

1 STATE OF NEW HAMPSHIRE

2 PUBLIC UTILITIES COMMISSION

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5 Concord, New Hampshire

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8 RE: DG 09-239
9 NORTHERN UTILITIES, INC.:
10 Petition for Authority to Issue
11 Securities.12
13 PRESENT: Chairman Thomas B. Getz, Presiding
14 Commissioner Clifton C. Below
15 Commissioner Amy L. Ignatius

16 Sandy Deno, Clerk

17 APPEARANCES: Reptg. Northern Utilities, Inc.:
18 Meabh Purcell, Esq. (Dewey & LeBoeuf)19 Reptg. Residential Ratepayers:
20 Rorie E. P. Hollenberg, Esq.
21 Office of Consumer Advocate22 Reptg. PUC Staff:
23 Matthew Fossum, Esq., Esq.
24 Stephen Frink, Asst. Dir., Gas & Water Div.
Steven Mullen, Asst. Dir., Electric Division

Court Reporter: Steven E. Patnaude, LCR No. 52

ORIGINAL

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I N D E X

PAGE NO.

WITNESS: DAVID L. CHONG

Direct examination by Ms. Purcell 5

Cross-examination by Mr. Fossum 17

Interrogatories by Cmsr. Below 22

Interrogatories by Cmsr. Ignatius 22

* * *

CLOSING STATEMENTS BY:

PAGE NO.

Mr. Fossum 25

Ms. Purcell 28

1

2

E X H I B I T S

3

EXHIBIT NO.

D E S C R I P T I O N

PAGE NO.

4

NU-1

Northern's F-4 Petition for
 Authority to Issue Securities,
 including the Direct Testimony
 of David L. Chong, along with
 schedules and exhibits (11-20-09)

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NU-2

Letter amending Northern's F-4
 petition by increasing the amount
 of the financing from \$20 million
 to \$25 million, and also increases
 the parent equity contribution from
 Unutil Corporation to \$7.5 million
 (12-11-09)

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NU-3

Supplemental Testimony of
 David L. Chong, including
 attachments (12-21-09)

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NU-4

Response to Request No. Staff 1-2
 (12-08-09)

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NU-5

Response to Request No. Staff 1-4
 (12-08-09)

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NU-6

Response to Request No. Staff 2-3
 (12-23-09)

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NU-7

Response to Staff Oral Request
 issued during the technical session
 held on December 31, 2009 (01-04-10)

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{DG 09-239} {01-05-10}

1 P R O C E E D I N G

2 CHAIRMAN GETZ: Okay. Good morning.

3 We'll open the hearing in docket DG 09-239. On
4 November 24, 2009, Northern Utilities filed with the
5 Commission a petition for authority to issue securities.
6 Northern seeks to issue first mortgage bonds evidencing
7 unsecured long-term debt in an aggregate amount of up to
8 \$25 million, for the purpose of paying off outstanding
9 short-term debt, defraying the costs and expenses of
10 financing, and for other corporate purposes. Order of
11 notice was issued on December 17 setting the hearing for
12 this morning.

13 Can we take appearances please.

14 MS. PURCELL: Good morning,
15 Commissioners. Happy New Year. My name is Meabh Purcell,
16 from Dewey & LeBoeuf, representing Northern Utilities.

17 CHAIRMAN GETZ: Good morning.

18 MS. HOLLENBERG: Good morning. Rorie
19 Hollenberg, here on behalf of the Office of Consumer
20 Advocate.

21 CHAIRMAN GETZ: Good morning.

22 MR. FOSSUM: And, good morning. Matthew
23 Fossum from the Staff of the Commission. With me today
24 are Stephen Frink and Steven Mullen from Commission Staff.

{DG 09-239} {01-05-10}

[WITNESS: Chong]

1 CHAIRMAN GETZ: Good morning. Ready to
2 proceed, Ms. Purcell?

3 MS. PURCELL: Yes. I'd like to present
4 David Chong for Northern and ask that he be sworn.

5 (Whereupon David L. Chong was duly sworn
6 and cautioned by the Court Reporter.)

