

STATE OF NEW HAMPSHIRE
Before the
PUBLIC UTILITIES COMMISSION

DOCKET NO. DG 08-048

UNITIL CORPORATION

AND

NORTHERN UTILITIES, INC.

JOINT PETITION

for

APPROVAL OF STOCK ACQUISITION

DIRECT TESTIMONY OF

MARK H. COLLIN

March 31, 2008

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SCHEDULES

SCHEDULE MHC – 1: COMBINED SERVICE TERRITORIES

1 **I. INTRODUCTION**

2 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A My name is Mark H. Collin. My business address is 6 Liberty Lane West,
4 Hampton, New Hampshire 03842.

5

6 **Q BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 A I am the Senior Vice President, Chief Financial Officer and Treasurer of Unitil
8 Corporation (hereinafter referred to as “Unitil” or “the Company”). My
9 responsibilities are primarily in the areas of financial management and utility
10 regulation.

11

12 **Q PLEASE DESCRIBE YOU BUSINESS AND EDUCATIONAL**
13 **BACKGROUND.**

14 A I have over 23 years of professional experience in the utility industry including an
15 extensive financial and regulatory background. I have held a number of
16 progressively senior management positions with Unitil in the areas of finance,
17 administration and regulation. I have been Treasurer of the Unitil’s utility
18 operating companies since 1993, and the Treasurer of Unitil since 1998. I
19 assumed my responsibilities as Chief Financial Officer of Unitil in 2003. Prior to
20 joining Unitil, I was employed as an economist and utility analyst in the
21 Economics Department of the New Hampshire Public Utilities Commission (the

1 “Commission” or “NHPUC”), where I advised the Commission on economic,
2 ratemaking and regulatory matters concerning electric, gas and water utilities.

3
4 I earned a Bachelor of Arts in Economics and a minor in Management from the
5 State University of New York at Cortland in 1981 and a Master of Arts in
6 Economics from the University of New Hampshire Whittemore School of
7 Business and Economics in 1984.

8
9 **Q HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION**
10 **OR OTHER REGULATORY AGENCIES?**

11 A Yes. I have testified before the NHPUC in several proceedings on various
12 financial, ratemaking and industry restructuring matters. I have also testified
13 before the Massachusetts Department of Public Utilities (“MDPU”) and submitted
14 testimony before the Federal Energy Regulatory Commission (“FERC”).

15
16 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 A The purpose of my testimony is to describe Unitil’s proposal to acquire Northern
18 Utilities, Inc. (“Northern”) and Granite State Gas Transmission, Inc. (“Granite”)
19 from NiSource, Inc. (“NiSource”) and Bay State Gas Company (“Bay State”), a
20 wholly owned utility subsidiary of NiSource (the “Transaction”). My testimony
21 will: (i) provide some general background and descriptive information on Unitil;
22 (ii) broadly describe the Transaction; (iii) summarize the benefits of the

1 Transaction; (iv) summarize the other regulatory authorizations that are necessary
2 to implement the Transaction in an efficient manner, and: (v) introduce Unitil's
3 other witnesses in this proceeding.
4

5 **II. DESCRIPTION OF THE PARTIES**

6 **Q PLEASE BRIEFLY DESCRIBE UNITIL.**

7 A Unitil is a New Hampshire corporation and an investor-owned public utility
8 holding company. Unitil's principal business is the retail distribution of
9 electricity and natural gas through its two utility subsidiaries: Unitil Energy
10 Systems Inc. ("UES") and Fitchburg Gas and Electric Light Company, d/b/a
11 Unitil ("FG&E"). UES is an electric utility with an operating franchise in the
12 southeastern seacoast and capitol city areas of New Hampshire. UES serves
13 approximately 72,200 New Hampshire customers located in the capitol city of
14 Concord, twelve surrounding towns and in all or part of sixteen towns in the
15 southeastern and seacoast regions of New Hampshire, including the towns of
16 Atkinson, Exeter, Hampton, Plaistow and Seabrook. FG&E is a combination gas
17 and electric utility with an operating franchise in the greater Fitchburg area of
18 north central Massachusetts. FG&E provides electric and gas distribution service
19 to customers in the communities of Fitchburg, Townsend, Lunenburg and Ashby.
20 In addition to serving these four communities, FG&E also provides natural gas
21 service, but not electric service, in the towns of Gardner and Westminster. FG&E

1 serves approximately 27,000 electric customers and 15, 000 gas customers in
2 these Massachusetts communities.

