**STATE OF NEW HAMPSHIRE**
**PUBLIC UTILITIES COMMISSION**

**DOCKET NO. DE 23-065**

**UNITIL ENERGY SYSTEMS, INC.**
**PETITION FOR WAIVER OF PUC 307.05**
**AND AUTHORITY TO CHANGE SHORT-TERM LIMIT FORMULA**

**DIRECT TESTIMONY OF**

**Jay E. Dudley**
**Utilities Analyst IV**
**New Hampshire Department of Energy**

October 13, 2023

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## I. INTRODUCTION AND QUALIFICATIONS

**Q. Mr. Dudley, please state your full name and business address.**

A. My name is Jay E. Dudley. My business address is 21 South Fruit Street, Suite 10, Concord, NH 03301.

**Q. Please state your employer and your position.**

A. I am employed by the New Hampshire Department of Energy ("DOE" or the "Department") as a Utility Analyst for the Regulatory Support Division.

**Q. Please describe your professional background.**

A. I started at the New Hampshire Public Utilities Commission ("Commission" or "PUC") in June of 2015 as a Utility Analyst in the Electric Division. Effective July 1, 2021, the Electric Division was transferred to, and became part of, the newly created New Hampshire Department of Energy and I am presently employed by that agency. Before joining the Commission, I was employed at the Vermont Public Service Board (now known as the Vermont Public Utilities Commission, "VT-PUC") for seven years as a Utility Analyst and Hearing Officer. In that position I was primarily responsible for the analysis of financing and accounting order requests filed by all Vermont utilities, including review of auditor's reports, financial projections, and securities analysis. As Hearing Officer, I managed and adjudicated cases involving a broad range of utility-related issues including rate investigations, construction projects, energy efficiency, consumer complaints, utility finance, condemnations, and telecommunications. Prior to working for the VT-PUC, I worked in the commercial banking sector in Vermont for twenty years where I held various management and administrative positions. My most recent role was as Vice President and Chief Credit Officer for Lyndon Bank in Lyndonville, Vermont, where I was responsible for directing and administering the analysis and credit risk management of the bank's loan portfolio, including internal loan review, regulatory compliance, audit, and coordinating periodic bank examinations by state and federal regulators.

**Q. Please describe your educational background?**

A. I received my Bachelor of Arts degree in Political Science from St. Michael's College. Throughout my career in banking, I took advantage of numerous Continuing Professional Education (CPE) opportunities involving college level coursework in the areas of accounting, financial analysis, real estate and banking law, economics, and regulatory compliance. Also, during my tenure with the VT-PUC, I took advantage of various CPE opportunities including the Regulatory Studies Program at Michigan State University (sponsored by the National Association of Regulatory Utility Commissioners "NARUC"), Utility Finance & Accounting for Financial Professionals at the Financial Accounting Institute, Standard & Poor's seminars on credit ratings for public utilities, and Scott Hempling seminars on Electric Utility Law and Public Utility Regulation.

**Q. Have you previously testified before the Commission?**

A. Yes. I previously submitted Staff testimony to the Commission in Docket No. DE 14-238, Public Service Company of New Hampshire Generation Assets; Docket No. DE 15-137, Energy Efficiency Resource Standard; Docket No. DE 16-383, Liberty Utilities Request for Change in Rates; Docket No. DE 17-136, 2018-2020 NH Energy Efficiency Plan; Docket No. DE 19-064, Liberty Utilities Request for Change in Rates; Docket No. DE 19-057 Public Service Company of New Hampshire for Change in Rates; Docket No. DE 20-092, 2021-2023 Triennial Energy Efficiency Plan; Docket No. DE 21-030 Unitil Energy Systems, Inc. Request for Change in Rates; Docket No. DE 22-026, Unitil Energy Systems, Inc. Petition for Approval of Step Adjustment Filing; Docket No. DE 22-030, Public Service Company of New Hampshire, Petition for Approval of Step Adjustment; Docket No. DE 20-161, Eversource Energy 2020 Least Cost Integrated Resource Plan; Docket No. DE 21-004, Liberty Utilities 2021 Least Cost Integrated Resource Plan; and Docket No. DE 23-068, 2024-2026 Triennial Energy Efficiency Plan.

