

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 18-109

UNITIL ENERGY SYSTEMS, INC.

Petition for Authority to Issue Securities

Order Approving Petition

ORDER NO. 26,175

September 25, 2018

In this order, the Commission approves Unitil's request to incur up to \$30 million of long-term debt. Unitil will use the proceeds from the financing to refinance short-term debt and use excess funds for necessary capital investments.

I. BACKGROUND

Unitil Energy Systems, Inc. (Unitil or the Company), is a public utility primarily engaged in the business of distributing electricity in various cities and towns in New Hampshire. On July 27, 2018, Unitil filed a petition for authority to borrow money and issue long-term debt securities not to exceed an aggregate principal amount of \$30 million, pursuant to RSA 369:1, 369:2, and 369:4; and Puc Rule 308.12. Unitil stated that among other things, the proceeds of the financing will be used to repay outstanding short-term loans incurred for additions, extensions, and betterments to the Company's property, plant and equipment; and to defray the costs and expense of the financing. With its petition, Unitil filed a motion for confidential treatment and protective order pursuant to RSA 91-A:5, IV, for preliminary unaudited financial statement information contained in the filing. Unitil requested confidential treatment of the information until March 31, 2019, when the audit of its statements will be complete. Unitil filed a pricing memorandum on September 7, 2018, that included the terms of the financing.

The Office of the Consumer Advocate (OCA) filed a notice of participation on August 1, 2018. On September 12, 2018, Commission Staff (Staff) filed a memorandum with the Commission recommending that it approve Unitil's petition. The memorandum stated that the OCA supported the recommendation as well.

The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2018/18-109.html>.

II. POSITIONS OF THE PARTIES

A. Unitil

The Company provided the pre-filed testimony of Todd R. Diggins, Director of Finance for Unitil Service Corp., a subsidiary of Unitil Corporation that provides a variety of financial and administrative services to Unitil. In its filing, Unitil requested approval for the Company to issue to institutional investor(s) first mortgage bonds in an aggregate amount not to exceed \$30,000,000 (Bonds). Mr. Diggins said that 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 percent.

According to Unitil, the Company funds its capital expenditures primarily from internally generated cash flows and supplements a portion of those internally generated funds with short-term borrowings under the Unitil Corporation Cash Pool. When the Company's short-term debt accumulates to a certain level, Unitil seeks to replace it with long-term financing to match utility asset lives, and to make cash available for future capital additions.

Mr. Diggins testified that the Company's short-term borrowings as of March 31, 2018, totaled \$26.7 million, and that its short-term borrowings will increase to approximately

\$30 million by December 31, 2018. Unitil is requesting authority to issue the Bonds to refinance all of its existing short-term debt at the time of the financing, which is scheduled for November 30, 2018. The proceeds will also be used to pay the costs of issuing the Bonds (\$675,000), with any excess proceeds to be available for general corporate purposes including utility capital expenditures.

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 percent) plus a credit spread of one hundred twenty five basis points (1.25 percent) for an all-in fixed interest rate of 4.25 percent. Given that credit market conditions are subject to change, the Company requested approval of a maximum coupon rate of 5.25 percent to provide flexibility in the event that wider Treasury yields may occur. On September 7, 2018, Unitil filed a pricing memorandum from its placement agent offering the Bonds at a credit spread of one hundred seventeen basis points (1.17 percent) over the 30-year U.S. Treasury rate of 3.01 percent, for an all in fixed interest rate of 4.18 percent.

Mr. Diggins reported that Unitil 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.

Unitil included information with its filing demonstrating the impact of the proposed financing on its balance sheet, income statement, capitalization, and cost of debt. Unitil calculated that, on a pro forma basis, the issuance of the Bonds will result in an increase in

annual interest expense of approximately \$800,000, for a total expense of \$6.5 million, compared with its current interest expense of \$5.7 million. Total long-term debt will increase from \$67.5 million to \$97.5 million. All told, the proposed financing will have minimal impact on the Company's capital structure. Unutil's current debt ratio of 54 percent will increase to 55 percent post issuance, and its pro forma weighted average cost of debt resulting from the issuance will be 6.69 percent, compared to the current cost of debt of 7.25 percent.

Unutil's motion for confidential treatment and protective order pursuant to Puc 203.08 and RSA 91-A:5, IV, was for preliminary, unaudited financial statements containing commercial and financial information that has not yet been distributed to the Company's debt holders. Attachments Exhibits UES-4 and UES-5 to Unutil's filing. Unutil claims that until this information is disclosed to the note holders, it remains confidential financial information that may, if released, impact the markets in which Unutil's securities are traded. Unutil said that it will distribute the final audited statements for year end 2018 to debt holders no later than March 31, 2019, and requested confidential treatment to protect the unaudited data until that time.

B. Staff

Based on its assessment, Staff determined that the proposed refinancing 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 said it supports the Company's position that issuing \$30 million Bonds with a 30-year maturity is an appropriate financing structure.

Staff also expressed support for Unutil's motion for confidential treatment and protective order involving preliminary unaudited financial information contained in Exhibits UES-4 and

UES-5. Staff agreed with Unitil that public disclosure of this information prior to completion of an audit could impact the markets in which Unitil's securities are traded. Staff concluded by recommending that the Commission issue an order granting the requested protective order and authorizing Unitil to issue \$30 million in long-term debt, according to the proposed term and interest rate in its filing, for the purpose of refinancing its existing short-term debt and freeing up availability of funds under the Unitil Corporation Cash Pool for future capital additions. Staff reported that the Office of Consumer Advocate supports Staff's recommendation.

