

18 Mr. Chong, does UES anticipate that the amount of
19 short-term debt that will ultimately be redeemed will
20 be higher than anticipated in the initial filing?

21 A. Yes. As explained in my supplemental testimony, as a
22 result of the timing of the financing and when the cash
23 proceeds will be received, which is on or about March
24 1st, 2010, the expectation is that the net proceeds

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[WITNESS: Chong]

1 will be used to pay down a higher short-term debt
2 balance due to ongoing capital expenditures. There's
3 approximately a five-month period from the date given
4 in the petition of September 30th, 2009 and March 1st,
5 2010.

6 Q. Thank you. And, could you just briefly comment on the
7 OCA's other concerns, related to the costs and the
8 interest rate and impact on ratepayers.

9 A. Certainly. The OCA's objection to the interest rate
10 for the proposed bond should now be resolved. The
11 final rate of 5.24 percent is significantly below the
12 7.8 percent indicated in the petition.

13 With respect to OCA's concerns regarding
14 the anticipated costs of the financing, in my
15 supplemental testimony I explained the benefits in
16 using the same counsel for this financing as in prior
17 financings. Moreover, I explained that UES has a
18 strong incentive to control its financing costs, and it
19 is our expectation that the final legal costs will be
20 less than initially projected. Lastly, many costs,
21 such as lenders' counsel and trustees' fees are not
22 under the Company's direct control and would not be
23 appropriate for an RFP.

24 Lastly, with respect to impact on

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1 ratepayers, the weighted cost rate -- the weighted
2 average cost of capital for UES will decrease as a
3 result of the proposed financing. Although there will
4 be no immediate impact to UES's customers, because the
5 financing will not be reflected until the next base
6 rate case, by lowering UES's overall cost of capital,
7 the financing will have the effect of lowering rates to
8 customers over the long term.

9 MS. PURCELL: Thank you. I have nothing
10 further. Mr. Chong is available for cross-examination.

11 CHAIRMAN GETZ: Thank you. Ms.
12 Hollenberg?

13 MS. HOLLENBERG: No questions. Thank
14 you.

15 CHAIRMAN GETZ: Mr. Fossum.

16 MR. FOSSUM: Thank you.

17 CROSS-EXAMINATION

18 BY MR. FOSSUM:

19 Q. Going back, going with the coupon rate of the debt that
20 you've obtained so far, the all-in rate on that,
21 including costs and other items as is necessary, how
22 does that rate compare to UES's existing bonds?

23 A. Certainly. In Schedule 2 to my supplemental testimony,
24 I provided the all-in cost rate, in addition to a

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1 weighted average cost of capital calculation. The
2 all-in cost rate is 5.89 percent for this issuance. If
3 you go to Page 2 of Schedule 2, in the supplemental
4 testimony, you can see that the weighted average cost
5 rate for existing long-term debt at UES is
6 7.68 percent. Compared to this issuance of
7 5.89 percent, it's nearly two full percentage points.
8 Overall, this new issuance of 5.89 percent represents
9 the lowest cost -- the lowest cost component of UES's
10 proforma capital structure.

11 Q. And, given that low rate, would it make sense for UES
12 to refinance some of its existing debt?

13 A. Certainly. Due to the make whole provisions found in
14 the indenture, which is a -- which utilize a discount
15 rate of treasury plus 50 basis points, it would not
16 make sense, given that, in this financing, our spread
17 was 185 basis points. We are requiring a spread below
18 50 basis points for it to be economical.

19 Q. Now, regarding the uses of the proceeds from this debt
20 issuance, you had marked Exhibit 7, the response to
21 Staff 1-2, which describes capital projects that have
22 been done. Did UES also provide a disk with details of
23 the capital additions that the Company has made back
24 beginning in 2006?

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[WITNESS: Chong]

1 A. Correct. The Company provided, in supplemental
2 response to 1-2(a), a CD that provided account number
3 detail for the bondable additions that were provided in
4 the original testimony.

