REDACTED

NORTHERN UTILITIES, INC.

DIRECT TESTIMONY OF

DAVID L. CHONG

New Hampshire Public Utilities Commission

Docket No. DG 11-___

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I. INTRODUCTION

Q. Please state your name and business address.

A. David L. Chong, 6 Liberty Lane West, Hampton, New Hampshire 03842.

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

A. I am Director of Finance for Unitil Service Corp., a subsidiary of Unitil Corporation that provides managerial, financial, regulatory and engineering services to Unitil Corporation's principal subsidiaries: Fitchburg Gas and Electric Light Company, Granite State Gas Transmission, Inc., Northern Utilities, Inc. (the "Company"), and Unitil Energy Systems, Inc. In this capacity I am responsible for managing treasury operations and banking relationships; planning and executing financing programs; financial planning and analysis; overseeing property and liability insurance programs; interfacing with the financial community and investors; and managing certain regulatory, cost of service and other ratemaking objectives.

Q. Please describe your business and educational background.

A. I have approximately ten years of professional experience in the energy industry. From 2001 through 2005, I worked for Exxon Mobil Corporation in various facilities engineering roles with my last position as a Senior Project Engineer. From 2005 through 2008, I worked for RBC Capital Markets Corporation in the energy investment banking group, where I provided corporate finance and mergers and acquisitions advisory services. While at RBC, I raised equity and debt capital on numerous occasions for various energy companies. I also advised on several buy-side and sell-side mergers and acquisitions transactions. From 2008 through 2009, I worked for El Paso Exploration & Production Company in its business development group as an Acquisition & Divestiture Principal. 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. Have you previously testified before this Commission?

A. Yes, I have previously presented testimony before this Commission in Dockets DE 09-236, DG 09-239, DE 10-028 and DG 11-069.

II. SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the Company's request for an increase of its short-term debt limit. The Company proposes to increase the net plant sublimit from fifteen to twenty percent of its aggregate short-term debt limit, which will provide for approximately $10 million of additional short-term borrowing capacity.

III. OVERVIEW OF SHORT-TERM DEBT LIMIT INCREASE

Q. Why is the Company seeking an increase in its short-term debt limit?

A. In this upcoming winter season, the Company anticipates approaching or slightly exceeding its current short-term debt limit of $46.9. Accordingly, the Company is seeking an increase in its short-term debt limit to provide adequate short-term borrowing capacity for the Company to finance its operations.

Q. What are your projected borrowings for the Company for this upcoming 2011-2012 winter season?

A. In Schedule DLC-1, I have prepared a forecast of short-term borrowings for the Company for the upcoming winter season, November 1, 2011 through April 30, 2012. Schedule DLC-1 shows that peak borrowings are expected to be approximately $53 million this upcoming winter season.

Q. What is causing the Company to incur these levels of short-term debt?

A. Presently, the Company's revenues under its current rates are insufficient to recover its distribution cost of service and provide a reasonable opportunity for a return to its investors. The Company is currently in base rate proceedings in both its New Hampshire and Maine operating jurisdictions.

In the New Hampshire proceeding (Docket DG 11-069), I explain that the New Hampshire division earned a "per books" return on equity of 5.67% in 2010, and that it has been approximately 10 years since its last rate case. Over that 10-year period, the New Hampshire rate base increased over twenty percent from $58.9 million to $71.4 million. In addition, inflation has increased over twenty percent from 2001 through 2010. Also, the New Hampshire division is incurring sizeable programmatic capital spending under its bare steel replacement program, which is largely non-revenue producing.

In the Maine proceeding (Docket 2011-92), the Maine division recorded a net loss of $(0.8) million with a negative return on equity in 2010. In Maine, the Company has not filed for a base rate case since 1983. Since that time, there have been numerous changes in the cost of service. Additionally, the Maine division has undertaken substantial capital-intensive and non-revenue producing projects, such as cast iron replacement programs in Lewiston / Auburn which was recently completed and in Portland / Westbrook which is in the first year of a 14 year program.

Q. What specifically have you proposed in the New Hampshire and Maine rate cases to address the Company's under-earning and borrowing requirements?

A. The Company has presented a 2010 test year distribution cost of service. In developing this cost of service, the Company used a year-end rate base, which reduces earnings attrition, because it aligns expenses, revenues and rate base with the period in which rates are going to be in effect. In addition, both jurisdictions proposed 2012 Step Adjustments to recover capital spending in 2011, and a Targeted Infrastructure Replacement Adjustment cost recovery mechanism to recover programmatic capital spending for cast iron and bare steel replacement in 2012 and beyond. The combination of all of these items are designed and intended to raise the Company's revenues to recover its cost of service and provide a reasonable return to its investors, and to provide meaningful revenue and retained earnings support to mitigate the borrowing requirements of the Company’s future capital programs.

IV. DESCRIPTION OF SHORT-TERM DEBT LIMIT INCREASE

Q. How is the Company’s current short-term debt limit currently derived?

A. The Company’s current short-term debt limit was established in Docket DG 09-239 and is the combination of two factors, fuel financing and non-fuel financing. First, the fuel financing sublimit is derived by applying thirty percent to total winter gas costs for the upcoming winter season. Second, the non-fuel financing sublimit is derived by applying fifteen percent to the estimated year-end net utility plant balance excluding plant acquisition adjustment. The total short-term debt limit for the Company consists of the combined fuel financing and non-fuel financing sublimits.

Q. What is the Company’s current short-term debt limit?

A. Please see Schedule DLC-2. The Company’s short-term debt limit calculated with the above methodology (thirty percent of winter gas costs and fifteen percent of net utility plant) for the period from November 1, 2011 through October 31, 2012 is $46.9 million. The Company filed this short-term debt limit calculation in its most recent Cost of Gas Docket DG 11-___, Schedule 24.

Q. How does the Company propose to modify its short-term debt limit?

A. The Company is proposing to modify its short-term debt limit by increasing the percentage utilized in the non-fuel financing sublimit. The Company proposes to increase the percentage applied to net utility plant from fifteen to twenty percent.

Q. Is the Company aware of any other gas utilities operating in New Hampshire with a similar short-term debt limit?

A. Yes. EnergyNorth Natural Gas, Inc. has a similar short-term debt calculation. EnergyNorth calculates thirty percent of total winter gas costs and adds to that twenty percent of projected net plant to determine its short-term debt limit.

Q. What will the resulting short-term debt limit be if the Commission accepts the Company's proposal to increase the net plant sublimit to twenty percent?

A. If the Company's proposal to increase the net plant sublimit is approved by the Commission, the new short-term debt limit will be $56.5 million as derived in Schedule DLC-3. This represents an increase of approximately $10 million over its current short-term debt limit as shown in Schedule DLC-2.

Q. Will an increase in the net plant sublimit from fifteen to twenty percent provide the Company with sufficient borrowing capacity for this upcoming winter season?

A. Projected short-term borrowings for the 2011-2012 winter season are expected to peak at approximately $53 million. The increase in the net plant sublimit from fifteen to twenty percent should provide sufficient borrowing capacity. However, natural gas prices and working capital requirements are volatile, and the Company can not forecast this volatility with precision. Accordingly, it is possible that the

Company borrowings may exceed the increased short-term debt limit. In the event this happens, the Company will inform the Commission promptly.

V. [redacted]

Q. [redacted]

A. [redacted]

Q. [redacted]

A. [redacted]

[redacted]

Q. [redacted]

A. [redacted]

VI. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.