

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 24-058

UNITIL ENERGY SYSTEMS, INC.

F-4 Petition for Authority to Issue Securities

Order *Nisi* Approving Financing

ORDER NO. 27,019

June 14, 2024

Unitil Energy Systems, Inc. (UES or the Company), filed a petition for authority to issue long term debt not to exceed an aggregate principal amount of \$50 million. In this order, the Commission authorizes UES to borrow up to \$50 million and issue corresponding unsecured long-term debt securities.

The petition and subsequent docket filings, other than information for which confidential treatment is requested of or granted by the Commission, are posted to the Commission's website at <https://www.puc.nh.gov/Regulatory/Docketbk/2024/24-058.html>.

I. BACKGROUND AND PROCEDURAL HISTORY

UES is a public utility that supplies electric service to approximately 77,000 customers in the capital district and seacoast region of New Hampshire. The Company filed a petition on April 5, 2024, pursuant to RSA 369, seeking Commission 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. See UES's April 5, 2024 Petition at 1.

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. *See* UES's April 5, 2024 Testimony of Christopher Goulding and Andre Francoeur at 3.

On May 31, 2024, the New Hampshire Department of Energy (DOE) filed a technical statement recommending approval of the petition. The Office of the Consumer Advocate did not submit an appearance in this docket, and no petitions to intervene were filed.

II. POSITIONS OF THE PARTIES

A. UES

UES said it will use the loan proceeds to repay outstanding short-term indebtedness and will use any excess cash for general corporate purposes, including utility capital expenditures. *See* Id at 4. UES attached its proposed 2024 capital spending budget to the petition totaling \$48 million. *See* UES's April 5, 2024 Attachment, Schedule AFCG-1. The Company asserts that the purpose of the financing is in the public good and, therefore, should be authorized under RSA 369.

To implement the financing, UES 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 of 2024, the Company requests approval of a maximum coupon rate of 7.50% to provide sufficient flexibility in the event of unanticipated widening of credit spreads due to uncertainty or volatility in the capital markets. *See* UES's April 5, 2024 Testimony of Christopher Goulding and Andre Francoeur at 3.

UES explains that the proposal of a maximum coupon rate of 7.50% was requested based on the advice of its investment bankers who indicated that market conditions can change quickly and the coupon rate must allow for flexibility to handle market uncertainty and volatility. *See Id* at 10. The final financing structure, terms and conditions, amounts, documentation, and rate will be determined at the time of issuance. *See Id*. The bonds are expected to be issued under similar terms and provisions as existing tranches and the Company will work closely with its placement agent(s) to determine the optimal issuance. *See Id* at 3.

UES asserts that the proposed financing will not have a significant impact on the Company's current capital structure. *See Exhibit AFCG-4* at 1. UES estimates the cost of the bond issuance to be approximately \$325,000, which includes ratings fees, legal fees, and underwriting fees. *See April 5, 2024 Petition* at ¶ 5. 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. *See UES's April 5, 2024 Testimony of Christopher Goulding and Andre Francoeur at Exhibit AFCG-6* at 1.

UES expects a favorable reception by the private placement market for its proposed debt issuance. *See UES's April 5, 2024 Testimony of Francoeur & Goulding* at 9. The Company also asserted that the proposed transaction is consistent with the public good and is therefore authorized under the provisions of Chapter 369. *See April 5, 2024 Petition* at 4.

B. DOE

DOE reviewed UES's filings and recommended that the Commission approve the proposed financing and find the financing to be consistent with the public good pursuant to RSA 369:1. Further, the DOE recommended that the Commission review the proposed financing as "routine." See May 31, 2024 technical statement at 2.

After reviewing UES's petition and responses to data request, DOE Utility Analyst Jay Dudley explained that even though the proposed financing will increase the debt-to-equity ratio in the current capital structure from 49% debt to 54% debt, the proposed financing will likely reduce the cost UES's overall cost of capital. See *Id.* Mr. Dudley provides the following detail:

The Company's total long-term indebtedness after the bond issuance will increase to \$144.5 million. 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. 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. The Department confirmed UES's current bond ratings of BBB+ with Standard & Poor's, and Baa1 with Moody's Investors Service. 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. 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.

See Id.

The DOE supports the Company's position that approval of the petition is in conformance with the review standards of RSA Chapter 369 and recommends that the Commission authorize UES to issue \$50 million in long term debt, according to the

proposed terms, amounts, and interest rate UES has outlined, for the purposes of 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 DOE supports the issuance of an Order *Nisi* for the approval of this petition. *See Id.*

III. COMMISSION ANALYSIS

RSA 369:1 states that a utility may, "with the approval of the commission but not otherwise, issue and sell ... notes and other evidences of indebtedness payable more than 12 months after the date thereof for lawful corporate purposes." The Commission shall authorize the financing "if in its judgment the issue of such securities upon the terms proposed is consistent with the public good." RSA 369:4. The Commission reviews the amount to be financed, the reasonableness of the terms and conditions, the proposed use of proceeds, and the effect on rates. *Appeal of Easton*, 125 NH 205, 211 (1984) (*Easton*).