3

4 **Q ARE THE UTILITY SERVICE TERRITORIES OF UNITIL’S TWO**
5 **EXISTING OPERATING UTILITIES CONTIGUOUS OR OTHERWISE**
6 **CONNECTED?**

7 A No, they are not contiguous or otherwise connected to one another. Unitil,
8 however, manages and operates many of the business operations of its two
9 distribution utilities on a centralized and integrated basis as if they were a single
10 entity. Unitil has integrated its utility business operations to achieve system-wide
11 efficiencies through economies of scale, elimination of duplicate functions and
12 application of best business practices. At the hub of this organizational structure
13 is Unitil Service Corp. (“Service Corp.”), a wholly-owned subsidiary of Unitil.
14 Service Corp. provides a wide variety of shared business functions to the two
15 operating utilities on an at-cost basis. The shared services provided by Service
16 Corp. relate to six major functional areas: (1) Corporate and Administration; (2)
17 Customer Service; (3) Energy Services; (4) Engineering and Operations; (5)
18 Regulatory, Finance and Accounting; and (6) Technology.

19

20 **Q DOES UNITIL HAVE ANY OTHER SUBSIDIARIES?**

21 A Yes. In addition to Service Corp., the other subsidiaries are: Unitil Power Corp.,
22 Unitil Resources, Inc. and Unitil Realty Corp. Unitil Power Corp. is a FERC-

1 regulated wholesale power company that formerly provided all the wholesale
2 power requirements to UES in New Hampshire. As a result of industry
3 restructuring and the introduction of retail choice in New Hampshire, Unitil
4 Power Corp. has divested substantially all of its long-term power supply contracts
5 and is currently winding down its business operations and obligations. Unitil
6 Resources, Inc. is a wholly-owned non-regulated subsidiary with two additional
7 subsidiaries: Usource, Inc. and Usource, L.L.C. (collectively “Usource”), which
8 provide electric and natural gas energy brokering and advisory services to large
9 commercial and industrial customers in the northeastern United States. Unitil
10 Realty Corp. owns the corporate office building in Hampton, New Hampshire.

11
12 **Q PLEASE DESCRIBE NORTHERN AND GRANITE.**

13 **A** Northern is a New Hampshire corporation and a public utility. Northern provides
14 natural gas distribution services to 52,000 customers in 44 New Hampshire and
15 southern Maine communities, stretching from Atkinson, New Hampshire, in the
16 south, to Lewiston-Auburn, Maine, in the north. Bay State, a Massachusetts
17 corporation and public utility holding company that provides natural gas
18 distribution service in Massachusetts, owns all of the outstanding shares of
19 Northern. NiSource, an Indiana corporation and public utility holding company
20 based in Merrillville, Indiana, owns all of the common stock of Bay State and of
21 Granite. NiSource acquired Northern in 1999 as part of its larger acquisition of

1 Bay State, and is retaining ownership of Bay State following the sale of Northern
2 and Granite to Unitil.

3
4 **Q PLEASE DESCRIBE UNITIL'S CORPORATE STRUCTURE AFTER**
5 **COMPLETION OF THE TRANSACTION.**

6 A As a result of this Transaction, Northern and Granite will become separate
7 wholly-owned subsidiaries of Unitil. Unitil's corporate structure upon completion
8 of the Transaction is attached to the Joint Petition as Exhibit 2. Northern and
9 Granite will continue to operate much as they do now, as stand-alone subsidiaries
10 with their own assets, liabilities and accounting records. In addition, Northern
11 will continue to maintain its books, records and other regulatory compliance
12 activities for its two operating divisions, the New Hampshire Division and the
13 Maine Division, as it does now.

14
15 Similar to the organizational structure of Unitil, Northern currently operates under
16 a centralized business model, with a number of professional and administrative
17 support services provided by a central service company that supports all NiSource
18 affiliates. In addition, Northern shares and relies on its parent company, Bay
19 State, for a number of utility services. After the transfer of Northern to Unitil and
20 a transition period following the close of the transaction which is expected to last
21 from three to six months, NiSource and Bay State will cease providing these

1 centralized services to Northern and Unitil's service company, Service Corp., will
2 support Northern on an ongoing basis.