7 DAVID L. CHONG, SWORN

8 DIRECT EXAMINATION

9 BY MS. PURCELL:

10 Q. Good morning, Mr. Chong. Could us please state your
11 full name and your title and your business address for
12 the record.

13 A. Yes. David L. Chong, Director of Finance, 6 Liberty
14 Lane West, Hampton, New Hampshire 03842.

15 Q. Thank you. And, I'm going to show you a series of
16 exhibits and ask that you identify them for me.

17 MS. PURCELL: Mr. Chairman, I'm going to
18 mark all the exhibits at one time, rather than piecemeal.

19 BY MS. PURCELL:

20 Q. And, so, first I'm showing you copies of certain
21 documents under cover letter of November 20th, that
22 these materials were submitted in this docket. Could
23 you identify this for me.

24 A. Sure. This is the F-4 financing petition of Northern

{DG 09-239} {01-05-10}

[WITNESS: Chong]

1 Utilities. It also contains my prefiled testimony and
2 various schedules and exhibits in support of Northern's
3 financing petition to issue unsecured debt in the
4 initial amount of \$20 million. My testimony also
5 describes a parent equity contribution from Unutil
6 Corporation in an initial amount of \$5 million.

7 Q. Thank you. You can hold onto that. And, I'm now
8 showing you a letter dated December 11, and certain
9 attachments, and ask you to identify this for the
10 record.

11 A. Yes. This is the letter, this December 11, 2011 letter
12 -- 2009 letter amends Northern's F-4 petition by
13 increasing the amount of the financing from 20 million
14 to 25 million. And, the letter also increases the
15 equity contribution from Unutil Corporation to seven
16 and a half million.

17 MS. PURCELL: Thank you. I'd like this
18 to be marked as "Exhibit NU-2", and the last one, I don't
19 think I said, would, obviously, be Number 1.

20 CHAIRMAN GETZ: So marked.

21 (The documents, as described, were
22 herewith marked as Exhibit NU-1 and
23 Exhibit NU-2, respectively, for
24 identification.)

{DG 09-239} {01-05-10}

[WITNESS: Chong]

1 BY MS. PURCELL:

2 Q. And, I'm now showing you a cover letter dated December
3 21, and ask you to identify this one.

4 A. Yes. This is my supplemental testimony and schedules
5 that were filed after circling to update the Commission
6 and the parties of Northern's final coupon rate of 5.29
7 percent. The supplemental testimony also address
8 certain issues that arose during the discovery process
9 and also addresses Northern's short-term debt limits.

10 Q. Thank you. And, do you have any corrections --

11 MS. PURCELL: I'm sorry. This would be
12 Exhibit NU-3.

13 CHAIRMAN GETZ: So marked.

14 (The document, as described, was
15 herewith marked as Exhibit NU-3 for
16 identification.)

17 BY MS. PURCELL:

18 Q. Mr. Chong, do you have any corrections to your prefiled
19 testimony or schedules in Exhibits NU-1, 2 or 3?

20 A. No, I do not.

21 Q. And, do you adopt your prefiled testimony in these
22 exhibits as your sworn testimony in this proceeding?

23 A. Yes, I do.

24 Q. And, before I proceed, I just want to mark a few more.

{DG 09-239} {01-05-10}

[WITNESS: Chong]

1 I'm going to show you a document labeled "Request Staff
2 1-2", and ask you to briefly identify this.

3 A. Sure. Response to Staff number 1-2 contains our
4 response to historical capital spending of Northern, in
5 addition to forecast capital spending of Northern, and
6 also certain -- certain initial capitalization of
7 Northern upon Unitil's acquisition, and historical
8 capital spending of Northern under NiSource.

9 MS. PURCELL: Okay. Thank you. That
10 would be "Exhibit NU-4".

11 CHAIRMAN GETZ: So marked.

12 (The document, as described, was
13 herewith marked as Exhibit NU-4 for
14 identification.)