The rigor of an *Easton* inquiry varies depending on the circumstances of the request. As the Commission has noted in prior decisions, "certain financing related circumstances are routine, calling for more limited Commission review of the purposes and impacts of the financing, while other requests may be at the opposite end of the spectrum, calling for vastly greater exploration of the intended uses and impacts of the proposed financing." *Public Service Company of New Hampshire*, Order No. 25,050 at 14 (December 8, 2009). We engage in a more limited review for routine financing

requests. *Id.* at 13-14. A routine request is one that will have no discernible “impact on rates or deleterious effect on capitalization, [and] in which the funds are to enable numerous investments appropriate in the ordinary course of utility operations.” *Id.* at 13.

In Docket No. DE 23-065 the Commission granted UES’s petition to increase its short-term debt limit formula to 20 percent of Net Utility plant. The order was based on the premise that UES required flexibility to access long-term debt only when the interest rates are most favorable; thus, ensuring the best terms and conditions of long-term financing. *See* Order No. 26,936 at 6 (January 22, 2024). The graphic provided in Mr. Goulding and Mr. Francoeur’s testimony depicts historical interest rates for the last four years. If UES had put forth this petition in 2021 the interest rate requested would have been 3% lower than the now requested rate of up to 7.5%. *See* UES’s April 5, 2024 Testimony of Francoeur & Goulding at 5. This would have been an excellent time to borrow money. Now rates are on the rise. Mr. Goulding and Mr. Francoeur have indicated that UES’s investment bankers have recommended refinancing in the third quarter of 2024. *See Id.* UES anticipates that there will be strong interest from the private placement market. Specifically, 2024 has been the strongest start to the year since 2019 for the private placement market. *See Id.* at 6. This testimony, combined with the technical statement of DOE supports the position that refinancing now, despite the upward trend in interest rates over the last two years, is in the public good.

UES proposes refinancing for the following three purposes:

1. To refinance UES’s existing short-term debt balance of \$40 million (as of April 30, 2024);
2. To fund approximately \$325,000 in issuance costs; and

3. 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.

See April 5, 2024 Petition at ¶ 4.

Based on the Company's petition and DOE's analysis and recommendation, we find UES's request to be routine and to have no discernable impact on rates and will not adversely affect capitalization. As a routine financing request, we limit our review to whether the "use of the financing proceeds [is] in the public good." See RSA 369:4. We need not examine other possible uses of the money. *Public Service Co. of N.H.*, Order No. 25,050 at 16. Replacing short-term debt with the proposed long-term financing will provide benefits to UES and its customers. UES's balance sheet will improve, and customers will see essentially no change in rates. We find UES's intended use of the financing proceeds to be in the public good.

Accordingly, based on the record, the Commission finds the proposed refinancing to be reasonable. We conclude that approval of the proposed financing will permit UES to provide safe and adequate service to its customers, as required by RSA 374:1, and that the financing is consistent with the public good, pursuant to RSA 369:1 and RSA 369:4. Accordingly, based on the Company's petition and on DOE's technical statement and recommendation, we find UES's financing request to be consistent with the public good. We further find that additional investigation is not required and approve the proposed financing on a *Nisi* basis.

Our approval of UES's financing does not limit or preclude the Commission from reviewing in a future case, directly or indirectly, the prudence, use, and usefulness of any specific project financed by the borrowed funds pursuant to RSA

378:28. The Commission retains its authority under RSA 374:4 to be kept informed of UES's use of the financing and any efforts to refinance under more favorable interest rates, separate and apart from any future review under RSA 378:28.

Based upon the foregoing, it is hereby

ORDERED NISI, that subject to the effective date below, the request of Unitil Energy Systems, Inc. to borrow up to \$50 million in long-term debt at an interest rate of not more than 7.50 percent, is hereby **GRANTED**; and it is

FURTHER ORDERED, that Unitil Energy Systems Inc. shall submit written confirmation of the amount and interest rate of the finalized debt issuance; and it is


FURTHER ORDERED, that Unitil Energy Systems Inc. shall cause a copy of this order to be published on its website by no later than the close of business on June 17, 2024; noticed through billing in the next billing cycle after the issuance of this order; and to be documented by affidavit filed with this office on or before June 24, 2024; and it is

FURTHER ORDERED, that all persons interested in responding to this order be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than July 5, 2024, for the Commission's consideration; and it is

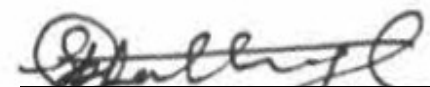
FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than July 12, 2024; and it is

FURTHER ORDERED, that this order shall be effective July 15, 2024, unless the Petitioner fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date.


By order of the Public Utilities Commission of New Hampshire this fourteenth day of June 2024.



Daniel C. Goldner
Chairman



Pradip K. Chattopadhyay
Commissioner



Carleton B. Simpson
Commissioner

Service List - Docket Related

Docket# : 24-058

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