## II. SUMMARY OF TESTIMONY

**Q. Please describe the purpose of your testimony today**.

**A.** The purpose of my testimony is to provide the results of the Department's review and evaluation of Unitil Energy Systems Inc. ("Unitil" or "the Company") Petition for a permanent waiver of Puc 307.05 for authority to change the Company's short term debt limit formula, effectively increasing Unitil's short term debt limit from the current amount of $40 million to $59.9 million. Upon review, it is the Department's recommendation that the Commission grant limited approval of Unitil's request to increase its credit limit.

**Q. What is Puc rule 307.05 and what are the conditions for waiver of that rule by the Commission?**

**A.** Puc rule 307.05 governs the issuance or renewal of a utility's short term debt as follows: "No utility shall issue or renew any notes, bonds or other evidences of indebtedness payable less than 12 months after the date thereof if such short-term debt exceeds 10% of the utility's net fixed plant without prior commission approval pursuant to Puc 201.05." As noted, the conditions for waiver of the rule by the Commission are set out in Puc rule 201.05 as follows: the Commission "shall waive the provisions of any of its rules . . . if the [C]ommission finds that: (1) The waiver serves the public interest; and (2) the waiver will not disrupt the orderly and efficient resolution of matters before the [C]ommission." Puc

201.05(a). “In determining the public interest, the Commission shall waive a rule if: (1) Compliance with the rule would be onerous or inapplicable given the circumstances of the affected person; or (2) the purpose of the rule would be satisfied by an alternative method proposed.”

**Q. What is your general conclusion involving Unitil’s request?**

**A.** Unitil argues that the pressure on its short-term credit availability resulted from three factors: i) periodic debt retirements on its long-term debt involving sinking fund payments, ii) historic price spikes in the wholesale power purchase market in early 2023, and iii) continued asset additions through capital investments. Upon review, the Department has concluded that Unitil has partially met its burden under the rules for waiver on the basis that one of the factors cited by the Company to justify a short-term credit increase and waiver of the rule does support a recommendation for limited approval by the Commission. That is, the Department agrees that the potential for renewed volatility in the energy markets may continue over the near term to impact wholesale power prices, especially in light of recent developments in the Middle East involving the Israeli-Hamas conflict. However, in terms of the added pressures caused by the sinking fund payments and capital investments, the Department finds that these arguments are not supported by the evidence given that those two factors are largely within Unitil’s control. Therefore, as discussed below, the Department recommends that the Commission grant Unitil partial relief by approving a temporary increase in short-term debt of 15 percent, plus retaining the existing $10 million adder, until the Company’s next rate case.

## III. REVIEW AND ANALYSIS OF UNITIL'S PETITION

**Q. What is the Company's current short term borrowing limit and how was it established?**

**A.** Pursuant to a Settlement Agreement reached by the parties in Docket DE 08-085, and approved by the Commission in Order No. 25,027 dated October 22, 2009, Unitil received approval of a permanent increase in its short-term debt limit from $16 million to $24 million. In addition, the Company received approval to implement its proposed formula-based approach to re-setting an annual limit for its short-debt based on 10% of its annual net plant as of December 31 of the prior year, plus $10 million. Unitil must submit an annual update with the Commission in which it provides its calculation of its short-term debt limit for the current year based on the approved formula utilizing 10% of net utility plant for the prior year as reported on the Company's FERC Form 1. The resulting short-term debt limit takes effect on June 1 of each year for the ensuing twelve-month period. Currently under the existing formula, the Company's credit limit is $40 million based on 10% of 2022 net plant reported on FERC Form 1 in the amount of $299.7 million plus $10 million.[1]