3

4 **Q ARE THE SERVICE TERRITORIES OF UNITIL'S EXISTING UTILITY**
5 **OPERATIONS CONTIGUOUS OR OTHERWISE CONNECTED IN ANY**
6 **WAY TO NORTHERN?**

7 A Yes, portions of Unitil's electric service territory in southeastern New Hampshire
8 overlap portions of Northern's natural gas service territory. Unitil and Northern's
9 service territories overlap in the New Hampshire towns of Atkinson, East
10 Kingston, Exeter, Greenland, Hampton, Hampton Falls, North Hampton,
11 Kensington, Plaistow, Seabrook and Stratham. The combined New Hampshire
12 service territories for Unitil and Northern are shown on Schedule MHC- 1.

13

14 **Q PLEASE EXPLAIN GRANITE'S BUSINESS FUNCTION.**

15 A Granite is a FERC regulated inter-state natural gas transmission company,
16 primarily serving Northern in New Hampshire and Maine. Northern is a captive
17 wholesale customer of Granite, and relies on Granite for access to the inter-state
18 pipeline system and for transportation and other related services associated with
19 the delivery of pipeline gas at various points along its entire distribution system.
20 As a wholly owned subsidiary of Unitil, Granite's business function will remain
21 unchanged following the completion of the Transaction.

1 **III. DESCRIPTION OF TRANSACTION**

2 **Q PLEASE PROVIDE A BRIEF DESCRIPTION OF THE TRANSACTION.**

3 A On February 15, 2008, Unitil entered into a Stock Purchase Agreement
4 (“Agreement”) with NiSource and Bay State for the purpose of acquiring
5 Northern and Granite. A copy of the Agreement is attached to the Joint Petition
6 as Exhibit 1. Under the Agreement Unitil has agreed to purchase all of the capital
7 stock of (i) Northern from Bay State and (ii) Granite from NiSource. The
8 aggregate purchase price for the shares of Northern and Granite is one-hundred
9 sixty million dollars (\$160,000,000), which amount is subject to a net working
10 capital adjustment. In addition, under the terms of the Agreement, Northern will
11 be transferred to Unitil debt-free. While the Transaction has been structured as
12 the sale of the stock of Northern and Granite for cash, Unitil and NiSource have
13 agreed to make a Section 338(h)(10) election under the Internal Revenue Code
14 with respect to the tax treatment of the Transaction. The primary consequence of
15 this election is that Unitil will receive the benefit of a “stepped up” depreciable
16 tax basis in the assets of Northern as if the Transaction has been structured as an
17 asset sale. Unitil witness Laurence Brock discusses this tax election in his
18 testimony.

19

20 **Q WHAT ARE THE REQUIRED APPROVALS FOR THE TRANSACTION?**

21 A The acquisition of Northern by Unitil is subject to approval by the Maine Public
22 Utilities Commission (“MPUC”) and the NHPUC, and review by certain federal

1 agencies, including the Federal Trade Commission/Department of Justice
2 Antitrust Division.
3

4 **Q IS THE TRANSACTION SUBJECT TO ANY OTHER CONDITIONS?**

5 A Yes, there are several customary provisions in the Agreement, including no
6 material adverse effect on Unitil prior to the completion of the Transaction. The
7 Agreement provides that NiSource and Bay State will jointly indemnify Unitil for
8 certain losses, including losses related to pending regulatory proceedings. This
9 indemnification is subject to a per-claim limit of \$100,000, a minimum
10 indemnification limit of 1 percent of the purchase price and a maximum
11 indemnification limit of 10 percent of the purchase price. The Agreement may be
12 terminated by mutual agreement, or unilaterally by a party to the Agreement
13 under certain circumstances, such as material breach of the Agreement by a party.
14

15 **Q IS THERE AN ACQUISITION PREMIUM ASSOCIATED WITH THE**
16 **TRANSACTION?**

17 A No, there is no acquisition premium associated with the Transaction. As
18 explained in more detail in the testimony of Laurence Brock, Unitil does not
19 expect to record goodwill or an acquisition premium as a result of this
20 Transaction. In fact, the plant acquisition adjustment previously recorded on
21 Northern's and Granite's accounting records, resulting from the accounting for
22 the prior change in control transaction with NiSource, will be eliminated when

1 Northern and Granite are transferred to Unitil. Unitil expects as part of the
2 acquisition purchase accounting that it will record a plant acquisition adjustment
3 that will reflect a purchase discount or credit to the purchased assets. In any
4 event, consistent with the Commission's past practice in this area, Unitil commits
5 that it will not seek to recover from ratepayers any goodwill or other acquisition
6 premium that may result from this Transaction.

