UNITIL ENERGY SYSTEMS, INC.

TESTIMONY OF

TODD R. DIGGINS

IN SUPPORT OF ISSUANCE OF UP TO $35,000,000 OF FIRST MORTAGE BONDS

New Hampshire Public Utilities Commission
Docket No. DE 20-___

Q. Please state your full name and business address.

A. My name is Todd R. Diggins. 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 Treasurer and Director of Finance for Unitil Service Corp. ("Unitil Service"), a subsidiary of Unitil Corporation that provides a variety of administrative and professional services including, regulatory, financial, accounting, human resources, engineering, operations, information systems technology and energy supply management services to Unitil Corporation's utility subsidiaries. My responsibilities are primarily in the areas of financial planning and analyses, regulatory projects, treasury operations, banking relationships, and insurance / loss control programs.

Q. Please summarize your professional 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 and a Master of Science in Finance from Southern New Hampshire University as well as a Master of Global Business Administration from Southern New Hampshire University.

Q. Mr. Diggins, do you hold any professional licenses?

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

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain and support Unitil Energy Systems, Inc. ("Unitil Energy" or the "Company") F-4 petition requesting authorization to issue to institutional investor(s) first mortgage bonds evidencing secured long-term debt in an aggregate amount of up to $35,000,000 (hereinafter referred to as the "Bonds").

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

A. Unitil Energy is seeking the Commission's approval to issue an aggregate principal amount of up to $35,000,000 of Bonds. The Bonds will be sold at par and will have a maturity of up to 30 years and bear a fixed coupon of not more than 5.25%.

Q. What capital improvements have been made to the Company's distribution system in recent history?

A. The Company has spent $119.8 million on distribution system capital expenditures from January 2015 through March 31, 2020. In addition, the Company has $30.6 million of capital expenditures budgeted for calendar year 2020. This includes a major expenditure of approximately $10 million for the construction of a new operations center located in Exeter, NH. A summary of this spending by major category is included in Exhibit UES-1, Schedule TRD-1.

Q. How does the Company finance its capital expenditures?

A. The funding to meet capital expenditures 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. Unitil Energy supplements internally generated funds through short-term borrowings under the Unitil Corporation Cash Pool, which is supported by bank borrowings under Unitil Corporation's credit facility. When the Company's short-term balance builds to sufficient levels, it will seek a long-term financing to reduce the short-term debt and to appropriately match the long-term utility asset lives with long-term funding.

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

A. Unitil Energy's short-term borrowings were $25.0 million as of March 31, 2020. Additionally, according to the Company's cash forecasts, excluding the proceeds of this financing, the Company expects its short-term borrowings to increase in 2020 to approximately $35 million by December 31, 2020. The Company's capital expenditure program and sinking fund redemptions of existing debt will continue to drive the Company's short-term borrowings in the future.

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

A. Yes, the Company has made numerous sinking fund redemption payments in recent history and has scheduled payments in the future. From 2015-2020 the Company has or will have made $31,000,000 of sinking fund retirement payments. Please see Exhibit UES-1, Schedule TRD-2 for a schedule beginning with activity in 2015.

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

A. Unitil Energy is targeting to price this offering in the second quarter of 2020 and fund in the third quarter of 2020 as further described below. The Company expects to refinance all its short-term debt at the time of funding, and any excess cash will be used for general corporate purposes including utility capital expenditures.

Q. Please describe the current private placement market.

A. The investment grade bond market has been extremely active since the beginning of the COVID-19 crisis in late March. Approximately $650 billion has been priced in the investment-grade bond market in the last two months, an increase of 90% compared to over the period in the prior year. The global macroeconomic volatility initially led to a significant spike in spreads with spreads widening by almost 200 basis points. This widening in spreads has been somewhat offset by an approximately 90 basis points decline in US treasury yields driven by a flight-to-safety trade in the bond markets. With continued issuances and government and Federal Reserve liquidity initiatives, however, spreads have migrated downwards and continue to tighten. Spreads for utilities with similar credit ratings have declined by over 100 basis points since the yields peaked in

March. In the backdrop of the broader macroeconomic volatility in global capital markets, the investment grade market and more specifically, the private placement market has been active and resilient. Since the end of March, more than 50% of issuance volume has been priced by utilities in the private placement market, emphasizing that the Company's offering will be well received at this time. Exhibit UES-1, Schedule TRD-4 illustrates the approximate changes in bond yields for BAA rated public utilities in 2020.