**Q. Please describe Unitil's current request for a credit limit increase and permanent waiver of Puc Rule 307.05.**

**A.** Unitil is requesting to permanently increase the net utility plant percentage limit for short-term debt set under Puc Rule 307.05 from 10% to 20%, effectively increasing the Company's current short-term debt limit from $40 million to $59.9 million, representing an increase of approximately $20 million. Unitil also proposes to discontinue the

[1] Direct Testimony of Andre J. Francoeur and Christopher J. Goulding at 4.

application of the $10 million adder that is part of the current formula but will continue with the annual reporting to the Commission preserving the effective date of June 1.[2] Unitil argues that such a permanent change to the formula is necessary because of higher working capital needs driven by the following factors that have negatively impacted the Company's cash flow and cash availability:

1. Regular intervals of sinking fund payments on Unitil's Serial Bond portfolio since 2015.[3]
2. Higher purchased power costs experienced in 2023.[4]
3. Asset growth and related higher levels of capital expenditures.[5]

**Q. Did the Department examine each of these factors provided by the Company? Please provide the details of the Department's analysis.**

**A.** Yes. I provide the details of DOE's analysis for each of those factors below:

**1. Serial Bond Sinking Fund Payments and Long-term Debt Issuance:** Unitil states that it has had several Serial Bonds maturing at regular intervals since 2015. These bonds provide for sinking fund payments that allow the bonds to mature at staggered dates thus providing Unitil with flexibility to recapitalize the maturing debt at different intervals, unlike term bonds which require the entire principal amount of the bond to be refinanced or paid at maturity. Between 2018 and 2022, the Company made a total of $32 million in sinking fund payments, and over the next five years Unitil will make additional payments in the amount of $17 million. If the Company has sufficient cash on hand it will make the sinking fund payments out of operating cash flow, otherwise the payments are funded

[2] *Id.* at 4 and 6.
[3] *Id.* at 7-8.
[4] *Id.* at 8.
[5] *Id.* at 7; Petition at 4.

by Unitil accessing its short-term debt facility. By having to make periodic sinking fund payments with short-term debt, Unitil argues that these payments place additional pressure on its short-term credit availability and thus trigger more frequent long-term debt financings that in turn leads to increased issuance costs. The Company claims that these recent sinking fund payments resulted in Unitil returning to the debt markets for two financings in less than three years. The Company's preferred long-term financing cycle is three years or more. [6]

Unitil also argues that because of the short-term credit limitation under the current formula, the dollar amounts of the Company's long-term debt issuances are lower than what the debt markets prefer putting Unitil at a competitive disadvantage. Unitil asserts that larger issuances of long-term debt are better received in the marketplace resulting in a more competitive bidding process which in turn results in lower interest rates and lower issuance costs. Unitil has been advised by its investment bankers that issuances of approximately $100 million would be optimum in terms of attracting investors and obtaining more advantageous financing terms. In order to approach that higher level, the Company has at times partnered with its affiliates, Northern Utilities Inc. and Fitchburg Gas and Electric Light Company, to combine debt issuances to obtain greater investor interest.[7]

**DOE Analysis:** A sinking fund may be established or required by a bond indenture to obligate the issuer to retire a specified portion of the indebtedness at certain designated periods during the term of the bond. This kind of provision for debt repayment may be designated to retire all of a bond issue by the maturity date, or it may be designated to pay