15 BY MS. PURCELL:

16 Q. And, then I'm going to do just a couple in a row as
17 Exhibits NU-5 and 6, respectively. If you could
18 identify these two please.

19 A. Sure. Exhibit NU-5 would be response to Staff Number
20 1-4, which was, and there's an Attachment 1-4,
21 Attachment 1, which is the capital budget of Northern
22 for 2010, which is \$19.1 million.

23 Q. Thank you. And, lastly, --

24 A. I'm sorry, I have another.

{DG 09-239} {01-05-10}

[WITNESS: Chong]

1 Q. That's fine. Go ahead.

2 A. And, then, there's also Exhibit NU-6, which is a
3 response to Staff Number 2-3. This response includes
4 Northern's response to Staff's requests or questions
5 regarding Northern's proposed short-term debt limits.
6 This response was also supplemented by an oral data
7 request, which I think Meabh is about to provide.

8 Q. The last one would be "Exhibit NU-7".

9 A. That's right. NU-7 is Northern's response to oral data
10 request from the technical session on December 31st,
11 2009. This data request completes Northern's response
12 to the Staff regarding proposed permanent short-term
13 debt limits and also interim short-term debt limits.

14 Q. Thank you. Mr. Chong, could you briefly summarize the
15 purpose of your testimony today.

16 CHAIRMAN GETZ: Before we get there, do
17 you have copies for the Bench of those exhibits?

18 MS. PURCELL: Oh, I'm sorry. Do you
19 need all of them? I have them.

20 CHAIRMAN GETZ: All of the data, --

21 MS. PURCELL: Of the data responses,
22 yes, we do.

23 CHAIRMAN GETZ: -- the discovery we
24 haven't seen.

{DG 09-239} {01-05-10}

[WITNESS: Chong]

1 MS. PURCELL: Okay. Sorry.

2 CHAIRMAN GETZ: And, Ms. Purcell, do you
3 have an extra copy of the Exhibit 2?

4 MS. PURCELL: Yes, I do.

5 CHAIRMAN GETZ: The December 11 letter?

6 MS. PURCELL: Yes, I do.

7 (Atty. Purcell distributing documents to
8 the Chairman & Commissioners.)

9 MS. PURCELL: They're in no particular
10 order. This is number seven. This is -- David, what's
11 2-3 please?

12 WITNESS CHONG: Six.

13 MS. HOLLENBERG: Six.

14 MS. PURCELL: Six. These are Exhibit 6.
15 And, 1-4?

16 MR. COLLIN: Five.

17 MS. PURCELL: Is Exhibit 5.

18 CHAIRMAN GETZ: Let's go off the record.

19 (Brief off-the-record discussion
20 ensued.)

21 (The documents, as previously described,
22 were herewith marked as Exhibits NU-5,
23 NU-6, and NU-7, respectively, for
24 identification.)

{DG 09-239} {01-05-10}

[WITNESS: Chong]

1 CHAIRMAN GETZ: Okay. Back on the
2 record.

3 MS. PURCELL: Thank you.

4 BY MS. PURCELL:

5 Q. I'm sorry. I think I had asked you to just summarize
6 the purpose of your testimony today.

7 A. Sure. The purpose of my testimony is to explain and
8 support Northern's petition to issue \$25 million of
9 senior unsecured notes at a coupon rate of
10 5.29 percent. I will also address Northern's proposal
11 regarding the short-term debt levels. Finally, I will
12 address the concerns raised by the OCA in a letter
13 dated December 11, 2009.

