

STATE OF NEW HAMPSHIRE



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September 12, 2018

Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street Suite 10
Concord, New Hampshire 03301

Re: Docket No. DE 18-109
Unitil Energy Systems, Inc.
Petition for Authority to Issue Securities

REVISED Staff Memorandum

Dear Ms. Howland:

With this letter, Staff requests that the memorandum filed in the above-caption docket on September 11, 2018 be removed from the record in this proceeding. Please substitute the attached REVISED memorandum in its place. Staff changed the last sentence on the first page of the memorandum to reflect that the bonds will be issued in a single tranche with a 30-year bullet tenor.

Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Suzanne Amidon".

Suzanne Amidon
Staff Attorney



STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: September 12, 2018

AT (OFFICE): NHPUC

FROM: Jay E. Dudley, Utilities Analyst IV

SUBJECT: DE 18-109 Unitil Energy Systems, Inc. Petition for Authority to Issue Securities

TO: Commission
Debra A. Howland, Executive Director
Donald Kreis, Esq., Office of Consumer Advocate

REVISED Staff Memorandum

On July 27, 2018, Unitil Energy Systems, Inc. (Unitil or the Company), filed a petition (the Petition) for authority to issue long term debt not to exceed an aggregate principal amount of \$30 million. Unitil's filing included testimony, information required by Form F-4, and a motion for confidential treatment and protective order of unaudited financial information attached as exhibits to the Petition.¹ Staff recommends that the Petition be approved as filed.

Description of Proposed Financing

Under Unitil's annual capital spending plan, the Company funds its capital expenditures primarily from internally generated cash flows and supplements a portion of those internally generated funds through short-term borrowings under the Unitil Corporation Cash Pool. When the Company's short-term debt builds to sufficient levels, Unitil will seek long-term financing to reduce its short-term balance in order to match long-term utility assets with long-term funding and to free up availability under the cash pool for future capital additions. The Company's existing short-term indebtedness is \$26.7 million and Unitil estimates that this balance will increase to approximately \$30 million by December 31, 2018. Accordingly, Unitil requests authority to issue \$30 million in long-term debt (the Bonds) to refinance all of its existing short-term debt at the time of funding (planned for November 30, 2018), and to finance issuance costs of approximately \$675,000, with any excess proceeds to be used for general corporate purposes. The Company proposes to issue the Bonds through private placement under its existing first mortgage bond indenture.² The Bonds are to be issued as a 30-year bullet tenor in three separate investor allocations: \$15 million, \$10 million, and \$5 million.

¹ Specifically Exhibits UES-4 and UES-5 which the Company represents will be made public (audited versions) as of March 31, 2019.

² Unitil proposes inclusion of a "fall-away" provision under the terms of the Bonds whereby the mortgage security for the Bonds ceases when all other outstanding secured debt is retired. The Company asserts, as part of its long-term financial planning, that this will save Unitil issuance costs for future bond offerings.

Based on Unitil's initial assessment of market conditions, the Company proposed to price the debt based on the 30-year U.S. Treasury rate (then 3.00%) plus a credit spread of one hundred twenty five basis points (1.25%) for an all-in fixed interest rate of 4.25%. However, given that credit market conditions are subject to change, the Company requested approval of a maximum coupon rate of 5.25% to provide flexibility in the event that wider Treasury yields may occur. On September 7, 2018, Unitil filed, as part of the Petition, a pricing memorandum from its Placement Agent offering the Bonds at a credit spread of one hundred seventeen basis points (1.17%) over the 30-year U.S. Treasury rate (currently 3.01%) for an all-in fixed interest rate of 4.18%. The Company has an issuer credit rating of BBB+ from Standard & Poor's and Baa1 from Moody's Investors Service. Unitil also has a private rating of NAIC-2 from the National Association of Insurance Commissioners which is equivalent to the S&P and Moody's ratings. On August 9, 2018, Moody's assigned an A-2 senior secured rating to Unitil's existing first mortgage bonds.

The Company provided its Form F-4 dated July 26, 2018, along with attachments (Exhibits UES-4 through UES-7), to show the impact of the proposed refinance on Unitil's balance sheet (UES-4), income statement (UES-5), capitalization (UES-6), and cost of debt (UES-7). Unitil estimates the cost of the refinance to be \$675,000 which consists of various fees involving legal, trustee, and ratings expenses, plus a placement fee of 0.40%. Unitil calculates, on a pro forma basis, that issuance of the Bonds will result in an increase in annual interest expense of approximately \$800,000 for a total of \$6.5 million,³ as compared with its current interest expense amount of \$5.7million. Total long term debt will increase from \$67.5 million to 97.5 million; however, since no new additional debt is being issued as part of the proposed transaction (except for the inclusion of \$675,000 in issuance costs), the proposed refinance has minimal impact on the Company's capital structure with its current debt ratio of 54% increasing to 55% post issuance. Unitil has calculated a pro forma weighted average cost of debt, post-closing, of 6.69% based on the proposed indicative rate for the refinance of 5.25%, as compared with the Company's current cost of debt of 7.24%.

Unitil also submitted a motion for confidential treatment and protective order pursuant to Puc 203.08 and R.S.A. 91-A:5(IV) involving Exhibits UES-4 and UES-5, because, as explained in its filing, the exhibits represent preliminary unaudited financial statements containing confidential commercial and financial information that has not yet been distributed to the Company's debt holders. Unitil asserts that until this information is disclosed to the note holders, it comprises confidential financial information that may, if released, potentially have an impact on the markets in which Unitil's securities are traded. The Company represents that it intends to distribute the final audited financial statements for year end 2018 to debt holders by March 31, 2019. Accordingly, Unitil requests a protective order and confidential treatment of the financial information until that time.

³ This calculation assumes the issuance of \$30 million 30-year bonds at the proposed interest rate of 5.25%. The current interest rate on Unitil's short-term debt is 3.13%.

Staff's Recommendation

Staff has reviewed the Company's Petition and supporting documents and believes that Unutil's filing is complete and meets all requirements of Puc 308.12. It is Staff's opinion that, based on the total outstanding long term debt reported by Unutil of approximately \$67.5 million, the proposed refinance of short-term debt in the amount of \$30 million will have minimal impact on Unutil's capital structure, and will result in lowering the Company's cost of debt and revenue requirement. Given the long term nature of Unutil's assets, Staff supports the Company's position that issuing \$30 million of bonds with a 30-year tenor is an appropriate financing structure. In addition, Staff supports Unutil's request for confidential treatment and protective order involving preliminary unaudited financial information contained in Exhibits UES-4 and UES-5. Staff agrees with Unutil that early public disclosure of this information prior to completion of an audit could impact the markets in which Unutil's securities are traded. Therefore, Staff recommends that the Commission issue an order granting the requested protective order and authorizing Unutil to issue \$30 million in long-term debt, according to the proposed term and interest rate outlined above, for the purposes of refinancing its existing short-term debt and freeing up availability under the Unutil Corporation Cash Pool for future capital additions.

On September 11, 2018, the Office of Consumer Advocate submitted an electronic mail message representing that it supports Staff's recommendation.

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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Docket #: 18-109-1 Printed: September 12, 2018

FILING INSTRUCTIONS:

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:**
- DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429
- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.**
- c) Serve a written copy on each person on the service list not able to receive electronic mail.**