[6] *Id.* at 8 and Schedule AFCG-2, and Attachment JED-1 DOE 1-8c.
[7] *Id.*

only a portion of the total indebtedness by the end of the term. The amount of these periodic payments are typically fixed for each period. The standard purpose of a sinking fund is to reduce credit risk for the bond holders usually resulting in reduced costs of issuance for the issuer. In Unitil's case, it appears that the sinking funds for the Serial Bonds were agreed to in part by Unitil to reduce the Company's debt issuance costs. The Department appreciates the Company's efforts in reducing those costs for ratepayers, and the Department understands that a sinking fund structure may at times be beneficial in terms of financial flexibility and reducing debt more quickly. However, in choosing that option, the Department firmly believes that the Company should have been keenly aware that those fixed payments were on a defined regular payment schedule necessitating the inclusion of those regular payments as a key part of Unitil's annual cash flow planning and projections. In addition, due to the cycling in and out of working capital in the ordinary course of Unitil's business, the Company had to be aware in advance that there would be times when Unitil would have to access its short-term credit to make those payments. In short, the impacts on the Company's cash flow of those sinking fund payments were known and knowable to Unitil at least since the sinking fund arrangements were first put into place in 2015 and should not have constituted an unexpected or unusual event as far as impacting the Company's cash flow or short-term credit were concerned. As a result, the Department sees little difference between the impacts of the sinking fund payments and any other large regularly scheduled expenses that the Company has advance notice of and is obligated to pay in the normal course of its business. In addition, Unitil always had the option to finance with term debt or unsecured debt instead of serial debt without a sinking fund provision. Therefore, the Department is not persuaded that the sinking fund payments constitute a major factor justifying the requested increase in short-term credit since those 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.[8] Moreover, 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. Indeed, one of the benefits of a sinking fund payment structure claimed by Unitil is that "Sinking fund payments reduce the Company's refinance and interest rate risk by allowing maturing debt to be recapitalized from time-to-time instead of at a single point in time. This allows the Company greater flexibility to access the capital markets at desirable times."[9] On the other hand, Unitil's witnesses also indicate concern that this financing strategy acts as a hinderance by stating that: "The Company has several Serial Bonds that have been maturing at regular intervals since 2015. As a result of the debt maturity schedule, short-term borrowings are increasing at a faster rate than they were previously."[10] As Unitil has pointed out, it has not only successfully marketed its own debt with past debt issuances but has the ability to partner with its affiliates to offer a combined issuance that approaches the $100 million threshold recommended by its bankers. Presumably this option is still available to the Company and will be in the future since it appears to be beneficial to all of the companies involved. This will likely be the case for the foreseeable future given that a small utility like Unitil would have to experience exponential growth in the coming years in order to reach the desired $100 million issuance

[8] *Id.* and Attachment JED-2 DOE 1-9.
[9] Attachment JED-2 DOE 1-9 c.
[10] Direct Testimony of Andre J. Francoeur and Christopher J. Goulding at 7.

threshold on its own. So far, the Company's customer growth numbers over the past several years, growing from 76,564 customers in 2019 to 77,843 in 2022, does not indicate a robust trend in growth.[11]

**2. Price Spikes in the Purchased Power Market:** Aside from providing its customers with the opportunity to purchase power from third-party suppliers (retail choice), the Company also enters into wholesale energy supply contracts to serve its default service customers. Unitil argues that the extraordinary price spike in the wholesale power markets experienced during the winter season of 2022-2023 caused the Company to access a substantial portion of its short-term credit capacity to meet the higher purchased power payments. The ensuing escalation in these costs in early 2023 quickly outpaced the Company's operating cash flow increasing Unitil's short-term debt levels to a point where the Company approached its current borrowing limit, growing to a peak of $36 million by April 2023 and leaving Unitil with remaining credit available of approximately $3 million. As indicated in the Company's testimony, this impact on short-term credit availability can be seen in Figure 1 where successive credit line borrowings steadily increased from near $0 the first of January 2023 to $13.4 million by mid-month, following the same trend in February from $5 million to $25 million, reaching $35 million in March, and then reaching the high of $36 million in April.[12] The Company's data responses provide the actual numbers behind the graph, and below the Department provides a year-to-year, month-to-month comparison of the changes in Unitil's purchased power payments based on the early 2023 time period:[13]

<u>**Year-Year**</u>

[11] Attachment JED-1 DOE 1-8, Attachment JED-2 DOE 1-9, and Attachment JED-3 DOE 2-02.
[12] Direct Testimony of Andre J. Francoeur and Christopher J. Goulding at 9.
[13] *Id.* and Attachment JED-4 Supplemental DOE 2-06 Attachment 1.

