

NORTHERN UTILITIES, 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. DG 24 - ____**

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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 Northern Utilities, Inc. ("Northern" or the "Company"). My responsibilities are primarily
12 in the areas of strategic planning and budgeting, supporting investor relations, and
13 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 Unitol 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 Unitol 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 Northern’s petition to issue senior unsecured
2 long-term debt in an aggregate amount of up to \$50 million (the “Notes”) during a period
3 from the date of the Commission’s order in this docket through December 31, 2024. The
4 Company is filing a similar petition for authorization to issue securities with the Maine
5 Public Utilities Commission.

6 **III. DESCRIPTION OF FINANCING**

7
8 **Q. Please describe the financing proposal.**

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

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

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

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

21 A. Capital investment from 2021 to 2023 has averaged \$59.5 million and the projected
22 investment in 2024 is \$65.4 million. This data is provided in Schedule AFCG-1.

1 **Q. Why is the Company looking to access debt markets at this time and what will the**
2 **proceeds be used for?**

3 As of December 31, 2023, the Company's short-term debt balance was approximately
4 \$86 million and as noted above, budgeted capital expenditures in 2024 are approximately
5 \$65 million. The Company believes it is an appropriate time to pursue a long-term debt
6 financing and address its projected capital needs. The issuance proceeds will be used to
7 recapitalize short-term debt.

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

10 A. Please refer to Schedule AFCG-2 for the Company's historical and upcoming sinking
11 fund payments. The most recent sinking payment was in 2020 and the next principal
12 payment will be in 2027.

13 **Q. Please outline the Company's long-term debt currently outstanding.**

14 A. Please refer to the table below.

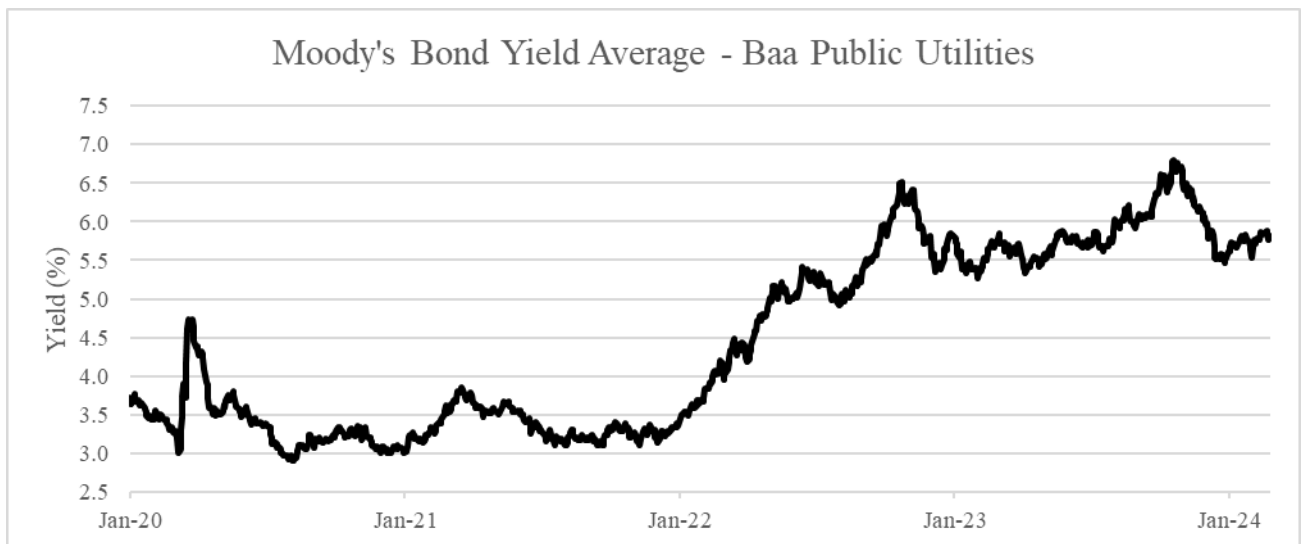
Type	Principle	Issue Date	Maturity Date	Outstanding Balance	Coupon
Sr. Notes	\$ 50,000,000	Dec-08	Dec-38	\$ 50,000,000	7.72%
Sr. Notes	\$ 50,000,000	Oct-14	Oct-44	\$ 50,000,000	4.42%
Sr. Notes	\$ 20,000,000	Nov-17	Nov-27	\$ 20,000,000	3.52%
Sr. Notes	\$ 30,000,000	Nov-17	Nov-47	\$ 30,000,000	4.32%
Sr. Notes	\$ 40,000,000	Sep-19	Sep-49	\$ 40,000,000	4.04%
Sr. Notes	\$ 40,000,000	Sep-20	Sep-40	\$ 40,000,000	3.78%