14 Q. Thank you. And, could you briefly describe the results
15 of the private placement auction process.

16 A. Certainly. The marketing of the notes was done in an
17 "auction" format, where the Company's existing
18 investors and other external investors were invited to
19 participate in the process to create a competitive
20 solicitation process. Northern priced \$25 million
21 senior notes with a coupon rate of 5.29 percent, with a
22 final maturity of ten years, with a three year sinking
23 fund, providing for a nine year average life. Pricing
24 spread of 190 -- of 190 basis points over the 9-year

{DG 09-239} {01-05-10}

[WITNESS: Chong]

1 interpolated treasury was well within the range
2 provided in the initial testimony. And, finally, the
3 coupon rate compares favorably with historical rates
4 and represents the lowest cost component of Northern's
5 capital, assuming actual debt costs versus implied
6 NiSource debt.

7 Q. Thank you. And, could you please address Northern's
8 proposal with respect to short-term debt levels.

9 A. Certainly. Northern's proposal with respect to
10 short-term debt levels is set forth in my response to
11 Staff 2-3, and it was further revised in an oral data
12 request from the technical session of December 31st,
13 2009.

14 In summary, Northern proposes that its
15 short-term debt limit be established with a 30 percent
16 factor applied to Northern's cost of gas, and this will
17 apply for Northern's energy-related working capital
18 needs. In addition, Northern proposes a 15 percent
19 factor applied to net plant, excluding acquisition
20 adjustments, for distribution-related working capital
21 and capital expenditures. Additionally, overall, this
22 would result in a short-term limit of approximately
23 \$43.9 million, utilizing year-end 2010 estimated plant
24 balances.

{DG 09-239} {01-05-10}

[WITNESS: Chong]

1 The 15 percent net plant factor provides
2 Northern with flexibility to accommodate environmental
3 remediation costs and accelerated steel and cast iron
4 replacement programs in New Hampshire and in Maine. A
5 larger short-term debt limit with the 15 percent net
6 plant factor also provides Northern more flexibility in
7 terms of accessing the capital markets within a longer
8 time frame and also provides for a larger offering
9 size.

10 Q. And, just to be clear, Northern's proposal, as you've
11 summarized it, is in Exhibit 6 and 7, which is --

12 A. Correct.

13 Q. -- which are the data response to 2-3 and the oral
14 response. Pending the closing of the long-term debt
15 financing, which I believe is in March 2010, does
16 Northern request interim approval for short-term debt?

17 A. Yes. Northern requests an interim short-term debt
18 limit of \$60 million until the long-term financing is
19 completed.

20 Q. And, could you briefly describe the concerns raised by
21 the OCA and how Northern has addressed these concerns.

22 A. Certainly. The OCA's concerns in her December 11, 2009
23 letter related to, first, the proposed interest rate in
24 Northern's initial petition; second, the proposed costs

{DG 09-239} {01-05-10}

[WITNESS: Chong]

1 in of the financing; third, the sufficiency of evidence
2 regarding the Northern's proposed use of the funds;
3 fourth, the impact on Northern's customers; and the
4 type of approval process requested in Northern's
5 petition. I addressed each of these concerns in detail
6 in my supplemental testimony.

7 Q. Thank you. And, that's Exhibit NU-3. So, just
8 starting with the use of the proceeds, could you
9 describe how Northern intends to use the net proceeds
10 from the issuance?

11 A. Certainly. The net proceeds of the \$25 million note
12 offering, in addition to the seven and a half million
13 dollar equity contribution, will be used primarily to
14 refinance short-term debt which was incurred to finance
15 distribution system capital additions. In general, the
16 capital necessary to finance capital expenditures is
17 derived primarily from internally-generated funds,
18 which consist of cash flow from operating activities.
19 As needed, Northern supplements internally-generated
20 funds through short-term borrowings. Periodically,
21 Northern replaces portions of its short-term debt with
22 long-term financings more closely matched to the
23 long-term nature of its utility assets.

24 Since Northern was acquired on

{DG 09-239} {01-05-10}

[WITNESS: Chong]

1 December 1st, 2008, and through the period
2 November 30th, 2009, the Company has spent
3 \$20.6 million on distribution capital expenditures, as
4 provided in response to Staff 1-2. Northern provided a
5 detailed project description list of these capital
6 expenditures in Schedule 2 of my supplemental
7 testimony. Lastly, Northern has a capital budget of
8 \$19.1 million in 2010.