| Month | 2022 | 2023 | Difference | % Increase |
|---|---|---|---|---|
| January | $11,854,751 | $18,093,866 | $6,239,115 | 52.6% |
| February | $15,443,196 | $22,067,018 | $6,623,822 | 42.9% |
| March | $12,338,295 | $19,034,432 | $6,696,137 | 54.3% |
| April | $ 7,647,008 | $11,903,279 | $4,256,271 | 55.6% |
| May | $ 3,523,648 | $ 6,359,559 | $2,835,911 | 80.5% |
| June | $ 4,269,322 | $ 5,495,531 | $1,226,209 | 28.7% |
| Total | $55,076,220 | $82,953,685 | $27,877,465 | 50.6% |

As shown above, 2022 represents what could be characterized as representative of a non-volatile period of wholesale power pricing. However, contrasted with 2023, monthly purchase power prices escalated by over 50% causing Unitil to access its short-term credit by amounts largely outside of normal seasonal activity as seen in 2022. Also shown above is the gradual return to moderation in wholesale purchased power costs that occurred in the summer of 2023, eventually declining by approximately 50 percent from the previous highs.

**DOE Analysis:** The Department is acutely aware of the financial impacts caused by the historic price increases for wholesale power experienced by both the utilities and ratepayers last winter. That said, the Department also realizes that these energy market events occur intermittently and can be initiated by much larger events that historically ebb and flow in the national and global economies. With natural gas prices being a key driver of wholesale power prices and thus impacting residential electric and gas bills, factors such as the war in Ukraine, energy shortages in Europe, rising inflation and interest rates, and the resultant increase in natural gas prices in the U.S. in late 2022 all contributed to driving wholesale power prices to unprecedented levels in early 2023. This trend pressured credit metrics for many utilities across the country, not only Unitil. However, the substantial and sustained decline in natural gas prices since the spring of this year has provided relief to many regulated U.S. electric utilities and has eased both affordability and credit pressures for those companies. According to information sources regularly utilized by the Department, natural gas prices for this winter are expected to be close to or within historical norms due to moderating inflation and higher inventory levels.[14] Nevertheless, the Department acknowledges the financial stress placed on Unitil due to the significant increases in purchase power costs during the first four months of 2023, and although prices have declined over the summer and have returned to historic levels, the DOE is also aware that the potential for increased volatility in the energy markets may return due to emerging geo-political events occurring in the Middle East related to the Israeli-Hamas conflict. Therefore, in light of this development and the associated unpredictability that may result in the energy markets, the Department is supportive of a temporary waiver of the rules and an increase in Unitil's credit limit of 15 percent plus leaving the adder of $10 million in effect.

**3. Rate Base Growth and Capital Expenditures:** The Company argues that the existing credit limit formula has become increasingly restrictive in terms of Unitil's asset growth and increasing levels of capital spending. The Company asserts that the proposed formula increase to 20 percent of Net Utility Plant will rebalance Unitil's current financial situation by providing additional liquidity for its growing working capital needs and will allow the credit limit to grow to better match the Company's needs over the coming years.[15]

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[14] Moody's Investors Services, S&P Global, U.S. Energy Information Administration, Wallstreet Journal

[15] Direct Testimony of Andre J. Francoeur and Christopher J. Goulding at 9, and Petition at 4 and 6.

**DOE Analysis:** Next to power purchase costs, capital investments also constitute a large expenditure for utilities. Like most electric utilities, Unitil funds its capital investments through a combination of equity and debt. Throughout the fiscal year short-term credit funding, in the form of a credit facility made available to Unitil by the parent company Unitil Corp., provides Unitil with working capital to fill in periodic gaps caused by the timing lag of incoming cash flows to pay current expenses and to fund capital expenditures. As monthly cash flows become available, money flows into the credit line to pay down current balances and re-establish credit availability much like a credit card. Long-term capital expenditures are carried forward until such time as the total amount of those investments reaches or approaches the Company's maximum credit limit. Like most utilities, Unitil will then package that amount as a long-term debt offering to investors in the credit market effectively converting the short-term debt into long term debt and returning the Company's short-term debt availability to the full amount under the formula, currently $40 million. As noted above, the cycling of this short-term debt/long-term debt conversion is typically every three years. For at least the last five years, this credit cycle under the current credit limit formula has been sufficient to meet Unitil's capital expenditure needs despite a significant yearly increase in the level of those investments. For example, total expenditures in 2018 were $18.3 million compared with $35.4 million in 2022 and an estimated $37.8 million in 2023, representing increases of 93 percent and 107 percent respectively.[16] Unitil's capital budgets for 2024 and 2025 are estimated to be $45.6 million and $45.7 million respectively.[17] Unitil argues that it is this rising trend in