III. COMMISSION ANALYSIS

RSA 369:1 states that a utility "may, with the approval of the commission but not otherwise, issue and sell ... notes and other evidence of indebtedness payable more than 12 months after the date thereof for lawful corporate purposes." The Commission must conduct a "hearing or investigation as it may deem proper," then authorize the financing "if in its judgment the issue of such securities upon the terms proposed is consistent with the public good." RSA 369:4. The Commission reviews the amount to be financed, the reasonableness of the terms and conditions, the proposed use of the proceeds, and the effect on rates. *Appeal of Easton*, 125 N.H. 205, 211 (1984).

The rigor of an *Easton* inquiry varies depending on the circumstances of the request. We engage in a more limited review for routine financing requests. *Public Service Co. of N.H.*, Order No. 25,050 at 13-14 (December 8, 2009). A routine request is one that will have no perceptible impact on rates or deleterious effect on capitalization, and in which the funds are to enable numerous investments appropriate in the ordinary course of utility operations. *Id.* at 13. A routine request calls for a more limited examination of whether the "use of financing proceeds [is] in the public good without further review of possible alternative uses of the funds." *Id.* at 16.

We find Unitil's request to be routine as the financing will have no discernible impact on rates and will not adversely affect capitalization. Unitil represented that the proceeds of the financing will be used to pay off short-term debt it incurred to pay for normal utility operations, mostly capital improvements to its distribution system. Additional proceeds will be used to pay the costs of the financing, and any excess proceeds will be used for utility business. As a routine financing request, we limit our review to whether the "use of the financing proceeds [is] in the public good." RSA 369:4. Replacing short-term debt with the proposed long-term financing will confer benefits to Unitil and its customers. Unitil's balance sheet and capitalization will improve, and customers will see no increase in rates as a result of the proposed financing. Accordingly, we find Unitil's intended use of the financing proceeds to be in the public good.

We also agree with Unitil and Staff that the unaudited financial statements in Exhibits UES-4 and UES-5 should be protected from disclosure for now. In general, RSA 91-A provides each citizen the right to inspect all public records in the possession of the Commission. *See* RSA 91-A:4, I. The statute contains an exception, invoked here by Unitil, for "confidential, commercial, or financial information." RSA 91-A:5, IV. The Commission employs a three-step analysis applied by the New Hampshire Supreme Court in *Lambert v. Belknap County Convention*, 157 N.H. 375, 382-383 (2008), in determining whether the information identified by Unitil should be deemed confidential financial information. First, the analysis requires an evaluation of whether there is a privacy interest at stake that would be compromised by the disclosure. If no such interest is at stake, the law requires disclosure. *Id.* at 382-383. Second, when a privacy interest is at stake, the public's interest in disclosure is assessed. *Id.* at 383. Disclosure should inform the public of the conduct and activities of its government; if the information does not serve that purpose, disclosure is not warranted. *Id.* Finally, when there

is a public interest in disclosure, that interest is balanced against any privacy interests in non-disclosure. *Id.*

Unitil argues that the information for which it seeks protective treatment constitutes “confidential, commercial, or financial information” under RSA 91-A:5, IV, and that disclosure of the information will not provide the public with information about the conduct or activities of the Commission or other parts of the New Hampshire State or local government. We are persuaded that certain unaudited financial information in Exhibits UES-4 and UES-5, contains sensitive financial information, the disclosure of which could adversely affect Unitil in the markets in which it issues securities. Further, Unitil has agreed that once the information is audited and released to shareholders, it will make the information public. Unitil expects to release the information to shareholders no later than March 31, 2019. Based on the foregoing, we find that the contents of Exhibits UES-4 and UES-5 identified as confidential are exempt from disclosure pursuant to RSA 91-A:5, IV until March 31, 2019.

Consistent with Puc 203.08(k), our grant of this motion is subject to our ongoing authority, or our own motion, or the motion of Staff, or on the motion of any member of the public, to reconsider our determination in light of RSA 91-A, should circumstances so warrant.

We do not find it necessary to conduct a hearing, as permitted by RSA 369:4. We base our decision on Staff’s recommendation and our own review of Unitil’s filing.

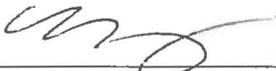
Based upon the foregoing, it is hereby

ORDERED, that Unitil’s petition to issue up to \$30 million in long-term debt at an interest rate not to exceed 5.25 percent is APPROVED; and it is

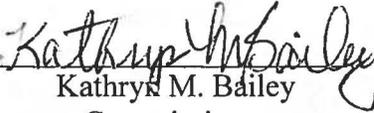
FURTHER ORDERED, that Unitil's motion for confidential treatment and protective order for the confidential information identified in UES-4 and UES-5 until March 31, 2019, is hereby APPROVED; and it is

FURTHER ORDERED, that Unitil shall file updated and un-redacted financial statements and pricing information in this docket after issuance to its debtholders.

By order of the Public Utilities Commission of New Hampshire this twenty-fifth day of September, 2018.



Martin P. Honigberg
Chairman

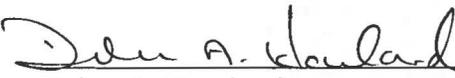


Kathryn M. Bailey
Commissioner



Michael S. Giaimo
Commissioner

Attested by:



Debra A. Howland
Executive Director