7

8 **Q IS THE TRANSACTION SUBJECT TO A FINANCING CONTINGENCY?**

9 A No, the Transaction is not subject to a financing contingency. Unitil has entered
10 into a Senior Unsecured Bridge Facility Commitment Letter with the Royal Bank
11 of Canada that will provide funds to close the Transaction in the event Unitil
12 receives approval and closes on the Transaction prior to the completion of
13 permanent financing. Based on the anticipated regulatory and financing timeline,
14 however, Unitil expects that it will not need to draw down on this Bridge Facility
15 to finance the Transaction. Unitil's goal is to complete permanent financings
16 prior to or concurrently with receipt of the necessary regulatory approvals for the
17 Transaction and the closing.

18

19 **Q HOW WILL THE TRANSACTION BE PERMANENTLY FINANCED?**

20 A The Transaction is structured as an all cash purchase of the common stock of
21 Northern and Granite. The purchase price will be financed by Unitil through a
22 balanced mix of permanent capital consisting of approximately 50 percent newly

1 issued long-term debt and 50 percent common equity. Any additional working
2 capital requirements will be financed using short-term debt under Unitil's Cash
3 Pooling and Loan arrangement. On a total debt (including short-term debt) to
4 capitalization basis, Unitil expects that Northern's and Granite's equity ratio will
5 range from 40 percent to 45 percent after the transaction is completed. This range
6 primarily reflects variability in short-term debt used to finance Northern's
7 working capital requirements, which are highly seasonal in nature.

8

9 **Q PLEASE SUMMARIZE THE LONG TERM DEBT PORTION OF THE**
10 **FINANCING.**

11 A The long term debt portion of the financing will consist of the private placement
12 of senior long-term notes issued directly by Northern and Granite as subsidiary
13 level debt. As described more fully below in Section V, Northern will be seeking,
14 in a separate petition to be filed during the course of this proceeding,
15 authorization from the NHPUC to issue up to \$90 million of senior long-term
16 notes concurrently with the closing of the Transaction. This portion of the
17 financing essentially constitutes a refinancing or replacement of the NiSource
18 inter-company debt formerly included in the capital structure of Northern, which
19 will be redeemed and paid-off in full prior to completion of the Transaction so
20 that Northern can be transferred to Unitil debt-free.

21

1 **Q PLEASE SUMMARIZE THE COMMON EQUITY PORTION OF THE**
2 **FINANCING.**

3 A The common equity portion of the acquisition will be financed through a public
4 offering and issuance of Unitil common stock. In connection with the equity
5 financing, Unitil will be filing a proxy statement with the Securities and Exchange
6 Commission under The Securities Exchange Act of 1934. The proxy statement
7 will be sent to all of Unitil's shareholders seeking approval to increase the number
8 of authorized common shares available to Unitil to finance the Transaction.
9 Thereafter, Unitil will file a public offering prospectus for the sale and issuance of
10 additional common stock. Unitil expects to receive this approval and to complete
11 the equity offering and funding prior the closing of the Transaction.

12
13 **Q HOW WILL THE WORKING CAPITAL COMPONENT OF THE**
14 **PURCHASE PRICE BE FINANCED?**

15 A Following the completion of the Transaction, Unitil's Cash Pooling and Loan
16 Agreement will be used as the vehicle to finance Northern's net working capital
17 requirements on an ongoing basis. As discussed in the Joint Petition, Unitil is
18 providing a form of the Amended and Restated Unitil Cash Pooling and Loan
19 Agreement as Exhibit 5 to allow for the review of that affiliate agreement
20 concurrent with the Commission's consideration of the Transaction.

21

1 **Q DOES THE TRANSACTION SATISFY THE STANDARDS NECESSARY**
2 **FOR COMMISSION APPROVAL?**

3 A Yes. The Transaction fully satisfies the “public interest” and “no adverse effect”
4 standards necessary for Commission approval pursuant to RSA 374:33 and RSA
5 369:8, II(b). The Joint Petition, my testimony and the testimony of the remaining
6 witnesses in this proceeding demonstrate why the transaction complies with the
7 statutory standard.