Q. Has the COVID-19 crisis influenced any Company decisions as it relates to the issuance of additional long-term debt?

A. As previously mentioned, the Company's need for long-term debt is driven by capital spending and the refinancing of long-term debt maturing. The Company is not looking to time the market. The Company's placement agent experts however have recommended that the Company approach the market quickly given the continued macroeconomic conditions reflected in figures such as unemployment, corporate earnings, and Gross Domestic Product estimates. The Company's Placement Agent recommends that the Company take advantage of current and conducive market conditions that should result in attractive interest rates as a result of historically low treasury yields. This reduces the exposure that the market could become less attractive as a result of continued deterioration of the macroeconomic environment. Additionally, the recent increase in issuance volumes could potentially lead to saturated and tempered investor demand. These considerations have influenced the Company to market and price the long-term debt expeditiously.

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

A. Unitil Energy is targeting to issue at par to institutional investor's, first mortgage bonds in an aggregate amount of up to $35,000,000. The Bonds are expected to be issued under similar terms and provisions of all of the Company's other series of first mortgage bonds issued under the twelfth, thirteenth and fourteenth supplemental indentures. Similar to Unitil Energy's previous issuance in 2018, this Bond issuance has the implementation of a "fall-away" structure where the mortgage security ceases when all other outstanding secured debt matures. This provision is described in more detail below. The Bonds will be marketed with up to a 30-year maturity, which allows the Company to match the long-lived nature of its utility assets with long-term financing, while achieving an attractive and market-based yield. The Company will work closely with its Placement Agent to determine the ultimate size of the offering, maturity, coupon and other terms based on market conditions and investor interest at the time of pricing.

Q. Please describe the "fall-away" first mortgage bond structure referenced above.

A. Essentially, the structure and documentation of the Bonds is similar to all of Unitil Energy's other tranches of first mortgage bonds with the exception of a "fall-away" provision. The purpose of the "fall-away" provision is to eventually replace an existing first mortgage bond indenture with an unsecured note financing platform. This provision provides that the first mortgage security of the Bonds will release or "fall-away" once all other first mortgage bonds of Unitil Energy are repaid on September 15, 2036, subject to certain customary conditions.

Q. Will the Company be able to issue first mortgage bonds in the future after this Bond offering?

A. Yes. The implementation of the "fall-away" bond structure is not a permanent decision to implement an unsecured financing structure. The Company can decide to issue first mortgage bonds up until the last first mortgage bond is retired (maturing 2036). If the Company issues first mortgage bonds after this Bond offering, then effectively the "fall-away" provision becomes inoperable as long as the maturity of the new financing is after the maturity date of this Bond offering.

Q. What is the Company's issuer credit rating?

A. Unitil Energy has an issuer rating of BBB+ by Standard & Poor's rating agency and an issuer rating of Baa1 by Moody's rating agency. The Company also has a private rating of NAIC-1 by the National Association of Insurance Commissioners (NAIC) which is the regulatory agency of the Company's existing insurance investors.

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

A. As part of its initial due diligence for this offering, the Company has met with its Placement Agent to obtain market and preliminary pricing information. Based on this review the Company is requesting a maximum coupon rate of not more than 5.25%. The Placement Agent indicated (see Exhibit UES-1, Schedule TRD-3) that it expects a credit spread of approximately 280 basis points over the 30-year U.S. Treasury, which is currently at approximately 1.37%, and would imply an all-in fixed coupon rate of 4.17%. Market conditions can rapidly change, and the Company does not anticipate pricing until the beginning of June 2020. Therefore, the Company is requesting the Commission to approve a maximum coupon rate of 5.25% (108 basis points over expected current market pricing) to provide for flexibility in the credit spread and possible wider treasury yields from the date of the filing of this petition to pricing. The Company asks that the Commission proceed expeditiously with its review of the proposed financing to reduce the risk of interest rate volatility. As explained later, the Company will submit an update to the Commission of the final coupon rate once the Bonds have been priced.