5 Q. And, that's in addition to the information that's been
6 marked as Exhibit 7, is that correct?

7 MS. PURCELL: Actually, I mean, that is
8 a good point, and I meant to clarify this on the direct
9 exam. Because the supplemental response refers to the CD,
10 I thought, by implication, the CD would be part of the
11 exhibit. I didn't know how else to -- the CD is, if you
12 look at the text of the supplemental response, it just
13 says "Attachment 2" to the response "is provided on CD".
14 So, I think we can -- I'd be happy to mark it as a
15 separate exhibit, but I think we can assume it's within
16 the response and is part of Exhibit 7.

17 CHAIRMAN GETZ: And, that's been -- and
18 Staff has that CD?

19 MS. PURCELL: Staff has the CD, and the
20 parties have it.

21 CHAIRMAN GETZ: And, I assume it's
22 because it's --

23 MS. PURCELL: And, I do have a copy
24 here, if you want me to officially, so that the Clerk has

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[WITNESS: Chong]

1 it with the response.

2 CHAIRMAN GETZ: I think it needs to go
3 along with the response.

4 MS. PURCELL: Okay.

5 CHAIRMAN GETZ: I'm assuming, because
6 it's a CD, that it's something that you don't want to
7 print out?

8 MS. PURCELL: It was just huge. So, it
9 was --

10 CHAIRMAN GETZ: Okay. So, just make
11 sure that copies are available to the Clerk.

12 MS. PURCELL: Okay.

13 MR. FOSSUM: Thank you.

14 BY MR. FOSSUM:

15 Q. Turning for a minute to the waiver and amendment that
16 the Company is seeking, you had indicated that the
17 Company, I guess, doesn't meet its Earnings Available
18 for Interest Charges ratio, which needed to be two
19 times. What is the ratio at right now?

20 A. As of September 30th, 2009, on an actual basis,
21 excluding this issuance, it's at 1.9 times. Proforma
22 for this issuance, it's at 1.7 times. In the original
23 testimony, we also provided a proforma adjustment,
24 which included our "per books" revenue deficiency.

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[WITNESS: Chong]

1 And, as of September 30th, 2009, that's \$3.5 million.
2 Proforma for that revenue deficiency, UES would be at
3 2.4 times.

4 Q. And, just to get it on the record, what exactly is that
5 ratio? What does that represent?

6 A. Certainly. It is -- there is a very precise definition
7 in the Twelfth Indenture. But, if you think of the
8 numerator, Earnings Available for Interest, it's
9 essential EBIT, Earnings Before Interest and Taxes,
10 with certain minor adjustments, which included AFUDC
11 and interest income and things of that nature. And,
12 then, divided by that is interest -- interest expense
13 of all of UES's capital structure.

14 Q. Thank you. Regarding this temporary fee of 100 basis
15 points, could you just explain that a little bit
16 please.

17 A. Certainly. The temporary 100 basis point fee would be
18 triggered essentially if UES were downgraded by the
19 NAIC. Currently, UES does not have public ratings from
20 an accredited rating agency. Rather, it's rated by the
21 NAIC, which is the Insurance Commissioners' ratings
22 agency. But, in any event, the 100 basis point fee
23 would be triggered if UES were downgraded from a
24 NAIC-2, which is an implied investment grade rating, to

[WITNESS: Chong]

1 a NAIC 3 or worse.

2 The temporary 100 basis point fee
3 provision would end after four consecutive quarters
4 after the next final rate case, final rate order from
5 the Commission, in which UES would be able to meet its
6 Earnings Available for Interest Charges test.

7 Q. Now, you said it will go into effect if UES is
8 downgraded. Is it likely that such a thing would
9 happen?

10 A. UES does not believe it is likely, for a couple
11 different reasons. First, the NAIC just reaffirmed the
12 NAIC-2 investment grade rating this past fall. My
13 understanding is that the NAIC takes an annual stance
14 upon new ratings determinations. And, secondly, just
15 based on this marketing, all of our indications are
16 that investors viewed us as a BBB flat credit, which
17 would further reaffirm the NAIC-2 rating. And, then,
18 thirdly, just the act of filing a rate case was
19 possible potentially of benefit, our rating at UES,
20 given that we'll have a rate case pending with a
21 certain request in front of the Commission.

22 Q. Now, given that, I guess, the act of filing a rate case
23 would aid in the credit, in the credit rating of the
24 Company, and the fact that this fee sort of relies on a

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1 rate case, when would you expect UES would next file a
2 rate case?