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[16] Docket No. DE 21-030, Exhibit 11, Direct Testimony of Kevin E. Sprague, Revised Exhibit KES-1 at 2; and Attachment JED-5 DOE 2-03 Supplemental Response, Attachment 1 at 9.

[17] *Id.*

capital investments that is one of the causes placing additional pressure on the Company's short-term credit availability and causing the Company to approach its short-term debt limit more rapidly. When asked in discovery whether delaying or postponing some projects would help ease credit pressure and maintain adequate funding availability for the remainder of 2023, Unitil responded that was not a viable option because most of their capital projects, mainly Priority 1 and Priority 2 projects, are critical for maintaining system safety and reliability.[18] Unitil was also asked to identify projects from its 2023 capital budget that could be potential candidates for temporary postponement, but the Company did not provide that information. Nevertheless, based on the Department's experience in the most recent LCIRP dockets, DE 20-161 (Eversource) and DE 21-004 (Liberty), the Department understands that there are circumstances under which projects can be postponed or even cancelled due to a variety of reasons including budget constraints, supply chain issues, contractor issues, permitting delays, weather conditions, and extraordinary economic events such as a national pandemic. Indeed, in response to discovery, Unitil stated that some projects planned for 2020 had to be delayed as a result of the economic disruptions caused by COVID-19, resulting in Unitil carrying over those projects into 2023.[19] Although the historic price spikes in the power purchase market that disrupted the Company's cash and credit availability in 2023 did not rise to the level of the COVID-19 global pandemic, it was a major disruption of the wholesale power markets that 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. However, as indicated in Unitil's data responses, the Company did

[18] *Id.*
[19] Attachment JED-7 DOE 1-3.

not consider such measures.[20] Also, as discussed below, the likelihood for Unitil to return to the debt market in 2024 to refinance and term out its existing short-term credit balance, thus resetting Unitil's short-term credit availability to its full amount of $40 million, did not appear to be a factor in Unitil's decision making. While the impacts of COVID-19 were unforeseen and uncontrollable, Unitil had complete control over its capital budget and expenditures given that the budget is compiled ahead of time prior to each fiscal year. Short of critically needed investments such as replacement of failing transformers, circuit breakers, feeders, or downed cables or storm damage, the argument that absolutely no capital projects could be delayed due to unusual and unforeseen financial constraints is simply not plausible. Therefore, the Department is not persuaded that the Company had no ability or discretion to preserve adequate levels of short-term funding by temporarily delaying or postponing some capital projects.

**Q. Did the Department perform a review of Unitil's monthly cash flows?**

**A.** Yes. The Department reviewed Unitil's monthly cash flows for 2022 and part of 2023 to observe inflows and outflows to measure monthly peak borrowing requirements and related pressures on short-term credit availability.[21] Assuming 2022 represents a typical year, the Department found that Unitil was able to maintain monthly credit availability under the regulatory limit within the range of $20 million to $40 million with average monthly credit availability being approximately $37 million. During the months of June through December 2022, Unitil was able to maintain credit capacity at levels that occasionally exceeded the then existing regulatory limit of $39 million.[22] In short, Unitil appeared to

[20] *Id.*
[21] Attachment JED-8 DOE TS 1-2, Attachment 1.
[22] *Id.* at 6-12.

