UNITIL ENERGY SYSTEMS, INC.

REBUTTAL TESTIMONY

OF

ANDRE J. FRANCOEUR

AND

CHRISTOPHER J. GOULDING

PETITION TO INCREASE SHORT-TERM DEBT LIMIT

New Hampshire Public Utilities Commission

Docket No. DE 23 - 065

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Andre J. Francoeur. My business address is 6 Liberty Lane West, Hampton, New Hampshire 03842.

My name is Christopher J. Goulding. My business address is the same as Mr. Francoeur's.

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

A. I am the Financial Planning and Analysis Manager for Unitil Service Corp., which provides services to UES. My responsibilities are primarily in the areas of strategic planning and budgeting, supporting investor relations, and assisting with various regulatory and treasury projects.

Q. Please describe your business and educational background.

A. I have approximately seven years of professional experience within the finance and accounting areas. I began working for Unitil Service in 2017 as a Financial Analyst, was promoted to Senior Financial Analyst in 2020, and promoted to my current role in 2021. I graduated with honors from the State University of New York at Plattsburgh with a Bachelor of Science degree. I recently graduated from the University of New Hampshire with a Master of Business Administration graduate degree with a concentration in Finance.

Q. Do you hold any professional licenses?

A. Yes, I am a Certified Management Accountant.

Q. Mr. Goulding, what is your position and what are your responsibilities?

A. I am the Vice President of Finance and Regulatory for Unitil Service Corp. ("Unitil Service"), a subsidiary of Unitil Corporation ("Unitil Corp.") that provides managerial, financial, accounting, regulatory, engineering and information technology services to Unitil Corp.'s subsidiaries. My responsibilities include all rate and regulatory filings, financial planning and analyses, treasury operations, budget, and insurance and loss control programs.

Q. Please describe your business and educational background.

A. I have over 20 years of professional experience in the utility industry focused within the finance, accounting and regulatory areas. In 2000, I was hired by NSTAR Electric & Gas Company ("NSTAR," now Eversource Energy) and held various positions with increasing responsibilities in Accounting, Corporate Finance and Regulatory. I was hired by Unitil Service in early 2019 as the Director of Rates and Revenue Requirements. In 2023, I was promoted to my current position. I earned a Bachelor of Science degree in Business Administration from Northeastern University in 2000 and a Master's in Business Administration from Boston College in 2009.

Q. Were your testimony and exhibits prepared by you or under your direct supervision?

A. Yes, they were.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of our rebuttal testimony is to respond to the October 13, 2023 testimony of Jay E. Dudley ("JED Testimony"), submitted by the New Hampshire Department of Energy ("NHDOE"). The Company appreciates the NHDOE working with the Company throughout this docket, and its proposal to address the Company's short-term debt limit. However, our rebuttal testimony discusses certain areas of difference with the NHDOE's testimony and explains why the Company maintains its request to modify the short-term debt limit formula.

Q. Refer to your Testimony at P. 7 L. 14 – P. 8 L. 14. Please explain how financing with Serial Bonds benefits the Company's customers.

A. Serial Bonds provide financing flexibility as a result of multiple principal maturity dates unlike Term Bonds which mature on a single date. This allows more flexibility to refinance maturing long-term debt at opportune times which can result in lower interest rates. In a similar fashion, the staggered maturities associated with serial bonds mitigates the risk of refinancing maturing debt during volatile or constrained markets. Because market conditions cannot be predicted for a given maturity date well in the future, it is important to minimize the concentration of maturities.

Q. Please refer to JED Testimony at pages 10-11. Do you agree with Mr. Dudley's assertion that sinking fund payments "were known, expected, and incurred in the normal course of business, and should have been accounted for, and the affects mitigated, in Unitil's routine cash flow planning"?

A. Unitil has always accounted for sinking fund payments during the financial planning process and will continue to do so. The Company has refinanced sinking fund payments in both its 2018 and 2020 long-term debt financings. However, as illustrated in pre-filed testimony Schedule AFCG-4 the Company will not be able to maintain a financing interval of three years without the higher short-term debt limit. Although the Company certainly is aware of and reflects sinking fund payment dates in its long-term planning, as noted above we cannot predict the market conditions that will prevail when those payments are due. What is important is that we maintain the financial profile and access to liquidity that will enable us to efficiently access long-term capital even in constrained markets. Our proposal is intended to do both. The petition to increase the short-term debt limit formula is an illustration of how Unitil is planning ahead for its cash flow needs to the benefit of ratepayers.

