

**UNITIL ENERGY SYSTEMS, INC.**

**DIRECT TESTIMONY  
OF  
ANDRE J. FRANCOEUR  
AND  
CHRISTOPHER J. GOULDING**

**IN SUPPORT OF ISSUANCE OF UP TO \$50,000,000 IN LONG-TERM DEBT**

**New Hampshire Public Utilities Commission  
Docket No. DE 24 - \_\_\_\_**

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### **SCHEDULES**

Schedule AFCG-1	Historical and Budgeted Capital Spending
Schedule AFCG-2	Long-Term Debt Retirements
Schedule AFCG-3	Board Resolution

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

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

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

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

8 A. I am the Financial Planning and Analysis Manager for Unitil Service Corp. ("Unitil  
9 Service"), a subsidiary of Unitil Corporation ("Unitil Corp.") that provides managerial,  
10 financial, accounting, regulatory, engineering and information technology services to  
11 Unitil Energy Systems, Inc. ("Unitil Energy" or the "Company"). My responsibilities are  
12 primarily in the areas of strategic planning and budgeting, supporting investor relations,  
13 and assisting with various regulatory and treasury projects.

14 **Q. Please describe your business and educational background.**

15 A. I have approximately a decade of professional experience within the finance and  
16 accounting areas. I began working for Unitil Service in 2017 as a Financial Analyst, was  
17 promoted to Senior Financial Analyst in 2020, and promoted to my current role in 2021. I  
18 graduated with honors from the State University of New York at Plattsburgh with a  
19 Bachelor of Science degree. In 2023, I graduated from the University of New Hampshire  
20 with a Master of Business Administration graduate degree with a concentration in  
21 Finance.

1 **Q. Do you hold any professional licenses?**

2 A. Yes, I am a Certified Management Accountant.

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

4 A. I am the Vice President of Finance and Regulatory for Unitil Service. My responsibilities  
5 include all rate and regulatory filings, financial planning and analyses, treasury  
6 operations, budget, insurance and loss control programs.

7 **Q. Please describe your business and educational background.**

8 A. I have over 20 years of professional experience in the utility industry focused within the  
9 finance, accounting and regulatory areas. In 2000, I was hired by NSTAR Electric & Gas  
10 Company (“NSTAR,” now Eversource Energy) and held various positions with  
11 increasing responsibility in accounting, corporate finance and regulatory. I was hired by  
12 Unitil Service in early 2019 as the Director of Rates and Revenue Requirements. In 2023,  
13 I was promoted to my current position. I earned a Bachelor of Science degree in Business  
14 Administration from Northeastern University in 2000 and a Master’s in Business  
15 Administration from Boston College in 2009.

16 **Q. Were both this testimony and exhibits prepared by one of you or under your direct  
17 supervision?**

18 A. Yes, they were.

19 **II. PURPOSE OF TESTIMONY**

20 **Q. What is the purpose of your testimony?**

1 A. The purpose of our testimony is to explain Unitil Energy’s petition to issue first mortgage  
2 bonds evidencing secured long-term debt in an aggregate amount of up to \$50 million  
3 (the “Bonds”) during a period from the date of the Commission’s order in this docket  
4 through December 31, 2024.

5 **III. DESCRIPTION OF FINANCING**

6  
7 **Q. Please briefly describe the financing proposal.**

8 A. Unitil Energy is seeking the Commission's approval to issue Bonds up to \$50 million in  
9 aggregate principal amount. The Bonds will be sold at par, have a maturity of up to 30  
10 years, bear a fixed coupon of not more than 7.50% and be marketed in the private  
11 placement market. The Bonds are expected to be issued under similar terms and  
12 provisions as existing tranches and the Company will work closely with its placement  
13 agent(s) to determine the optimal issuance.

