

STATE OF NEW HAMPSHIRE
Before the
PUBLIC UTILITIES COMMISSION

DOCKET NO. _____

UNITIL ENERGY SYSTEMS, INC

PETITION

to

INCREASE SHORT-TERM DEBT LIMIT

DIRECT TESTIMONY OF

MARK H. COLLIN

June 12, 2008

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SCHEDULES

- SCHEDULE MHC-1: Base Case Cash Forecast for the period January 2008 through March 2009
- SCHEDULE MHC-2: Short-Term Debt Balances for the period January 2007 through May 2008
- SCHEDULE MHC-3: 2008 Construction Budget
- SCHEDULE MHC-4: Long-Term Debt Financings and Capital Contributions from Unital Corporation for the period 2001 to 2007
- SCHEDULE MHC-5: Capital Structure and Capital Ratios as of March 31, 2008 and December 31, 1997
- SCHEDULE MHC-6: Short-Term Debt Authorization Limit under the Proposed Formula as of May 1, 2008

1 **I. INTRODUCTION**

2

3 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4 A My name is Mark H. Collin. My business address is 6 Liberty Lane West,
5 Hampton, New Hampshire 03842.

6

7 **Q BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A I am the Senior Vice President, Chief Financial Officer and Treasurer of Unitil
9 Corporation (hereinafter referred to as “Unitil”) and the Treasurer of Unitil
10 Energy Systems, Inc. (“UES” or “the Company”). My responsibilities are
11 primarily in the areas of financial management and utility regulation.

12

13 **Q PLEASE DESCRIBE YOUR BUSINESS AND EDUCATIONAL**
14 **BACKGROUND.**

15 A I have over 23 years of professional experience in the utility industry including an
16 extensive financial and regulatory background. I have held a number of
17 progressively senior management positions with Unitil in the areas of finance,
18 administration and regulation. I have been Treasurer of the Unitil’s utility
19 operating companies since 1993, and the Treasurer of Unitil since 1998. I
20 assumed my responsibilities as Chief Financial Officer of Unitil in 2003. Prior to
21 joining Unitil, I was employed as an economist and utility analyst in the
22 Economics Department of the New Hampshire Public Utilities Commission (the

1 “Commission” or “NHPUC”), where I advised the Commission on economic,
2 ratemaking and regulatory matters concerning electric, gas and water utilities.

3
4 I earned a Bachelor of Arts in Economics and a minor in Management from the
5 State University of New York at Cortland in 1981 and a Master of Arts in
6 Economics from the University of New Hampshire Whittemore School of
7 Business and Economics in 1984.

8

9 **Q HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION**
10 **OR OTHER REGULATORY AGENCIES?**

11 A Yes. I have testified before the NHPUC in several proceedings on various
12 financial, ratemaking and industry restructuring matters. I have also testified
13 before the Massachusetts Department of Public Utilities (“MDPU”) and submitted
14 testimony before the Federal Energy Regulatory Commission (“FERC”).

15

16 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 A The purpose of my testimony is to support the petition of UES to increase its
18 short-term debt borrowing authority. My testimony will: (i) support UES’
19 petition for an increase in its short-term debt limit to \$24 million; and (ii) propose
20 a formula for revising UES’ short-term debt limit annually.

21

22 **Q WHAT BORROWING AUTHORITY IS UES REQUESTING FROM THE**
23 **COMMISSION?**

1 A UES is seeking (1) authority to increase its short-term debt borrowing limit to \$24
2 million, an increase of \$8 million over its currently authorized limit of \$16
3 million; and (2) authority to adjust UES' short term debt borrowing limit annually
4 based upon a formula that recognizes growth in net plant investment as well as
5 changes in energy-related costs in future periods. Under UES' proposal, the
6 formula would be updated annually for effect each June 1.

7

8

9 **II. SHORT-TERM DEBT AUTHORIZATION**

10

11 **Q PLEASE DESCRIBE THE MOST RECENT AUTHORIZATIONS FOR**
12 **ISSUANCE OF SHORT-TERM DEBT GRANTED BY THE**
13 **COMMISSION TO THE UNITIL COMPANIES.**

14 A The Company's current short-term debt limit was initially established in 1997. At
15 that time, Concord Electric Company ("CECo") and Exeter and Hampton Electric
16 Company ("E&H"), UES' predecessor companies, were granted the authority to
17 each issue up to \$8 million of short-term debt in Commission Order Nos. 22,705
18 (E&H) and 22,706 (CECo) in Docket Nos. DF 97-164 and DF 97-165,
19 respectively. In seeking approval to merge E&H into CECo to form UES in 2002,
20 the companies asked the Commission to consolidate the existing short-term
21 borrowing limits of the two companies and authorize UES to issue and sell up to
22 \$16 million of short-term debt. The Commission granted that authorization in
23 October 2002 in Order 24,072 in Docket No. 01-247. In 2003, the Commission

1 temporarily granted an increase in UES' short-term debt limit to \$22 million in
2 Order No. 24,168 in DE 03-086. The temporary increase expired April 30, 2004,
3 pursuant to a Settlement Agreement in DE 03-086 approved by the Commission
4 in Order No. 24,212.