Q. Mr. Dudley states: "the Department is not persuaded that the current credit limit, coupled with the impact of the sinking fund payments, constitutes an impediment to Unitil in obtaining reasonable terms for its debt issuances in the debt markets or that it necessitates more frequent financings." Please respond to this statement.

A. Unitil's cash forecast provided in Schedule AFCG-4 demonstrates that the Company's current debt formula would require a two-year financing interval at its current borrowing limit. As explained in the Company's initial filing, a three-year financing interval is more appropriate and beneficial for ratepayers. The NHDOE Staff has not offered any analysis or evidence refuting the Company's analysis showing that the financing cycle will be shortened without a higher short-term debt limit. Furthermore, the DOE does not refute or address the negative impacts of more frequent debt financings, which are discussed in the Company's initial testimony.

Equally important, Mr. Dudley's position does not seem to appreciate the importance of flexibility in financing utility assets and operations. Market conditions can vary widely over relatively short intervals; Mr. Dudley's concerns with Mid-East geopolitical tensions and their effects on energy commodity markets goes to that point. Those concerns are especially acute for a relatively small company such as UES, that cannot access public debt markets. The liquidity cushion and financing flexibility provided by our proposal directly address those concerns.

Q. Is Mr. Dudley correct when he states that Unitil has been able to maintain a three-year interval between financing requests (JED Testimony at 19)?

A. No. The Company's most recent debt financings were in September 2020 and November 2018. This represents a financing interval of less than two years, not three years as suggested by Mr. Dudley. The Company has been able to avoid a debt financing since 2020 in large part due to unanticipated delays in certain capital projects. Specifically, the COVID-19 Pandemic resulted in supply chain constraints and labor shortages, which in turn caused many capital projects to be delayed. Due to these delays, from January 2021 to October 2023 the Company spent approximately $14 million less than its capital budget. This reduction in cash flows has allowed the Company to avoid a debt financing since September 2020.

Q. Can you approximate the impact on the cost of debt if the Company is unable to maintain a three-year financing interval?

A. Yes. There are three factors that will impact the Company's cost of debt. The first impact which is most easily quantified is the fixed issuance costs for legal and administrative costs associated with completing a long-term debt transaction. The Company incurred approximately $150,000 in legal and other issuance costs in connection with its most recent debt financing in 2020. If the Company was to issue debt every two years, instead of every three years this cost will be realized more frequently. Spreading fixed issuance costs over higher levels of debt supports a lower cost of debt.

The second and third factors are more difficult to quantify but are based on the size of the transaction. If the Company must issue debt more frequently to avoid surpassing its short-term debt limit the Company has less financing flexibility. This will result in less opportunities for debt transactions to be completed and marketed in parallel with its utility affiliates. This results in less negotiating power with investment bankers regarding credit spreads which is the second factor that can impact the Company's cost of debt. The third factor is that larger issuance sizes allow for more investors to participate in the transaction leading to a more competitive bidding process and consequently a lower interest rate.

Based on these three factors, the Company estimates, with the help of its investment bankers, that the cost of debt would be between 5 to 10 basis points higher if debt financings were to occur every two years compared to every three years in perpetuity. Based on the Company's cost of service in the most recent rate case (DE 21-030) the annual revenue requirement impact of a 10-basis point increase in the long-term debt rate would be over $100,000.

Q. Please refer to JED Testimony at P. 11 L. 15-21. The NHDOE presumes that the Company has the option to partner with its affiliates on combined debt issuances at any time, now and in the future. Is that accurate?

A. No. Partnering Unitil's debt issuances with those of its utility affiliates is unlikely to be an option for every debt financing if the Company has to issue long-term debt every two years or less. If the financing interval is three or more years the likelihood of having the option to market the transaction alongside the Company's affiliates is much greater. This is because Unitil's other utility affiliates, which are not subject to the same short-term debt limits, are able to maintain a financing interval of three or more years. For example, the Company's most recent debt issuance in 2020 was for $27.5 million which would be one of the smallest private placement transactions that takes place. However, the Company was able to market that transaction with its utility affiliates in a transaction that totaled $95 million and resulted in favorable terms. This was emblematic of how the Company would like to execute transactions in the future. But if the Company is required to issue debt more frequently than its other utility affiliates this option becomes less available as it is likely that the Company will have to access the private placement market at times when it is not necessary for its utility affiliates

Q. The NHDOE expresses skepticism that Unitil could not postpone or cancel capital projects to "help ease credit pressure and maintain adequate funding availability for the remainder of 2023." Please explain the Company's capital planning

priorities and why postponing or canceling projects was not a viable option and why it does not impact this petition.

