

NORTHERN UTILITIES, INC.

TESTIMONY OF

Todd R. Diggins & Andre J. Francoeur

IN SUPPORT OF ISSUANCE OF UP TO \$50,000,000 IN LONG-TERM DEBT

New Hampshire Public Utilities Commission
Docket No. DG 20-____

1 **Q. Please state your full names and business address.**

2 **A.** We are Todd R. Diggins and Andre J. Francoeur. Our business address is 6 Liberty Lane
3 West, Hampton, New Hampshire 03842.

4
5 **Q. Mr. Diggins, by whom are you employed and in what capacity?**

6 **A.** I am the Treasurer and Director of Finance for Unitil Service Corp. (“Unitil Service”), a
7 subsidiary of Unitil Corporation that provides a variety of administrative and professional
8 services including, regulatory, financial, accounting, human resources, engineering,
9 operations, information systems technology and energy supply management services to
10 Unitil Corporation’s utility subsidiaries. My responsibilities are primarily in the areas of
11 financial planning and analyses, regulatory projects, treasury services, banking
12 relationships, and insurance / loss control programs.

13
14 **Q. Mr. Diggins, please describe your business and educational background.**

15 **A.** I have over 20 years of professional experience in the utility industry focused within the
16 finance, accounting and regulatory areas. I joined Unitil Service in 1998 as a Systems
17 Financial Analyst. In 2004 I accepted a position within the Accounting Department as a
18 General Accountant and was promoted to Corporate Accounting Manager in 2009. In
19 2018 I was promoted to Director of Finance and in 2020 became Treasurer and Director
20 of Finance. I hold a Bachelor of Science degree from the University of New Hampshire
21 and a Master of Science in Finance from Southern New Hampshire University as well as
22 a Master of Global Business Administration from Southern New Hampshire University.

1

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

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

4

5 **Q. Mr. Francoeur, what is your position and what are your responsibilities?**

6 **A.** I am a Senior Financial Analyst for Unitil Service Corp. (“Unitil Service”), a subsidiary of
7 Unitil Corporation that provides a variety of administrative and professional services
8 including, regulatory, financial, accounting, human resources, engineering, operations,
9 information systems technology and energy supply management services to Unitil
10 Corporation’s utility subsidiaries. My responsibilities are primarily in the areas of financial
11 planning and analyses, regulatory projects, and treasury services.

12

13 **Q. Mr. Francoeur, please describe your business and educational background.**

14 **A.** I have approximately 4 years of professional experience within the finance and
15 accounting areas. I began working for Unitil Service Corp. in 2017 as a Financial
16 Analyst and was promoted to Senior Financial Analyst in 2020. I graduated from the
17 State University of New York at Plattsburgh, receiving magna cum laude recognition,
18 with a Bachelor of Science degree. I am also at this time pursuing a Master’s degree in
19 Business Administration from the University of New Hampshire.

20

1 **Q. Mr. Francoeur, do you hold any professional licenses?**

2 **A.** Yes, I am a Certified Management Accountant.

3

4 **Q. What is the purpose of your testimony?**

5 **A.** We are testifying on behalf of Northern Utilities, Inc. (“Northern” or “the Company”), a
6 subsidiary of Unitil Corporation and affiliate of Unitil Service Corp. Northern provides
7 natural gas service in southern and central Maine and southeastern New Hampshire. The
8 purpose of our testimony is to explain and support the Company’s application for
9 approval to issue to institutional investor(s) senior notes evidencing unsecured long-term
10 debt in an aggregate amount of up to \$50,000,000 (hereinafter referred to as the “Notes”).
11 The Company is filing at this same time a similar petition for authorization to issue
12 securities with the Maine Public Utilities Commission.

13

14 **Q. What specific approval is the Company requesting of the New Hampshire Public
15 Utilities Commission (the “Commission”)?**

16 **A.** Northern Utilities is seeking the Commission's approval to issue an aggregate principal
17 amount of up to \$50,000,000 of Notes. The Notes will be sold at par and bear a fixed
18 coupon of not more than 5.25%.

