

STATE OF NEW HAMPSHIRE
BEFORE THE NEW
HAMPSHIRE PUBLIC UTILITIES COMMISSION

Docket No. DE 24-058

Unitil Energy Systems, Inc.

Petition for Authority to Issue Securities

Technical Statement of Jay E. Dudley

Department of Energy, Division of Regulatory Support

May 31, 2024

On April 5, 2024, Unitil Energy Systems, Inc. (Unitil or Company), filed a petition for authority to issue long term debt not to exceed an aggregate principal amount of \$50 million. Unitil's filing comprised testimony and attachments including information provided by Form F-4 under Rule Puc 308:12(b). The Department of Energy (Department or DOE) recommends approval of the petition as explained below.

Description of Proposed Financing

UES seeks approval to issue and sell through private placement up to \$50 million in aggregate principal amount of long-term debt in the form of first mortgage bonds (the Bonds) during the period from the date of the Commission's order in this docket through December 31, 2024. The Company plans to use the funds to: (i) to refinance UES's existing short-term debt balance of \$40 million (as of April 30, 2024); (ii) to fund approximately \$325,000 in issuance costs; and (iii) to fund approximately \$3.5 million in sinking fund payments due in 2024 with the remainder (approximately \$6.0 million) to be used for planned capital investments for 2024 and other corporate purposes, for a total projected debt issuance of \$50 million. The maturity of the Bonds will range up to 30 years. The Company proposes to price the Bonds at a fixed rate based on the 30-year U.S. Treasury rate plus a credit spread not to exceed two hundred fifty basis points (2.50%) resulting in a coupon rate of not more than 7.50% to be determined at the time of closing. UES anticipates that the ultimate rate for the Bonds will be consistent with current market rates (approximately 6.50%); however, given that UES plans to close on the Bonds at some point within the third quarter the Company requests approval of a maximum coupon rate of 7.50% in order to provide sufficient flexibility in the event of unanticipated widening of credit spreads due to uncertainty or volatility in the capital markets. The final financing structure, terms and conditions, amounts, documentation, and rate will be determined at the time of issuance.

The Company's filing includes the joint direct testimony of Mr. Christopher J. Goulding and Mr. Andre J. Francoeur. The Company also provided its Form F-4 based on its financial

statements dated December 31, 2023, along with attachments to show the impacts of the proposed financing on UES's balance sheet (Exhibit AFCG-4), income statement (Exhibit AFCG-5), capitalization (Exhibit AFCG-6), and issuance costs (Exhibit AFCG-3) on a pro forma basis. UES estimates the cost of the bond issuance to be approximately \$325,000, which includes ratings fees, legal fees, and underwriting fees. The Company calculates on a pro forma basis that the new long-term debt of approximately \$50 million will result in an increase in annual interest expense of approximately \$1.7 million for a total of \$8.9 million, as compared with its current total interest expense amount of \$7.2 million. The Company's total long-term indebtedness after the bond issuance will increase to \$144.5 million.¹ However, UES projects that after giving effect to the resulting pro forma adjustments, the proposed financing will not have an adverse impact on the Company's current capital structure of 49% debt, resulting in a revised capitalization of 54% debt and 46% equity.² Although the forecasted net debt component of 54% exceeds UES's ratemaking debt ratio of 48% established by settlement in the Company's last rate case in Docket DE 21-030, this was due in part to an increase in UES's short-term credit limit in 2023 of \$20 million approved by the Commission in Docket DE 23-065. In addition, the lower equity component of 46% resulting from the proposed financing will likely reduce UES's overall cost of capital. UES estimates that the potential impact on customer rates resulting from the debt issuance would be nominal when based on the revenue requirement set in the Company's last rate case in Docket DE 21-030 whereby the new debt issuance would have resulted in a relatively minor increase to the revenue deficiency of \$0.25 million.³ The Department confirmed UES's current bond ratings of BBB+ with Standard & Poor's, and Baa1 with Moody's Investors Service.⁴ Both ratings agencies report an outlook of "Stable." The Company also provided its Form E-22 listing of proposed capital expenditures and additions for 2024.⁵ The grand total of proposed expenditures is \$53.5 million however UES only seeks approval for up to \$50 million as part of this request for long-term debt financing.

Department's Recommendation

The Department has reviewed the Company's petition and supporting documents and believes that UES's filing is complete and meets all requirements of Puc 308.12. Accordingly, it is the Department's opinion that, based on the current total of outstanding long-term debt reported by UES of approximately \$94.5 million, the proposed issuance of new debt in the amount of \$50 million will not have an adverse impact on the Company's capital structure, the Company's cost of debt and revenue requirement, or a discernible impact on future rates. As a result, the Department concludes that the filing represents a routine financing request.

As such, the Department supports the Company's position that approval of the petition is in conformance with the review standards of RSA Chapter 369. Therefore, the Department recommends that the Commission authorize UES to issue \$50 million in long term debt, according to the proposed terms, amounts, and interest rate outlined above, for the purposes of

¹ Testimony of Goulding and Francoeur, Exhibit AFCG-6 at 1.

² *Id.*

³ Attachment JED-1, DOE Data Response 1-02. The interest expense for new debt issuance will impact UES's cost of capital which will be reviewed in the Company's next rate case.

⁴ Attachment JED-2 DOE Data Response 1-01, and Testimony of Goulding and Francoeur at 7.

⁵ Attachment JED-3 DOE Data Response 1-03.

refinancing its existing short-term debt into long-term debt, and to authorize the issuance of new debt to fund planned capital expenditures for 2024. The DOE further recommends that the Commission's approval be conditioned upon the Company providing the PUC with written confirmation of the amount and interest rate of the finalized debt issuance and copies of the Certificate of Net Bondable Expenditures and the Engineer's Certificate required under Section 4.05 of the Company's Supplemental Indenture. The Department supports the issuance of an Order *Nisi* for the approval of this petition.

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