A. Unitil's capital budget is constructed using a "bottom up" process each year with input from dozens of employees from engineering, operations, information technology and facilities. Technical and managerial personnel with responsibility for planning, designing, operating and maintaining the electric delivery system are responsible for identifying needs and developing cost-effective solutions. A multistep process is used to budget hundreds of individual projects, and to then prioritize needs and determine which projects are essential to meet our objective of safe and reliable service for our customers. Projects are also proposed that may not be essential, but which represent an improvement or enhancement to existing systems or capabilities, including projects to improve reliability, replace old or obsolete equipment, and projects with a defined economic payback. Projects are prioritized into three categories:

Priority 1: Essential for the Company to meet its service obligation to customers, including the provision of safe and reliable service. Included are projects to address critical constraints such as load and voltage where they jeopardize the Company's ability to distribute electricity, activities to restore service following emergencies, and construction required to serve new customer load. All projects in this category are considered non-discretionary.

Priority 2: Includes projects that are essential for the Company to perform business activities in the required manner including regulatory or legal requirements, intercompany operating agreements, and supporting facilities, equipment, and vehicles. These projects and activities are also considered to be non-discretionary, though there may be discretion as to timing.

Priority 3: Includes projects and activities that are considered an improvement or enhancement to existing systems or capabilities. These projects are considered to varying degrees to be discretionary.

In general, Priority 1 and 2 projects must be completed to ensure the safe and reliable operation of the electric system. Priority 3 projects are discretionary with respect to time. The relative risks for deferring projects are compared and the projects posing the greatest level of risk to the company are submitted for budget approval. Projects that pose low risk can be deferred to subsequent years. The Company uses this evaluation method each year during the capital budget process. The projects shown on Attachment AFCG-1 are a result of this process. These projects are either necessary or required to provide safe and reliable or service, or will improve existing systems to the betterment of our customers. Further deferral of projects that could not be completed due to the challenges created by COVID will increase the risk of impacts to system integrity.

Please again reference Exhibit AFCG-4 which shows borrowings exceeding the current debt limit by $22.3 million at the end of the three-year forecast. This suggests that to maintain a three-year financing interval the Company would need to reduce its capital investment by $22.3 million. The Company's total Priority 3 projects over that time frame are $21.6 million. Meaning that the Company would have to cut all Priority 3 projects in addition to some Priority 1 or Priority 2 projects to maintain a three-year financing interval. It is important to note that included in Priority 3 projects over this time is $11.9 million for the Kingston Solar Project, representing over half of the Priority 3 spend. The Company has a signed contract with the solar developer and does not intend to delay the Kingston Solar project. The remainder of Priority 3 projects may be able to be deferred to varying degrees, but cannot be eliminated entirely from the capital budget. This suggests that even if the Company could defer projects to maintain a three-year financing interval, it would add increasing pressure to borrowings when those projects are eventually carried out. In summary, the Company believes it is responsibly managing its capital budget and that a higher short-term debt limit is required.

Q. The NHDOE states that 2024 and 2025 capital budgets have diverged substantially from the forecast provided in the last rate case in Docket DE 21-030 and that the Department did not have sufficient time to review the increase in investments. Do you agree with this assessment?

A. No. The majority of the increase since the Company's last rate case is made up of $9.5 million for the Kingston Solar Project. This project makes up approximately 83% of the increased capital budget referenced by Mr. Dudley (Testimony of Jay E. Dudley at 21). The NHDOE was an intervenor in the Company's petition for a public interest determination for the Kingston Solar Project (Docket DE 22-073) and was provided an opportunity to conduct an in-depth review of that incremental project during the pendency of that docket.

Q. Do you agree that price spikes in the power purchase market (JED Testimony at 16) "should have prompted Unitil to revisit its capital budget and implement a stricter

level of budget control including temporary budget cuts to maintain adequate credit availability for the remainder of 2023"?

A. No. The Company successfully maintained its short-term borrowings below the current debt limit. As mentioned above the vast majority of projects the Company completes are necessary to maintain a safe and reliable system. Furthermore, in general capital projects require substantial planning in regards to permitting, resource allocation, and the requisition of equipment and to delay those projects could result in higher costs to ultimately complete the projects.