9 Unitil acquired Northern on
10 December 1st, 2008. Upon acquisition, Northern was
11 initially capitalized with \$80 million of long-term
12 debt and \$65.7 million of equity. In addition,
13 Northern had \$8.4 million of short-term debt as of
14 December 31st, 2008. This short-term debt is largely
15 related to the financing of the acquisition and
16 potentially includes Northern's historical capital
17 expenditures under NiSource, working capital and other
18 utility assets and liabilities assumed on the
19 acquisition date. Northern had incurred approximately
20 \$77 million of capital expenditures under NiSource
21 since its last long-term financing, from the period
22 July 1st, 2003 to November 30th, 2008.

23 Q. Thank you. And, just briefly, if you could comment on
24 the OCA's other concerns, related to the interest rate,

{DG 09-239} {01-05-10}

[WITNESS: Chong]

1 the financing costs, and impact on ratepayers?

2 A. Certainly. In summary, the OCA's objection to the
3 interest rate for the proposed notes should now be
4 resolved. The final rate of 5.29 percent is
5 significantly less than the 7.8 percent initially
6 indicated in the prefiled testimony.

7 With respect to financing costs, in my
8 supplemental testimony I explained the benefits from
9 using the same counsel used in Northern's 2008 debt
10 financing. Our counsel has many years of familiarity
11 with both Unitil and Northern, and Unitil believes that
12 there's great -- great benefits in using the same
13 counsel for continuity purposes. Moreover, I explained
14 that Northern has a strong incentive to control its
15 financing costs. And, it is our expectation that the
16 final legal costs will be lower than initially
17 projected. Lastly, many costs, such as lenders'
18 counsel, are not under the Company's direct control,
19 and, therefore, would not be appropriate for an RFP.

20 With respect to impact on ratepayers,
21 the weighted average cost of capital for Northern will
22 decrease as a result of the proposed financing, because
23 the transaction will lower the Company's overall cost
24 of debt. Although, there will be no immediate impact

{DG 09-239} {01-05-10}

[WITNESS: Chong]

1 on Northern's rates as the effect of the financing will
2 not be reflected until Northern's next rate base --
3 next base rate case, by lowering Northern's overall
4 cost of capital, this will have the effect of lowering
5 rates to consumers over the long term.

6 Q. Thank you. Mr. Chong, do you have anything further you
7 wish to add?

8 A. No, I do not.

9 MS. PURCELL: Thank you. Mr. Chong is
10 available for examination by Staff.

11 CHAIRMAN GETZ: Okay. Thank you.
12 Ms. Hollenberg?

13 MS. HOLLENBERG: I don't have any
14 questions. Thank you.

15 CHAIRMAN GETZ: Mr. Fossum.

16 MR. FOSSUM: Yes. Thank you. Just a
17 few.

18 CROSS-EXAMINATION

19 BY MR. FOSSUM:

20 Q. Initially, I think you may have mentioned this very
21 quickly, and I just wanted to sort of, I guess,
22 highlight this. How does the coupon rate here, and by
23 that I'm meaning the all-in rate, including the costs
24 and other items, how does that compare to Northern's

{DG 09-239} {01-05-10}

[WITNESS: Chong]

1 other existing debt?

2 A. Certainly. In Schedule 3 to the supplemental
3 testimony, I provided a weighted average cost of
4 capital calculation. In the actual case, with --
5 excluding the effect of this financing and the equity
6 contribution, the total weighted cost rate is 7.45
7 percent. Proforma for the financing, and also the
8 equity contribution, the proforma weighted cost rate is
9 7.28 percent. If you look at the individual line
10 items, the total cost rate for the new senior unsecured
11 notes of \$25 million is 5.54 percent. This compares --
12 this compares favorably and is the lowest cost of
13 capital for Northern, if you assume actual debt costs.
14 However, under our Acquisition Settlement Agreement, we
15 are required to impute the cost of the NiSource debt,
16 and assuming that it would -- that would be able to
17 continue until it matured, and this cost rate is 4.96
18 percent, which is a theoretical cost rate, which is not
19 reflective of actual costs.