Q. How will the Bond offering affect the capital structure of the Company?

A. The Company's actual and pro forma capital structure is shown below. On a total leverage basis, including short-term debt, the Company's total debt-to-capitalization ratio will remain at approximately 53%-55% on an actual and pro forma basis, since the net proceeds of the offering will be used to repay short-term debt. With the reduction in short-term debt, the Company will have the benefit of having a stronger balance sheet to finance its ongoing capital construction program.

		Actual 3/31/2020		Adjustments 3/31/2020		Pro Forma 3/31/2020
Short-Term Debt	$	25.0	$	(25.0)	$	-
First Mortgage Bonds		82.5		35.0		117.5
Total Debt	**$**	**107.5**	**$**	**10.0**	**$**	**117.5**
Common Equity		96.6		-		96.6
Total Capitalization	**$**	**204.1**	**$**	**10.0**	**$**	**214.1**
Total Debt / Capitalization		53%				55%

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

A. The Company's weighted cost of long-term debt is currently 6.30%, which reflects the weighted cost of the Company's existing tranches of debt discussed previously. This offering, at a maximum coupon rate of 5.25%, will lower the Company's weighted cost of long-term debt to a rate of 6.02%. See Exhibit UES-7.

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

A. Unitil Energy expects to incur approximately $275,000 of outside counsel fees and private placement fees for corporate financing services. The Company 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. Unitil Energy estimates $150,000 for lender's counsel. The Company also estimates

$30,000 for fees associated with the trustee, trustee's counsel, real estate and title work. Finally, Unitil Energy estimates $25,000 for miscellaneous expenses including potential out-of-pockets expenses for the Placement Agent. In total, the Company estimates that the costs associated with the issuance of the Bonds will be about $480,000, assuming the full $35,000,000 is issued. Importantly, the Company has taken many efforts to minimize financing costs, including the use of in-house regulatory counsel to obtain the New Hampshire Public Utilities Commission approval. The Company has also included a fall-away first mortgage bond structure to provide the option to reduce issuance costs in the future.

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 a select handful of existing and prospective private placement investors that are active participants in the utility sector, are familiar with the Company's business and operations, 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 the Company's 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 Agent has indicated that a $35,000,000 issuance is relatively small and therefore a competitive market can be established with the above strategy.

Q. **Does Unitil Energy expect the private placement market to be receptive to this offering?**

A. Yes. Unitil Energy believes that the private placement market will be receptive at this time to this offering, similar to the previous deal completed by the Company in November 2018, where the Company was viewed favorably by the private placement market. According to the Placement Agent, investors have been attracted by the Company's growth and performance in its sector and strong management team, and will welcome the opportunity to invest further in Unitil Energy. In addition, the regulated nature of distribution utilities generally are targeted investment alternatives for some investors.

Q. Does management intend on issuing additional long-term debt at any other subsidiary in 2020?

A. Yes, in addition to this offering, management intends to issue additional long-term debt at another two of Unitil Corporation's wholly-owned subsidiaries. These issuances will be marketed to institutional investors in parallel. In isolation, each Company's offering could be considered small in relation to other utility issuances in the private placement market. By assembling and marketing the long-term debt of the subsidiaries concurrently, the Company and Private Placement Agent anticipate attracting additional investor demand and pricing at more favorable coupon rates than if the Company's issuance was marketed in isolation. The aforementioned subsidiaries are regulated distribution utilities with identical credit ratings.

Q. What is the timetable for the proposed Bonds offering?

A. The Company expects to market and price the Bonds offering in the second quarter of 2020, subject to regulatory approval. Once the offering is priced, the Company will submit an update to the Commission with the final pricing parameters, including coupon rate. The Company expects investors will allow a 90-day period after pricing to close the transaction. This would place closing of the offering in the third quarter of 2020. While this timetable is currently the Company's best estimate, it is possible that due to unforeseen market or other conditions, the timing may be adjusted.

Based on this timeline, Unitil Energy is requesting an Order Nisi from the Commission approving the Bonds offering on or before July 20, 2020. This will provide some flexibility for timing considerations discussed above and will also provide for the necessary expiration of the appeal period prior to the closing expected to occur in the third quarter of 2020.

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

A. Yes, on April 29, 2020, the Company's Board of Directors approved an issuance of up to $35,000,000 of Bonds. A copy of the Board's resolution is provided in Exhibit UES-12.

Q. Does this conclude your testimony?

A. Yes, it does.