Q. The NHDOE expresses concern regarding "increasing levels of capital investment when compared to the minimal growth in [Unitil's] customer base." JED Testimony at 21. Should investment levels be proportional to growth in customer base?

A. No. Utilities are capital intensive businesses that require substantial investment into the utility infrastructure to ensure safe and reliable service regardless of customer growth. When comparing utility investment and customer growth there is a very weak positive correlation as the vast majority of investment is not tied to customer growth. This indicates that customer growth and capital investment are largely independent of one another and that Mr. Dudley's attempt to connect investment and customer growth is flawed.

Q. The NHDOE suggests that Unitil is gaining $6 million in credit availability in 2024 due to lower purchased power costs (JED at 20). Is that correct?

A. No. Mr. Dudley assumes that purchased power costs will revert back to 2022 levels instead of maintaining at 2023 levels. Mr. Dudley assumes that the decrease in purchased power costs will result in a one-for-one offset in short-term borrowings. This is not correct because in the event purchased power costs revert to 2022 levels, the Company's purchased power revenues will also decrease.

Q. The NHDOE appears to have concluded that the primary driver of the Company's request for an increase in the short-term debt limit and change to the short-term debt limit formula is an increase in power purchase costs earlier this year. Is this correct?

A. No. Increase in power purchase costs are a factor and it is important to ensure a debt limit that provides for working capital fluctuations. However, the Company's ongoing need for a higher short-debt limit is predicated on sinking fund payments and capital spending which will continue to pressure borrowings even if purchased power costs decrease relative to 2023 levels.

That fundamental point aside, Mr. Dudley's argument suggests geopolitical tensions may affect energy commodity prices, but no more than that. We disagree. Those tensions may well have implications across multiple markets and sectors creating disruptions in supply chains; increasing prices for materials, equipment, and services; and causing investors to rotate capital out of corporate debt and equity markets, decreasing the availability of each. In short, although we agree geopolitical events may put upward pressure on energy commodity prices, we do not believe the effects necessarily end there. Here again, that uncertainty calls for the financial flexibility and access to liquidity our proposal supports.

Q. The NHDOE proposes that the Commission approve a temporary waiver of Puc 307.05 and allow an increase in the regulatory limit to 15% in combination with the existing $10 million adder. Would this alleviate the Company's concerns?

A. No. The Company appreciates the Department's proposal, and while it may provide some temporary relief, the need to permanent change the short-term debt limit formula is based on a cash forecast that does not consider fluctuations in working capital. The NHDOE's proposal does not appear to rely on any cash forecast. The Company's proposal, on the other hand, is based on a forward-looking perspective, provides the financial flexibility and access to liquidity so important to maintaining our credit profile, and is in the interest of ratepayers.

II. SUMMARY AND CONCLUSION

Q. Please now summarize your testimony and conclusions.

A. We very much appreciate the NHDOE's input and willingness to work with us in determining the appropriate short-term debt limit. Although we agree on many points, we disagree on certain fundamental issues, principally surrounding the need to maintain financial flexibility in a capital market that over time, is inherently uncertain. Yes, the timing of future sinking fund payments is known and certainly the Company accounts for them in its planning process. But that is only part of the equation. The ability to fund those payments from internally generated cash depends on day-to-day cash flows that may be affected by any number of factors, at any time. As Mr. Dudley suggests, emergent geopolitical tensions certainly can disrupt commodity markets; we believe the disruption could extend further.

Consequently, whereas the timing of sinking fund payments is known in advance, the level of internally generated cash flows available to fund them is less certain. What is important is to recognize that uncertainty and mitigate refunding and refinancing risk by staggering maturities, as the Company has done, and to ensure adequate access to external financial liquidity, as we propose.

Lastly, although we seek the financial flexibility our proposal provides, we have no interest in over-relying on short-term debt. Our credit rating is highly valuable to us, and to our customers — it reduces our borrowing costs and gives us access to debt investors, pricing, and commercial terms we otherwise may not have. We know that over-relying on short-term debt may jeopardize the credit profile we have worked hard to maintain. We also know that access to financial liquidity is a factor that weighs in our credit profile. We have maintained our credit strength, in large part, by balancing those considerations. Our proposal simply enables us to continuing doing so.

Q. Does this conclude your testimony?

A. Yes, it does.