19

20 **Q. What tranches of long-term debt does the Company currently have outstanding?**

21 **A.** Please see the table below.

22

Type	Original Amount	Date Issued	Maturity Date	Outstanding Balance	Interest Rate
Sr. Notes	\$50,000,000	Dec-08	Dec-38	\$50,000,000	7.72%
Sr. Notes	\$50,000,000	Oct-14	Oct-44	\$50,000,000	4.42%
Sr. Notes	\$20,000,000	Nov-17	Nov-27	\$20,000,000	3.52%
Sr. Notes	\$30,000,000	Nov-17	Nov-47	\$30,000,000	4.32%
Sr. Notes	\$40,000,000	Sep-19	Sep-49	\$40,000,000	4.04%

1

2 **Q. What factors are driving the Company's need for additional long-term debt?**

3 **A.** Sinking fund redemption payments and the Company's capital spending are driving the
4 need for additional long-term debt.

5

6 **Q. Please outline the Company's historical and upcoming long-term debt principal
7 payments?**

8 **A.** The Company has paid sinking fund payments of \$8,400,000 in both 2018 and 2019, and
9 made the final \$8,200,000 principal payment of a \$25,000,000 5.29% issuance in the first
10 quarter of 2020. The requested Notes will partially serve to refinance the most recent
11 principal payment which was funded with short-term borrowings. Currently, the
12 Company does not have another principal payment due until 2027. Schedule TDAF-2
13 herein provides a detailed maturity schedule of the Company's long-term notes beginning
14 since 2016.

15

16 **Q. Please describe the Company's capital expenditures?**

17 **A.** In 2019, net plant increased by \$51.1 million due to capital expenditures totaling \$69.6
18 million. The Company's 2020 capital expenditure plan is over \$57 million which is in

1 line with the three year average of \$58.7 million. This information is provided in Exhibit
2 NU-1, Schedule TDAF-1.

3
4 **Q. How does the Company finance its capital expenditures?**

5 **A.** The funding to meet capital expenditures is derived primarily from internally generated
6 funds, which consist of net cash flows including depreciation from operating activities.
7 Northern Utilities supplements internally generated funds through short-term borrowings
8 under the Unitil Corporation Cash Pool, which is supported by bank borrowings under
9 Unitil Corporation's credit facility. When the Company's short-term balance builds to
10 sufficient levels, it will seek a long-term financing to reduce the short-term debt and to
11 appropriately match the long-term utility asset lives with long-term funding.

12
13 **Q. Why is the Company looking to access the debt capital markets at this time?**

14 **A.** According to the Company's cash forecasts, excluding the proceeds of the proposed
15 issuance, the Company expects its short-term borrowings to increase to approximately
16 \$77 million by the end of 2020. The Company believes it is an appropriate time to
17 pursue a long-term debt financing, to address its projected capital needs. As discussed in
18 greater detail later in this testimony, the Company anticipates that the offering will be
19 well received by investors.

20
21 **Q. What is the use of proceeds of this offering?**

1 **A.** The proceeds of this offering will be used to refinance short-term debt and secure fixed
2 interest rates to reduce interest rate volatility.
3

4 **Q.** **When do you anticipate receiving the proceeds for this offering?**

5 **A.** Northern Utilities is targeting funding of this offering to be in the third quarter of 2020.
6

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

8 **A.** Northern Utilities is targeting to issue, at par, to institutional investors unsecured senior
9 notes in an aggregate amount of up to \$50 million. The Notes are expected to be issued
10 under similar terms and provisions of the Note Purchase Agreements of the existing
11 senior note tranches. The Company is targeting a long-term maturity of up to a 30-year
12 maturity. Long tenors allow the Company to match the long-lived nature of its utility
13 assets with the long-term average life of the securities while achieving an attractive and
14 market-based overall weighted yield. The rate differential between the 10 year and 20
15 year treasury yield is approximately 40 basis points. The Company will work closely with
16 its Placement Agent, to determine the ultimate size of the offering, maturities, coupon
17 and other terms based on market conditions and investor interest at the time of pricing.
18

19 **Q.** **What is the Company's credit rating?**

20 **A.** Northern Utilities has an issuer rating of BBB+ by Standard & Poor's rating agency and
21 an issuer rating of Baa1 by Moody's rating agency. The Company also has a private
22 rating of NAIC-2, which is equivalent to the BBB/Baa S&P/Moody's ratings, by the

1 National Association of Insurance Commissioners (NAIC) which is the regulatory agency
2 of the Company's existing insurance investors.