20 Q. Thank you. Now, given, I guess, the relatively low
21 rates right now, would it make sense for Northern to
22 look to refinancing any of its other existing debt?

23 A. Certainly. Northern analyzed this. And, according to
24 our indentures, and also according to our note purchase

{DG 09-239} {01-05-10}

[WITNESS: Chong]

1 agreements and just general market convention, make
2 whole premiums are calculated with a discount rate of
3 treasury plus 50 basis points. In this financing, we
4 obtained a yield or a discount rate of essentially
5 treasury plus 185 basis points. The financing would
6 essentially have to be lower than treasury plus 50
7 basis points for it to be economical and for it to make
8 sense.

9 In addition to that, there are -- our
10 current notes and current note purchase agreement
11 provides for sinking funds over our existing debt. So,
12 there is fairly minimal refinancing risk in the future
13 for our existing debt.

14 Q. Thank you. Now, with -- I guess, just going back to
15 the auction process that you mentioned, when you're
16 marketing that debt to your existing holders and
17 others, what exactly is involved in that process?

18 A. Certainly. For Northern Utilities, we had two
19 placement agents, Bank of America and RBC Capital
20 Markets. Bank of America was the lead placement agent
21 and therefore provided most of the marketing support.
22 But the process involves the development of a private
23 placement memorandum. And, that private placement -- a
24 private placement memorandum and investor presentation.

{DG 09-239} {01-05-10}

[WITNESS: Chong]

1 Those two documents are used to provide to investors.
2 In this case, Bank of America and RBC contacted
3 approximately six external investors and six internal
4 investors.

5 The process involves a management
6 presentation to the investors and then also follow-up
7 data requests and right before circling. The marketing
8 window was approximately a week before we circled.
9 And, overall, given the offering sizes, we believe that
10 the process provided for a competitive solicitation.

11 Q. Now, turning to setting the short-term debt that you've
12 spoken about for Northern, can you explain why it's in
13 the public interest to establish that debt for
14 Northern?

15 A. Yes, absolutely. In general, we believe that, in
16 general, Northern finances capital expenditures through
17 internally-generated cash flow and supplemented with
18 short-term borrowings, and then refines short-term
19 debt with long-term financings. We believe it's in the
20 public's best interest to have limits that will
21 actively influence the utility to properly manage its
22 capital structure and access the capital markets at
23 appropriate times, and within appropriate boundaries.

24 Q. Now, because Northern operates in both New Hampshire

{DG 09-239} {01-05-10}

[WITNESS: Chong]

1 and in Maine, has a similar request been made in Maine?

2 A. Regarding short-term debt limits or --

3 Q. No, just regarding the request to issue securities?

4 A. Yes, absolutely. We filed the petition in Maine on the
5 same date, November 20th, 2009. There's a discovery
6 process, and subsequently the approval was issued, I
7 forget the exact date, but it's been a few weeks.

8 Q. And, that approval was for the amended amount?

9 A. Correct, \$25 million long-term notes.

10 Q. Now, my understanding is, and had been mentioned, that
11 I guess the final issuance will be somewhere in the
12 beginning of March, is that correct?

13 A. Yes. We're anticipating closing March 1st, 2010.

14 Q. And, so, in order to meet that date, when would
15 Northern need an order issued to ensure that it could
16 meet that date?

17 A. Ideally, we'd like to have all final appeal periods
18 expire within at least a week before that date. So,
19 backing into that, I assume probably mid January would
20 be ideal.

21 MR. FOSSUM: Thank you. I have nothing
22 else.

23 CHAIRMAN GETZ: Commissioner Below.

24 CMSR. BELOW: Thank you. Good morning.

{DG 09-239} {01-05-10}

[WITNESS: Chong]

1 WITNESS CHONG: Good morning,
2 Commissioner.

3 BY CMSR. BELOW:

4 Q. Just out of curiosity, in the marketing phase for this
5 debt, when prospective investors make a data request,
6 is the response to that circulated to all prospective
7 investors or just the one that asked the question?