5

6 **Q WHY DOES UES NEED TO INCREASE ITS SHORT-TERM DEBT**
7 **LIMIT?**

8 A The increase in short-term debt requirements for UES primarily reflects increased
9 working capital requirements associated with UES' energy-related obligations
10 that are driven by: 1) increasing purchase power and transmission costs for
11 default service; 2) cash obligations for credit assurance as a participant in the New
12 England ISO; and 3) ongoing energy-related stranded cost obligations. In
13 addition to these energy-related working capital requirements, UES continues to
14 require short-term debt to provide working capital for its distribution operations
15 and as a source of interim financing for distribution system capital expenditures.

16

17 Schedule MHC-1 illustrates UES' cash funding requirements, for the period
18 January 2008 through March 2009. The cash forecast reflects actual data for
19 January through May 2008, and projected data for the period June 2008 through
20 March 2009. It details cash receipts, energy-related payments, construction
21 expenditures, interest and dividends, and other disbursements.

22

1 Schedule MHC-2 shows UES' short-term debt statistics for the period January
2 2007 through May 2008, including balances at the end of each month, average
3 balances, maximum requirements, and the differences between the maximum and
4 month end balances, and maximum and average balances. Over this period, UES'
5 intra-month maximum working capital requirements have exceeded the month end
6 balances by as much as \$3 million. These variances are mainly driven by seasonal
7 energy requirements and contract payment terms for purchased power and
8 transmission expenses and seasonal requirements for distribution capital
9 expenditures. In addition, Schedule MHC-2 shows a maximum short-term debt
10 borrowing requirement of \$15.6 million in March 2008 (actual). This is only
11 \$400,000 under the current \$16 million borrowing limit.

12
13 **Q HOW HAVE UES' WORKING CAPITAL REQUIREMENTS CHANGED**
14 **SINCE 1997 WHEN THE CURRENT \$16 MILLION SHORT-TERM DEBT**
15 **LIMIT WAS ORIGINALLY AUTHORIZED?**

16 **A** The changes in working capital requirements for energy-related costs between
17 1997 and 2007 are considerable. For example, purchased power and transmission
18 expenses have increased from \$82 million in 1997 to \$117 million in 2007, an
19 increase of \$35 million or 43%. In addition, at March 31, 2008, UES had \$1.9
20 million on deposit at ISO in order to comply with its financial assurance policy,
21 whereas in 1997, there was no such requirement.

22

1 Distribution system capital expenditures and related budgets have also increased
2 substantially in the last ten years. In 1997, CECo and E&H had a combined net
3 plant investment of \$64.5 million; by 2007, UES' net plant had grown 94%, to
4 \$124.5 million. Similarly, annual capital expenditures for distribution plant and
5 equipment have more than doubled during this period, from \$7.2 million in 1997
6 to \$19.8 million in 2007. As shown on Schedule MHC-3, for 2008, UES has
7 budgeted \$16.9 million for capital expenditures.

8
9 UES' current working capital requirements for its energy-related obligations are
10 effectively "crowding out" the availability of short-term debt capacity for UES'
11 growing distribution operations. In order to abide by the current \$16 million
12 short-term debt limit authorized by the Commission, UES' permanent financing
13 cycle for its distribution operations has been shortened. As shown on Schedule
14 MHC-4, UES formerly required permanent financings every three to five years.
15 The cycle has now shortened to approximately 12 to 18 months. A higher short-
16 term debt limit would enable UES to refinance short-term debt associated with its
17 distribution operations with a more efficient offering size, in the \$15 to \$20
18 million range, and reduce the frequency of long-term permanent financings for
19 such purposes, thus saving transaction costs and better optimizing the size of these
20 financings.

21
22 **Q HOW MUCH OF AN INCREASE OVER THE EXISTING BORROWING**
23 **AUTHORITY IS UES REQUESTING?**

1 A UES is seeking authority to increase its borrowing authority from the current
2 authorized limit of \$16 million to \$24 million effective August 11, 2008.