3 A. We are in our planning process right now. I think, in
4 the -- perhaps, in a data response or in the testimony,
5 we may have indicated the middle of 2010. That may
6 have been -- that may be accelerated slightly to more
7 of an earlier date in 2010, perhaps first quarter.

8 Q. Now, you had indicated, and I just want to clarify,
9 that the Company has proposed that, so far as that fee,
10 the "temporary fee" is concerned, that the Company
11 would "hold customers harmless" should it go into
12 effect?

13 A. That is correct. Regarding the temporary 100 basis
14 point fee, UES would hold the customers harmless to
15 that fee.

16 Q. And, so, there would be no impact to ratepayers, if
17 that fee was to go into effect?

18 A. That's correct.

19 MR. FOSSUM: Thank you. That's all I
20 have right now.

21 CHAIRMAN GETZ: Thank you. Commissioner
22 Below.

23 CMSR. BELOW: Oh. Thank you. Good
24 morning.

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[WITNESS: Chong]

1 BY CMSR. BELOW:

2 Q. On Exhibit UES-7, on the last page is the capital
3 budget for the last quarter of '09 and 2010. First
4 line says "Blankets: Electric". Can you explain what
5 the term "blankets" mean and what fits in that
6 category? It appears to be about 40 percent of the
7 current year capital budget.

8 A. I'm sorry. Are you in the forecast for next year?
9 Staff 1-2, Attachment 1?

10 Q. Yes.

11 A. Okay. That, Commissioner, I would have to get back to
12 you to get further detail on "blankets".

13 MS. PURCELL: If we could have a minute
14 to confer, I think we could clear it up.

15 (Mr. Collin conferring with Witness
16 Chong.)

17 CHAIRMAN GETZ: Well, let's just note
18 for the record that the witness, Mr. Chong, has conferred
19 with Mr. Collin from the -- I don't recall what your
20 current title is, Mr. Collin?

21 MR. COLLIN: I'm the Chief Financial
22 Officer for Unitil Corporation.

23 CHAIRMAN GETZ: Thank you.

24 BY THE WITNESS:

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[WITNESS: Chong]

1 A. Yes. Thank you for the moment. "Blankets: Electric"
2 pertain to smaller customer-related capital items,
3 which include meters, services, and installation.
4 These items are smaller in nature and they aren't
5 budgeted separately, but rather they're budgeted as a
6 group, due to that fact.

7 CMSR. BELOW: Thank you.

8 WITNESS CHONG: Thank you, Commissioner.

9 CHAIRMAN GETZ: Commissioner Ignatius.

10 BY CMSR. IGNATIUS:

11 Q. I think one question, Mr. Chong, about rate impacts.
12 You described the 100 basis point temporary fee that
13 you're willing to hold customers harmless for, if it
14 were, in fact, imposed. But, in the Exhibit 6, which
15 is a data response, the Company does ask that the "10
16 basis point waiver fee be amortized over the life of
17 the bonds." And, I didn't hear you speak to it,
18 although you may have, and I apologize if you already
19 did. It's your position that you would want that?

20 A. Yes, Commissioner. Thank you for the question. Yes,
21 you are correct. In Exhibit UES-6, response to Staff
22 2-3, UES proposes that the 10 basis point waiver fee,
23 which is equivalent to \$65,000, be included as a cost
24 that would be amortized over the life of the bonds.

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1 This waiver fee adds about 7 basis points to the all-in
2 coupon rate, which is fairly minimal, in light of the
3 overall capital structure. And, furthermore, even with
4 this fee, this issuance represents the lowest coupon
5 rate of all of the -- lowest coupon and all-in cost
6 rate of all of UES's capital structure. UES believes
7 that it had to incur this fee to issue the debt -- to
8 issue debt under the favorable debt capital markets'
9 conditions. And, it was in the best interest of the
10 ratepayers and the Company.