14 **Q. How does the Company finance capital expenditures?**

15 A. Capital expenditures are primarily funded by operating cash flows and supplemented  
16 with short-term debt. When the short-term balance builds to a sufficient level, long-term  
17 financing is pursued and the short-term debt is recapitalized. This financing cycle ensures  
18 that long-term utility assets are ultimately financed with long-term capital.

19 **Q. Please provide an overview of Company’s capital investment?**

20 A. Capital investment from 2021 to 2023 has averaged \$26.5 million and the budgeted  
21 investment in 2024 is approximately \$48.0 million. This data is provided in Schedule  
22 AFCG-1.

1 **Q. How did the Company determine its request of an amount up to \$50 million long-**  
2 **term debt?**

3 A. As of December 31, 2023, the Company's short-term debt balance was \$24.3 million.  
4 Capital expenditures in 2024 are budgeted to be approximately \$48.0 million and sinking  
5 fund payments of \$3.5 million. Based on current projections, the short-term debt balance  
6 by the end of 2024 is expected to be approximately \$50 million.

7 **Q. What will the proceeds of the proposed financing be used for?**

8 A. The Company expects to refinance all its short-term debt at the time of funding with any  
9 excess cash used for general corporate purposes, including utility capital expenditures.

10 **Q. With regard to sinking fund payments, please provide a schedule of the Company's**  
11 **long-term debt maturity profile.**

12 A. The Company has been consistently making sinking fund retirement payments since  
13 2015. Please refer to Schedule AFCG-2 for an overview of sinking fund payments by  
14 debt tranche. As sinking fund payments become due they are initially funded with short-  
15 term debt until such time that they can be recapitalized with permanent capital.

16 **Q. Why is Until Energy requesting a fixed coupon of not more than 7.50%?**

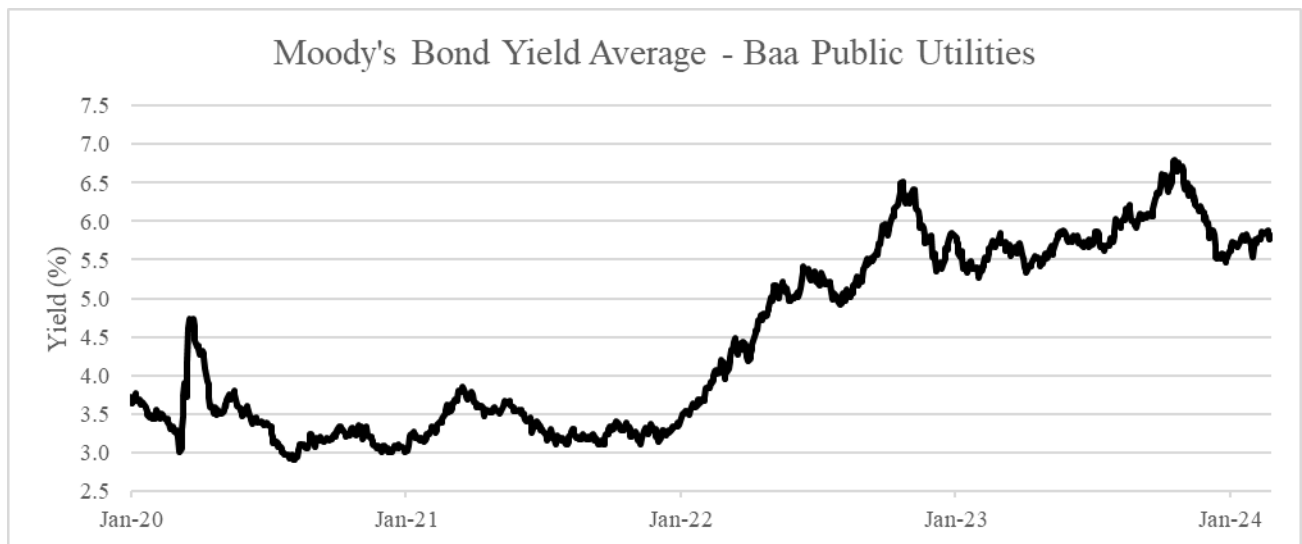
17 A. As part of its initial due diligence for this offering the Company met with its investment  
18 bankers to discuss current market conditions and indicative coupon rates. Investment  
19 bankers indicated that a credit spread of approximately 150-250 basis points over the 30-  
20 year U.S. Treasury, currently at approximately 4.50%, is likely. Based on the information  
21 received the implied all-in fixed coupon rate would be approximately 6.50% if the