3

4 **Q WHAT IS THE PRO FORMA EFFECT OF THE PROPOSED INCREASE**
5 **IN SHORT-TERM DEBT LIMIT ON UES' CAPITAL STRUCTURE?**

6 A Schedule MHC-5 shows UES' proposed short-term debt limit of \$24 million
7 would be 20.4 percent of total capital at March 31, 2008. Schedule MHC-5 also
8 shows UES' current capitalization ratios (excluding short-term debt) at March 31,
9 2008. For comparison, similar capitalization and ratio information is shown as of
10 December 31, 1997, when UES current short-term debt limit was established.
11 When the current short-term debt limit of \$16 million was initially authorized, it
12 was 32 percent of total capitalization, significantly higher than the 20.4 percent of
13 total capital UES is now proposing.

14

15 **Q IS THE COMPANY PLANNING ANY PERMANENT FINANCINGS TO**
16 **REPAY SHORT TERM DEBT IN THE NEXT 12 MONTHS?**

17 A The Company has a track record of refinancing its short-term debt obligations
18 with both debt and equity financing that more closely match the long-term nature
19 of its distribution plant and equipment. Schedule MHC-4 shows UES' long-term
20 debt and equity (other than retained earnings) financings for the period 2001 to
21 2007. The Company will continue to use permanent long-term financings to
22 periodically repay short-term debt that is used on an interim basis to finance it
23 distribution capital expenditures.

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III. SHORT-TERM DEBT AUTHORIZATION FORMULA

**Q WHAT IS THE SHORT-TERM DEBT AUTHORIZATION LIMIT
FORMULA PROPOSED BY THE COMPANY?**

A The Company proposes a formula based upon readily verifiable information to establish its short-term debt authorization limit annually. The formula includes FERC-reported net utility plant, energy-related cost components approved by the Commission in the Company’s default service and reconciliation filings, and an allowance for unexpected events. The calculation of the formula is proposed to be:

- a. 10% of UES’ Net Utility Plant at December 31 as reported in the Company’s FERC Form 1;
- b. the average monthly projected non-G1 (residential and small commercial) and G1 (large commercial and industrial) default service costs from the Company’s tariffs effective May 1 of each year;
- c. the average monthly projected stranded costs and external delivery costs as authorized in UES’ reconciliation filings and reflected in its tariffs effective May 1 of each year; and
- d. an allowance for unexpected events of \$1.0 million.

1 Exhibit MHC-6 shows the short-term debt authorization limit calculated under the
2 proposed formula at May 1, 2008.

3

4 **Q WHAT ARE THE BENEFITS OF THE FORMULA PROPOSED BY THE**
5 **COMPANY?**

6 A The principal advantages to the formula approach proposed by the Company
7 include prompt recognition of changing energy-related requirements; increasing
8 working capital requirements tied to growing plant investment; and administrative
9 simplicity. The Commission has approved formulas for re-establishing short-term
10 debt limits for other utilities under its jurisdiction and has found that formulas are
11 reasonable in light of increasingly volatile energy costs.

12

13 **Q HOW WOULD THE FORMULA BE UPDATED?**

14 A The Company proposes to update the formula annually in a filing with the
15 Commission by May 1 each year for effect June 1. The first update would be
16 filed by May 1, 2009. The limit would remain in effect until updated the
17 following year. Establishment of the formula would not limit the right of UES,
18 Staff or any party to seek a modification or termination of the formula in the
19 future in accordance with applicable Commission procedures.

20

21 **Q PLEASE EXPLAIN THE TIMING OF THE APPROVALS THE**
22 **COMPANY IS REQUESTING IN ITS PETITION.**

1 A The Company is requesting that the Commission consider this request in two
2 parts, as necessary. The Company requests that the Commission issue its decision
3 with respect to the increase of UES' short term debt limit to \$24 million by Order
4 *Nisi* for effect August 11, 2008. As discussed, this portion of the Petition reflects
5 a more near term need of the Company. In the past, the Commission has provided
6 for an expeditious discovery and review process for financing matters. If the
7 Commission determines additional time is required to evaluate the Company's
8 proposed formula for establishing the short-term debt limit on an annual basis, the
9 Company requests that the Commission bifurcate its review to separately consider
10 this proposal.

11

12

13 **IV. CONCLUSION**

14

15 **Q DOES THIS CONCLUDE YOUR TESTIMONY?**

16 A Yes, it does.