have no shortage of short-term credit availability during 2022. Unfortunately, this trend failed to continue in early 2023 where the impact of increased wholesale power costs can be clearly seen the first four months.[23] Credit capacity quickly declined from $40 million in mid-January to $25.5 million due in part to a large power purchase payment of $18 million. Again, in February an even larger power purchase payment $22 million brought credit availability down to $12.9 million. Then in March, a power purchase payment of $19 million caused credit available to decline to $5.5 million, and finally another payment in April in the amount of $12 million resulted in credit available of $2.5 million causing the Company to nearly reach its regulatory credit limit of $40 million. During that time period, cash receipts were simply not sufficient to replenish the credit line even though they outpaced cash receipts obtained in 2022 by $3 million to $4 million per month for the same time period. That was not sufficient to compensate for the year-to-year increase in monthly disbursements which increased by $7 million to $10 million over the same time period. Due to year-over-year increases in disbursements for June and July, credit availability has remained low at between $6 million and $14 million. Typically for utilities, whenever there is a deficit in operating cash flow that difference is made up by injections of equity provided by the parent company. In Unitil's case, the parent, Unitil Corp., has historically provided the Company with capital contributions most recently in the amounts of $7.7 million and $4 million in 2020 and 2021 respectively but provided no capital contributions in 2022. It is not known whether or in what amount Unitil Corp made any capital contributions to the Company in 2023. In conclusion, the negative impacts of the increase in power purchase costs in 2023 are made even more clear through an examination

[23] *Id.* at 13-16.

of Unitil's monthly cash flows provided in Attachment JED-9. In addition, although the Department regards such an event as e temporary under more normal market conditions, the DOE remains concerned that market volatility could return due to adverse geo-political developments occurring in the Middle East thus further impacting the financial performance of Unitil and other electric utilities.

**Q. In the event that the Commission denies Unitil's request what alternatives does the Company have to restore available funding? Would the Company be forced to refinance its short-term debt more frequently?**

**A.** If the Commission were to deny Unitil's requested waiver of Puc 307.05 and an increase of its short-term debt limit, the Company would have to return to the debt markets to term out its existing short-term debt with long-term debt thus restoring its credit line to the current maximum available amount of $40 million subject to the current formula.[24] Unitil states that it desires its permanent financings to be spaced up to three years apart.[25] Unitil's last financing petition was filed with the Commission three years ago in Docket No. DE 20-076 and involved a request to term out its short-term indebtedness in the amount of $25 million. Unitil's next previous financing request was approximately three years prior in Docket No. 18-109 and involved a request to term out approximately $30 million in short-term indebtedness. Therefore, based on the Commission's Docket Book record, it appears that Unitil has been able to maintain a three-year interval between its financing requests. In addition, Unitil reported receipt of favorable financing terms for

[24] Attachment JED-6 DOE 2-04.
[25] Direct Testimony of Andre J. Francoeur and Christopher J. Goulding at 10, Petition at 5.

all issuances.[26] The Company conjectures that without the requested credit limit increase it will have to return to the debt markets more frequently; however, as found in the Department's analysis above, without the recurrence of the extraordinary price spikes in the wholesale power markets experienced in 2023, Unitil is essentially gaining approximately $6 million in monthly credit availability. In terms of more frequent financing requests in the future, that too will largely depend on the Company's control over its capital expenditures and the potential for additional unforeseen upheaval in the power markets which were discussed above.

**Q. What is the Department's understanding of the origins for the 10% limitation on short-term debt increases in Puc 307.05?**

**A.** As noted above, in Unitil's last request for a permanent waiver and short-term debt increase in Docket DE 08-085, a settlement agreement was reached between PUC Staff and Unitil establishing a short-term debt formula of equal to 10 percent of Net Utility Plant plus $10 million. The 10 percent limitation was already codified at that time in Puc 307.05, but the addition of the $10 million adder was uniquely a part of the negotiated settlement. The Department believes that the 10 percent limit on short-term debt serves three purposes:

1. In the spirit of Puc 308 et al, the debt limit comes under the Commission's authority over the books and records and finances of a utility by providing for adequate notice to the PUC when a utility seeks to an increase its short-term debt exposure.