3
4 **Q. How was the maximum coupon rate the Company is proposing in this petition**
5 **derived?**

6 **A.** As part of its initial due diligence for this offering, the Company worked with its
7 Placement Agent to obtain market and preliminary pricing information. Based on this
8 review the Company is requesting a maximum coupon rate of not more than 5.25%. The
9 Placement Agents indicate that credit spreads for comparable BBB+ recently completed
10 utility deals have been in the 270-290 bps area for a 30-year issuance over the
11 comparable U.S. Treasury yields. This would imply indicative all-in coupon rates as of
12 May 7, 2020 for a 30-year maturity of 4.07%-4.27% (assuming the 30-year U.S. Treasury
13 yield of 1.37% as of May 7th, 2020). Please refer to Exhibit NU-1, Schedule TDAF-3 for
14 a summary of proposed terms that was provided by the Placement Agent. Market
15 conditions can rapidly change, and anticipates pricing the Notes in May or June 2020.
16 Therefore, the Company is requesting a coupon rate that provides for flexibility in the
17 credit spread and maturities, and in the event treasury yields widen from the date of the
18 filing of this petition to the date of pricing. As explained later, the Company will submit
19 an update to the Commission of the final coupon rate once the Notes have been priced.

20
21 **Q. Please describe the current conditions of the private placement market.**

1 **A.** The investment grade bond market has been extremely active since the beginning of the
2 COVID-19 crisis in late March. Approximately \$650 billion has been priced in the
3 investment-grade bond market in the last two months, an increase of 90% compared to
4 over the period in the prior year. The global macroeconomic volatility initially led to a
5 significant spike in spreads with spreads widening by almost 200 basis points. This
6 widening in spreads has been somewhat offset by an approximately 90 basis points
7 decline in US treasury yields driven by a flight-to-safety trade in the bond markets. With
8 continued issuances and government and Federal Reserve liquidity initiatives, however,
9 spreads have migrated downwards and continue to tighten. Spreads for utilities with
10 similar credit ratings have declined by over 100 basis points since the yields peaked in
11 March. In the backdrop of the broader macroeconomic volatility in global capital
12 markets, the investment grade market and more specifically, the private placement
13 market has been active and resilient. Since the end of March, more than 50% of issuance
14 volume has been priced by utilities in the private placement market, emphasizing that the
15 Company’s offering will be well received at this time. Exhibit NU-1, Schedule TDAF-4
16 illustrates the approximate changes in bond yields for BAA rated public utilities in 2020
17 which is representative of the market volatility outlined herein.

18

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

21 **A.** As previously mentioned, the Company’s need for long-term debt is driven by capital
22 spending and the refinancing of maturing long-term debt. The Company is not looking to

1 time the market. The Company's placement agent experts, however have recommended
2 that the Company approach the market quickly given the continued macroeconomic
3 conditions reflected in figures such as unemployment, corporate earnings, and Gross
4 Domestic Product estimates. The Company's placement agents recommend that the
5 Company take advantage of current and conducive market conditions that should result in
6 attractive interest rates as a result of historically low treasury yields. This reduces the
7 exposure that the market could become less attractive as a result of continued
8 deterioration of the macroeconomic environment. Additionally, the recent increase in
9 issuance volumes could potentially lead to saturated and tempered investor demand.
10 These considerations have influenced the Company to market and price the long-term
11 debt expeditiously.