8 A. It largely depends. I've been on the marketing side,
9 so it does largely depend. If the question is general
10 and it would be of benefit to all investors, it usually
11 is circulated to all investors. However, if the
12 question is more pointed to a specific investor
13 concern, then that question would be cycled back just
14 to that investor.

15 CMSR. BELOW: Okay. Thank you.

16 WITNESS CHONG: You're welcome.

17 CHAIRMAN GETZ: Commissioner Ignatius.

18 CMSR. IGNATIUS: Thank you.

19 BY CMSR. IGNATIUS:

20 Q. Mr. Chong, is it fair, as a very broad overview, that
21 what you're doing here is to replace short-term debt
22 with long-term debt?

23 A. Correct.

24 Q. And, the short-term debt that has been used recently

{DG 09-239} {01-05-10}

[WITNESS: Chong]

- 1 that you will be replacing can be seen in your Exhibit
2 4, the Capital Expenditures Report, are those -- that's
3 that \$20 million plus?
- 4 A. Correct. This is the -- the \$20.6 million in Exhibit
5 NU-4 is the capital that Northern has spent from
6 December 1st, 2008 through November 30th, 2009.
7 However, upon the acquisition date, Northern had
8 approximately \$8.4 million of short-term debt,
9 actually, as of December 31st, 2008, but that
10 short-term debt is largely related to the acquisition
11 financing. And, under NiSource, Northern had incurred,
12 I believe I said, approximately \$77 million of capital
13 expenditures.
- 14 Q. And, so, to try to put all these pieces together, then
15 if you look at your Exhibit 5, which is the capital
16 budget forecast?
- 17 A. Correct.
- 18 Q. Are those -- well, I guess my question is, are those
19 items that will be undertaken with short-term debt?
- 20 A. Correct. Correct. Technically, with
21 internally-generated cash flow, and any excess would be
22 financed with short-term debt.
- 23 Q. And, the items that are identified in both of these
24 exhibits have been made available to Staff and the OCA

{DG 09-239} {01-05-10}

[WITNESS: Chong]

1 during the discovery process?

2 A. Yes. That's correct, Commissioner. And, in addition
3 to that, in the supplemental testimony, Schedule 3,
4 there's a detailed capital project list that provides
5 more description of the historical spending of
6 \$20.6 million.

7 CMSR. IGNATIUS: Thank you. Nothing
8 else.

9 CHAIRMAN GETZ: Any redirect,
10 Ms. Purcell?

11 MS. PURCELL: No thank you, Mr.
12 Chairman.

13 CHAIRMAN GETZ: Okay. Then, the witness
14 is excused. Thank you, Mr. Chong.

15 WITNESS CHONG: Thank you, Chairman.

16 CHAIRMAN GETZ: Is there any objection
17 to striking the identifications and admitting the evidence
18 -- or, the exhibits into evidence?

19 (No verbal response)

20 CHAIRMAN GETZ: Hearing no objections,
21 they will be admitted into evidence. Anything we need to
22 address before opportunities for closings?

23 MS. PURCELL: No.

24 CHAIRMAN GETZ: Okay. Ms. Hollenberg.

{DG 09-239} {01-05-10}

1 MS. HOLLENBERG: No closing statement
2 today. Thank you.

3 CHAIRMAN GETZ: Mr. Fossum.

4 MR. FOSSUM: Thank you. After reviewing
5 the Company's proposed filing and the amendments, Staff
6 has concluded that it believes the financing is in the
7 public good, and therefore supports it. Northern has, as
8 been noted already, marketed \$25 million in securities and
9 obtained a 5.29 percent rate. It's a good rate, and below
10 the rates of the Company's other outstanding bonds, as
11 Mr. Chong has described, as such that this financing is on
12 favorable terms.