1 transaction was priced now. However, market conditions can change quickly and the  
2 coupon rate must allow for flexibility to handle market uncertainty and volatility.

3 Therefore, the Company is requesting the Commission approves a maximum coupon rate  
4 of 7.50%, roughly 100 basis points over the current market pricing.

5 **Q. Please provide historical bond yields for similarly rated utilities.**

6 A. The graph below illustrates the historical average bond yield for Baa rated utilities. Over  
7 the span of January 2020 through February 2024 the bond yield has fluctuated from a low  
8 of 2.91% to a high of 6.79%, a change of 388 basis points.



9  
10 *(Source: S&P Capital IQ)*

11 **Q. Please generally describe the current private placement market.**

12 A. The private placement market has been active to start 2024 with \$13.1 billion of debt  
13 priced through the middle of March, approximately \$3.0 billion of which has been utility  
14 debt. For utilities, this marks the strongest start to the year since 2019. Many issuances  
15 have been for shorter duration debt, in the range of 5 to 10 years, creating a dynamic

1 where investor demand for longer-duration debt has outpaced supply. There is significant  
2 investor interest for longer-termed investor-grade debt regardless of tenor. Our  
3 investment bankers anticipate that a new issuance by the Company will be very well  
4 received by investors in the market.

5 **Q. Does Unitil Energy expect strong interest from the private placement market?**

6 A. Yes, it does. Previous deals have been well received and the Company believes this  
7 issuance will be too. As noted above, the Company's investment bankers share this view.

8 **Q. What types of investors participate in the private placement market?**

9 A. Typically, insurance companies participate in the private placement market as many have  
10 demand for long-term securities, are active in the market and are familiar with the utility  
11 sector. The Company anticipates that the new issuance will be marketed to a combination  
12 of existing investors and prospective investors.

13 **Q. Please describe the key terms of the proposed long-term debt financing.**

14 A. Unitil Energy is targeting to issue at par to institutional investors, an aggregate amount of  
15 up to \$50,000,000 in first mortgage bonds with a tenor up to 30 years. The Bonds are  
16 expected to be issued under similar terms and provisions of all of the Company's other  
17 first mortgage bonds. Similar to Unitil Energy's previous issuance in 2020, this Bond  
18 issuance will have the implementation of a "fall-away" structure where the mortgage  
19 security ceases when all other outstanding secured debt matures. This provision is  
20 described in more detail below. The Company will work with its placement agent(s) to



1 determine the ultimate size of the offering, maturity, coupon and other terms based on  
2 market conditions and investor interest.

3 **Q. Please describe the “fall-away” first mortgage bond structure referenced above.**

4 A. The purpose of the “fall-away” provision is to eventually replace an existing first  
5 mortgage bond indenture with an unsecured note financing platform. This provision  
6 provides that the first mortgage security of the Bonds will release or “fall-away” once all  
7 other first mortgage bonds of Unitil Energy are repaid on September 15, 2036, subject to  
8 certain customary conditions.

9 **Q. Will the Company be able to issue first mortgage bonds in the future after this Bond**  
10 **offering?**

11 A. Yes. The implementation of the “fall-away” bond structure is not a permanent decision to  
12 implement an unsecured financing structure. The Company can decide to issue first  
13 mortgage bonds up until the last first mortgage bond is retired without a fall-away  
14 provision, which will occur in 2036.