12
13 **Q. Does management intend on issuing additional long-term debt at any other**
14 **subsidiary in 2020?**

15 **A.** Yes, in addition to this offering management intends to issue additional long-term debt at
16 two other of Unitil Corporation's wholly-owned subsidiaries. These issuances will be
17 marketed to institutional investors in parallel. By assembling and marketing the long-
18 term debt of the subsidiaries concurrently, the Company and Private Placement Agent
19 anticipate attracting additional investor demand and consequently pricing at more
20 favorable coupon rates than if the Company's issuance was marketed in isolation. The
21 aforementioned subsidiaries are regulated distribution utilities with the same credit
22 ratings as Northern Utilities.

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

A. The debt to capitalization percentage should not materially change as the long-term debt will largely replace 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.

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

A. The Company's weighted cost of long-term debt is currently 5.16% which reflects the weighted cost of the Company's existing tranches of debt discussed previously. This offering, assuming maximum coupon rate of 5.25%, will slightly alter the Company's weighted cost of long-term debt to a rate of 5.19%. Assuming the Company priced the Notes at the mid-point of the 30 year coupon-rates provided in Schedule TDAF-3 of 4.17%, the Company's weighted cost of long-term debt would decline 19 basis points to 4.97%.

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

A. The Company selected one Placement Agent for this transaction. Under the terms of the engagement letter with the Placement Agent, Northern Utilities will pay a placement fee at the time of closing. Additionally, the Company will be responsible for legal expenses, including all fees and expenses of both the Company's and investor's counsel incurred in commencing the offering and sale of the Notes. In total, the Company estimates that the

1 costs associated with the issuance of the Notes will be approximately \$375,000 assuming
2 \$50 million is issued and these costs will be defrayed by the proceeds of the Notes.

3
4 **Q. What types of investors participate in the private placement process?**

5 **A.** Typically, the investors for this type of transaction will be insurance companies that have
6 a demand for longer term maturity securities and have a strong familiarity with the utility
7 sector. The Placement Agent has recommended a strategy to market the Notes to a select
8 handful of existing and prospective private placement investors that are active
9 participants in the utility sector, are familiar with the Company's business and operations,
10 and that have demand for long-term securities. The Placement Agent has a strong market
11 presence within the utility sector and has recommended this marketing strategy as the
12 most appropriate for three reasons. First, this strategy recognizes the importance of the
13 Company's existing relationship with current investors and gives them an opportunity to
14 participate in a new issuance. Second, the Placement Agent is actively marketing deals
15 within the utility sector and therefore knows which external investors are the most likely
16 to show strong interest and make competitive offers. Third, the Placement Agent has
17 indicated that given the size of the issuance, a competitive market can best be established
18 with the above strategy. The Placement Agent expects this strategy will yield
19 competitive offer(s) indicative of current utility market conditions.

20
21

1 Q. **Does Northern Utilities expect the private placement market to be receptive to this**
2 **offering?**

3 A. Yes. Northern Utilities believes that the private placement market will be receptive to
4 this offering. According to the Placement Agent, investors have been attracted by the
5 Company's growth and performance in its sector and strong management team, and will
6 welcome the opportunity to invest further in Northern Utilities. In addition, the regulated
7 nature of distribution utilities generally are targeted investment alternatives for some
8 investors. However as discussed above, the Company is seeking to market and price the
9 long-term debt expeditiously given the recent market volatility and macroeconomic
10 conditions.

11

12 Q. **What is the timetable for the proposed Notes offering?**

13 A. The Company expects to market and price the Notes offering in late May or June 2020
14 subject to regulatory approval. Once the offering is priced, the Company will submit an
15 update to the Commission with the final pricing parameters including coupon rate. The
16 Company is seeking funding to occur in the third quarter of 2020. While this timetable is
17 currently the Company's best estimate, it is possible that due to unforeseen market or
18 other conditions, the timing may be adjusted. Based on this timeline, Northern Utilities is
19 requesting an Order from the Commission approving the Notes offering on or before July
20 20, 2020.

21

1

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

3 **A.** Yes, on April 28, 2020 the Company's Board of Directors voted unanimously and
4 approved the proposed issuance and sale by private placement of up to \$50,000,000 of
5 long-term senior notes.

6

7 **Q. Does this conclude your testimony?**

8 **A.** Yes, it does.

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