13 As to the uses of the proceeds, as has
14 been noted, primarily, of the use to repay approximately
15 \$32 million in short-term debt, and some of this debt was
16 incurred at the time of the acquisition of Northern by
17 Unitil, and some has been incurred through the Company's
18 operations in the State of Maine. As to its operations in
19 New Hampshire since the acquisition, in response to
20 questioning, the Company has provided a list of its
21 capital expenditures, which have been reviewed. The
22 projects appear to be routine and ordinary, often
23 completed in the course of normal utility operations. For
24 example, meters, mains, and services were installed and

{DG 09-239} {01-05-10}

1 other improvements were made to the Company's distribution
2 system.

3 Regarding the costs of the financing,
4 many of them, as Mr. Chong has stated, are beyond the
5 control of the Company, and therefore aren't really
6 subject to much dispute or debate. As to the fees within
7 the Company's control, specifically it's legal fees, the
8 Company contends that, dispute not using an RFP or a
9 similar process, the fees are reasonable. And, Mr. Chong
10 has indicated that the fees will likely be below
11 estimates. Moreover, the Company does have an incentive
12 to keep the costs down because of the manner in which
13 they're recovered. And, Staff finds the Company's
14 explanations reasonable.

15 Also, this financing presents an
16 opportunity to set the short-term debt limit for the
17 Company going forward. Initially, Staff does not oppose
18 the Company's request for the interim limit of
19 \$60 million, as that limit would only be in effect until
20 the bonds are issued, sometime right around March 1st.
21 Thereafter, the Company would be subject to effectively
22 two short-term debt limits. The first, 30 percent of its
23 total gas costs for fuel financing. This approach is
24 consistent with that used by EnergyNorth. And, Staff is

{DG 09-239} {01-05-10}

1 not opposed to applying the same standard here. The
2 Commission will have an opportunity to review the amount
3 of short-term fuel financing each year in connection with
4 the Company's winter cost of gas, and we can make
5 appropriate modifications to the amount at that time, if
6 necessary.

7 For non-fuel financing, the limit would
8 be 15 percent of the Company's net utility plant. And,
9 the Company has indicated that that level would be
10 sufficient for short-term borrowing needs over the next
11 few years. The short-term limit, as Mr. Chong had noted,
12 will help the Company in prudently managing its finances
13 and its capital structure, and help it to -- help prevent
14 it from jeopardizing the long-term financial health of the
15 Company. Staff therefore believes that setting the limit
16 at 15 percent is appropriate and will achieve those goals.

17 And, overall, Staff believes that this
18 financing, the terms upon which it has been obtained, the
19 uses of the proceeds, and the Company's resulting capital
20 structure is all good for the Company and is in the public
21 good. By allowing the Company to obtain this favorable
22 financing and help to keep the -- the Company to keep
23 lower rates in the longer term, and, as such, Staff
24 supports the Company's request.

1 CHAIRMAN GETZ: Thank you. Ms. Purcell.

2 MS. PURCELL: Thank you. Northern is
3 very pleased that it was able to lock in a favorable
4 interest rate of 5.29 until 2010 for its proposed
5 long-term debt issuance. Northern appreciates Staff's
6 comments this morning, and appreciates Staff's and the
7 OCA's efforts to work with the Company to expedite this
8 proceeding to allow us to have a hearing this early in the
9 year.

10 Northern respectfully requests that the
11 Commission find that the proposed long-term debt issuance
12 is in the public good, and that the Commission approve the
13 Company's financing petition as soon as possible, to allow
14 for expiration of the applicable appeal periods, so that
15 the closing can occur as scheduled, on March 1st, 2010.

16 Thank you.

17 CHAIRMAN GETZ: Okay. Thank you. Then,
18 hearing nothing else, we'll close this hearing. And,
19 let's take about ten minutes before we start the next
20 proceeding. Thank you, everyone.

21 (Whereupon the hearing ended at 9:41
22 a.m.)

23

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{DG 09-239} {01-05-10}