[26] *See* PUC Docket Book, Docket No. DE 20-076, Tab 6, UES 2020 Noteholder Report at 14-15, fixed rate of 3.58% for twenty-year term; and Docket No. DE 18-109, Tab 8, Unitil Energy Systems, Inc. updated pricing information, fixed rat of 4.18% for thirty-year term.

2. As with the issuance of securities under Puc 308.12, Puc 307.05 triggers the Commission's review and oversight of the degree to which a utility leverages its rate base and increases interest costs for ratepayers.
3. The 10 percent limit on short-term debt attempts to instill budget discipline and efficiency in terms of how a utility finances its operations.

In its approval of the settlement agreement in DE 08-085, the Commission echoed this viewpoint by stating: "In increasing UES's short-term debt borrowing limit, we note that, while the increase will allow UES to meet its forecasted peak borrowing needs, we do not expect UES to continually have outstanding short-term debt balances at that limit. UES still remains responsible for managing its capital structure and borrowing requirements in a prudent manner."[27] Although the 10 percent regulatory limitation has been in place for more than a decade, it is difficult to ascertain whether it may be outdated in light of recent grid modification efforts and other transitions occurring within the electric industry as a whole. In the case of Unitil, as we reference above, Unitil appears to have successfully worked within this regulatory limit at least until the occurrence of the spike in power purchase costs in 2023. The Department also has ongoing concerns about Unitil's increasing levels of capital investment when compared to the minimal growth in its customer base. The budget totals for 2024 and 2025 of $45.5 and $45.6 respectively diverge substantially from what Until forecasted in its last rate case in Docket DE 21-030 projecting $38.1 million and $41.5 million over the same time period. Unfortunately, the Department did not have sufficient time to review the necessity and prudence of these increased investments in this docket since such in-depth reviews typically take place as

[27] Docket No. DE 08-085, Order No. 25,027 dated October 22, 2009 at 4.

part of a rate case. Thus, the Department only supports a temporary waiver of Puc 307.05 resulting in an increase of the existing regulatory credit limit from 10 percent to 15 percent, plus retaining the existing adder of $10 million. As a result, the Department recommends that the Commission revisit the issue of Unitil's short-term debt increase, and the efficacy of the 10 percent limit, in conjunction with the Company's next rate case.

## IV. CONCLUSIONS AND RECOMMENDATIONS

**Q. Please summarize your conclusions.**

**A.** The Company argues that three primary factors are driving Unitil to hit its existing short-term debt limit more rapidly and that the current credit limit is no longer sufficient for meeting the Company's short-term financing needs. Those factors consist of periodic sinking fund payments on the Company's long-term debt, Unitil's asset growth in terms of increased levels of capital investments, and the historic increases in the price for purchased power in the wholesale power market. As outlined in detail above, the Department is not persuaded that regular sinking fund payments or increasing capital expenditures are legitimate reasons for approving the requested permanent waiver of Puc 307.05 to increase Unitil's regulatory credit limit to 20 percent since both expenditures have been historically incurred in the normal course of Unitil's business and are within the complete control of Unitil. However, in terms of the extraordinary price spikes for purchased power in the wholesale power market, the Department acknowledges the negative impact that those price increases had on the Company's finances in early 2023, and although those prices have moderated in recent months, the DOE remains concerned that more volatility in the energy markets could re-emerge with current developments in the Middle East as discussed above. Therefore, the Department recommends:

- The Commission should deny Unitil's petition as submitted and instead approve a temporary waiver to Puc. 307.05 involving an increase in the regulatory limit from 10 percent to 15 percent, plus retaining the existing $10 million adder, until the Company's next rate case.
- The Commission should consider revisiting Unitil's short-term credit requirements in conjunction with the Company's next rate case so as to benefit from a more in-depth review of Unitil's capital budget and investment needs.

**Q. Does that conclude your testimony?**

**A.** Yes, it does.