11 Q. So, even with that fee imposed, the overall rate and
12 the impact to customers is less?

13 A. Correct. In Schedule 2 of the supplemental testimony,
14 the all-in cost rate, the fee is included in that.

15 CMSR. IGNATIUS: Thank you.

16 CHAIRMAN GETZ: Any redirect,

17 Ms. Purcell?

18 MS. PURCELL: No thank you.

19 CHAIRMAN GETZ: Okay. Then, the witness
20 is excused. Thank you, Mr. Chong.

21 WITNESS CHONG: Thank you, Chairman.

22 CHAIRMAN GETZ: Is there any objection
23 to striking identifications and admitting the exhibits
24 into evidence?

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1 (No verbal response)

2 CHAIRMAN GETZ: Hearing no objection,
3 they will be admitted into evidence. And, anything before
4 opportunities for closing?

5 (No verbal response)

6 CHAIRMAN GETZ: Hearing nothing, then,
7 Ms. Hollenberg.

8 MS. HOLLENBERG: Thank you. No closing
9 today. Thank you.

10 CHAIRMAN GETZ: Mr. Fossum.

11 MR. FOSSUM: Thank you. Following its
12 review of the Company's proposed financing, Staff has,
13 excuse me, concluded that it believes the financing is in
14 the public good and supports the Company's request. As
15 has been noted, UES has already marketed the \$15 million
16 of securities and obtained a 5.24 percent rate. This rate
17 is quite good. Even the all-in rate is below the rates of
18 the Company's other outstanding bonds. As such, this is
19 on quite favorable terms.

20 As to the uses of the proceeds,
21 primarily they will be used to repay approximately
22 \$16.7 million, perhaps \$17 million in short-term debt that
23 the Company has incurred over the last few years. In
24 response to a Staff question, the Company has provided an

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1 extensive list of capital expenditures completed, that it
2 has completed using at least some short-term debt. And,
3 the projects appear to be routine and ordinary, ones often
4 completed in the course of normal utility operation.

5 As to the costs of the financing, as
6 Mr. Chong had noted, many of the costs, such as the
7 placement fee, are beyond its control, and aren't subject
8 to a great deal of dispute. Fees for the Company's
9 counsel, however, the single largest cost of the financing
10 has been identified, the Company does contend that not
11 using an RFP is reasonable, and it still has an incentive
12 to keep down the costs because of the manner in which they
13 are recovered, and that its estimates are perhaps higher
14 than what will finally be recovered. Staff finds these
15 explanations reasonable.

16 This financing also presents this
17 somewhat unique waiver and amendment request from the
18 Company. Staff specifically notes the Company has agreed
19 not to seek recovery of the 100 point -- basis point
20 temporary fee, should it go into effect. And, therefore,
21 ratepayers are not in jeopardy with regard to that fee.
22 As to the 10 basis points fee, Staff notes that this fee
23 is a condition of obtaining the waiver, which, in turn, is
24 needed before the Company can obtain its financing. And,

1 thus, without that fee, the Company would not be seeking
2 financing at this time. Given the favorable conditions,
3 Staff believes it's a reasonable trade-off to allow the
4 fee so that the Company can proceed with the financing.
5 This fee also had a minimal impact on the overall
6 financing amount and the financial standing of the
7 Company.

8 Overall, Staff believes that this
9 financing, its terms, the use of the proceeds, the
10 resulting capital structure is good for the Company and is
11 in the public good. By allowing the Company to obtain
12 favorable financing, it will help the Company keep rates
13 lower in the long term. And, therefore, the Staff
14 supports the request. Thank you.

15 CHAIRMAN GETZ: Thank you. Ms. Purcell.

16 MS. PURCELL: Thank you. UES is very
17 pleased that it was able to issue the new first mortgage
18 bonds at such a favorable interest rate of 5.24 percent
19 for ten years, until 2020. UES thanks Staff for its
20 remarks this morning. And, the Company appreciates
21 Staff's and the OCA's efforts throughout this process to
22 expedite the proceeding to allow us to have this hearing
23 so early, to enable an order to be issued in time for the
24 closing on March 1st, 2010.

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1 UES respectfully requests that the
2 Commission find that the proposed issuance is in the
3 public good, and issue its approval of the financing as
4 soon as possible, to allow for the closing as scheduled.
5 Thank you.

6 CHAIRMAN GETZ: Okay. Thank you. Then,
7 we'll close the hearing and take the matter under
8 advisement.

9 (Whereupon the hearing ended at 10:40
10 a.m.)

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