15 **Q. What is the Company’s issuer credit rating?**

16 A. Unitil Energy has an issuer rating of BBB+ by Standard & Poor’s rating agency and an  
17 issuer rating of Baa1 by Moody’s rating agency. The Company’s First Mortgage Bonds  
18 have a rating of A2 from Moody’s rating agency. The Company also has a private rating  
19 of NAIC-1 by the National Association of Insurance Commissioners (NAIC) which is the  
20 regulatory agency of the Company’s existing insurance investors. Investor-grade credit  
21 ratings enable the Company to issue at debt at more favorable terms.

1 **Q. Will the bond issuance materially impact the Company’s debt capitalization or**  
2 **credit rating metrics?**

3 A. No, it will not. Total leverage will remain largely unchanged as the proceeds will be used  
4 to pay down short-term debt.

5 **Q. What are the projected issuance costs for the proposed offering?**

6 A. The following table outlines the estimated costs associated with the Company’s \$50  
7 million issuance of first mortgage bonds to the private market.

<u>Fee</u>	<u>Amount</u>
Placement Fees / External Counsel <sup>(1)</sup>	\$ 250,000
Trustee / Title Work	50,000
Miscellaneous	25,000
<u>Total</u>	<u>\$ 325,000</u>

8 (1) Includes lender's counsel

9 **Q. How has the Company minimized issuance costs?**

10 The Company has taken many efforts to minimize financing costs, including the use of  
11 in-house counsel to obtain the New Hampshire Public Utilities Commission approval.

12 The Company has included a fall-away first mortgage bond structure to provide the  
13 option to reduce issuance costs in the future. The Company also intends to market the  
14 transaction along-side its regulated affiliates to achieve economies of scale for issuance  
15 costs and to increase investor demand.

16 **Q. Does management intend on issuing additional long-term debt at any other**  
17 **subsidiary in 2024?**

1 A. Yes, as mentioned above the Company intends to issue debt at multiple subsidiaries and  
2 currently has Board approval to issue long-term debt at three other wholly-owned  
3 subsidiaries of Unitil Corporation: Northern Utilities, Inc., Granite State Gas  
4 Transmission, Inc. and Fitchburg Gas and Electric Light Company. If all four subsidiaries  
5 issue debt, a total of \$120 - \$150 million will likely be raised. The issuances will be  
6 marketed concurrently, and by doing so, the Company and our investment bankers  
7 anticipate additional investor demand and more favorable terms than if each issuance was  
8 marketed discretely. For this reason, the ability to pair financings together is beneficial  
9 for ratepayers.

10 **Q. Has the Company's Board of Directors approved the proposed financing?**

11 A. Yes, on January 31, 2024, the Company's Board of Directors voted to approve a Bond  
12 issuance of up to \$50,000,000. Please refer to Schedule AFCG-3 for the certified Board  
13 resolution dated February 29, 2024.

14 **Q. What is Unitil Energy's timing for the proposed debt offering?**

15 A. The Company expects to price the debt in the third quarter of 2024 and close the  
16 transaction within at least three months of pricing, subject to regulatory approval. This  
17 represents the Company's best estimate. It is possible that due to unforeseen market or  
18 other conditions, the timing may be adjusted.

19 Based on this timeline, Unitil Energy respectfully requests that the Commission issue an  
20 Order *Nisi* approving this routine financing proposal as soon as possible, but no later than

1 June 28, 2024. This will provide the Company additional flexibility in marketing and  
2 closing of the transaction in the private placement market.

3 **IV. CONCLUSION**

4 **Q. Does the Company believe the issuance of up to \$50 million of secured first**  
5 **mortgage bonds is in the public good?**

6 A. Yes. The Company believes and, therefore, alleges that the securities to be issued will be  
7 consistent with the public good and that it is entitled to issue said securities under RSA  
8 369 for the purposes set forth in its petition

9 **Q. Does this conclude your testimony?**

10 A. Yes, it does.