15
16 **Q. Why is Northern requesting a fixed coupon of not more than 7.50%?**

1 A. As part of its initial due diligence for this offering the Company met with its investment
2 bankers to discuss current market conditions and indicative coupon rates. Investment
3 bankers indicated that a credit spread of approximately 150-250 basis points over the 30-
4 year U.S. Treasury, currently at approximately 4.50%, is likely. Based on the information
5 received the implied all-in fixed coupon rate would be approximately 6.50% if the
6 transaction was priced now. However, market conditions can change quickly and the
7 coupon rate must allow for flexibility to handle market uncertainty and volatility.
8 Therefore, the Company is requesting the Commission approves a maximum coupon rate
9 of 7.50%, roughly 100 basis points over the current market pricing.

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

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



14

15 (Source: S&P Capital IQ)

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

2 A. The private placement market has been active to start 2024 with \$13.1 billion of debt
3 priced through the middle of March, approximately \$3.0 billion of which has been utility
4 debt. For utilities, this marks the strongest start to the year since 2019. Many issuances
5 have been for shorter duration debt, in the range of 5 to 10 years, creating a dynamic
6 where investor demand for longer-duration debt has outpaced supply. There is significant
7 investor interest for longer-termed investor-grade debt regardless of tenor. Our
8 investment bankers anticipate that a new issuance by the Company will be very well
9 received by investors in the market.

10 **Q. Does Northern expect strong interest from the private placement market?**

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

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

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

18 **Q. What is the Company's credit rating?**

19 A. Northern has an issuer rating of BBB+ by Standard & Poor's rating agency and an issuer
20 rating of Baa1 by Moody's rating agency. The Company also has a private rating of
21 NAIC-2, which is equivalent to the BBB/Baa S&P/Moody's ratings, by the National

1 Association of Insurance Commissioners (NAIC) which is the regulatory agency of the
2 Company's existing insurance investors.

3 **Q. Will the note issuance materially impact the Company's debt capitalization or credit**
4 **rating metrics?**

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

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

8 A. The following table outlines the estimated costs associated with the Company's \$50
9 million issuance of senior unsecured notes to the private market.

<u>Fee</u>	<u>Amount</u>
Placement Fees / External Counsel ⁽¹⁾	\$ 275,000
Miscellaneous	25,000
<u>Total</u>	<u>\$ 300,000</u>

10 (1) Includes lender's counsel

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

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

14 The Company also intends to market the transaction along-side its regulated affiliates to
15 achieve economies of scale for issuance 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: Unitil Energy Systems, Inc., Granite State Gas
4 Transmission, Inc. and Fitchburg Gas and Electric Light Co. If all four subsidiaries issue
5 debt, a total of \$120 - \$150 million will likely be raised. The issuances will be marketed
6 concurrently, and by doing so, the Company and our investment bankers anticipate
7 additional investor demand and more favorable terms than if each issuance was marketed
8 discretely. For this reason, the ability to pair financings together is beneficial for
9 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 Note
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 the timing for the proposed Notes 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, Northern 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 senior unsecured**
5 **Notes 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.