8

9 **IV. SUMMARY OF BENEFITS**

10 **Q PLEASE SUMMARIZE THE BENEFITS OF THE TRANSACTION.**

11 A Unitil has the utility operating experience, industry knowledge and expertise,
12 dedicated resources and financial capability to ensure safe and reliable service to
13 the customers of Northern. While the statutory standard only requires a showing
14 of no adverse affect or no net harm, Unitil’s acquisition of Northern will provide
15 net benefits to Northern’s customers in the form of an increased commitment to
16 the communities served by Northern, synergy savings and an experienced
17 management team committed to ensuring service quality, safety and reliability.

18

19 **Q PLEASE DESCRIBE UNITIL’S INCREASED COMMITMENT TO THE**
20 **COMMUNITIES SERVED BY NORTHERN?**

21 A As a result of Unitil’s acquisition of Northern, Unitil will be increasing its
22 commitment to local communities in New Hampshire and Maine through the

1 addition of jobs and the expansion of Unitil's local presence. This expansion will,
2 in turn, strengthen our support of the communities in which Northern operates.
3 Unitil is headquartered in New Hampshire, and through its predecessor
4 companies, Exeter & Hampton Electric Company and Concord Electric
5 Company, has been providing utility service in the state for over 100 years. Unitil
6 has strong ties to New Hampshire and to the communities in which its regulated
7 utility, UES, currently operates. Unitil's officers and employees are leaders in
8 several community and charitable organizations. Following the acquisition of
9 Northern, those ties will be strengthened and expanded into new communities
10 with the addition of Northern's facilities and employees.

11
12 **Q PLEASE DESCRIBE INITIL'S PLANS FOR ADDING NEW JOBS IN THE**
13 **COMMUNITIES SERVED BY NORTHERN.**

14 **A** Unitil is retaining all of Northern's 78 current employees. In addition, Unitil
15 estimates that it will add more than 40 new positions following the acquisition of
16 Northern, primarily in the areas of gas operations and customer service. The
17 creation of these new positions will increase employment in the region and the tax
18 base, and contribute to the economic growth of the region.

1 **Q IN WHAT OTHER WAYS WILL UNITIL BE MAINTAINING AND**
2 **EXPANDING ITS LOCAL PRESENCE IN THE COMMUNITIES**
3 **SERVCED BY NORTHERN?**

4 A Unitil will continue to operate Northern’s offices in Portsmouth, New Hampshire
5 and Portland, Maine. Unitil’s Customer Service Center (“CSC”), located in
6 Concord, New Hampshire, is centrally located to its distribution company service
7 areas, and staffed by 45 employees who either live within or are neighbors of the
8 communities we serve. The CSC provides full functionality for all customer
9 service activities, including: billing, customer service call response, payment
10 services, customer accounting, credit and collections, service order generations,
11 outage notification and emergency call processing. Unitil also offers Integrated
12 Voice Response (“IVR”) automatio n options and a full range of customer services
13 functions over the internet. Of the more than 40 new employees that Unitil
14 expects to hire after the acquisition of Northern, approximately 12 will be hired to
15 supplement Unitil’s current staffing complement at the CSC to adequately meet
16 the additional responsibilities associated with serving Northern’s customers.

17
18 Additionally, the overlap between portions of UES’ electric service territory in
19 southeastern New Hampshire and portions of Northern’s natural gas service
20 territory will increase the convenience for many Northern customers who will
21 now be doing business with a single gas and electric distribution utility. The

1 overlapping service territory will also provide opportunities to strengthen
2 economic and community development and customer outreach programs.
3

4 **Q PLEASE DESCRIBE THE SYNERGY SAVINGS THAT NORTHERN**
5 **EXPECTS TO BE CREATED BY THE TRANSACTION.**

6 A Following the transaction, Unitil's customer base will increase by approximately
7 45 percent and the combination of Northern with the Unitil system of companies
8 is expected to produce integration savings. Based upon Unitil's preliminary
9 analysis, the Transaction is expected to produce total system-wide synergies
10 beginning in the first full year following integration of Unitil's and Northern's
11 utility operations (2010) of approximately \$5.4 million per year. These savings
12 are primarily due to the achievement of efficiencies associated with the provision
13 of shared utility services and adoption of best practices associated with the
14 provision of these shared utility services by Service Corp. Northern's share of
15 these synergy savings is projected to be approximately \$2.3 million per year.
16 Synergy savings will also favorably impact each of the remaining pre-acquisition
17 affiliated companies of Unitil. The calculation of these synergy savings and a
18 discussion of the cost to achieve these savings are included in the testimony of
19 Company witness Laurence Brock.
20
21
22

1 **Q IS NORTHERN CURRENTLY EARNINIG ITS AUTHORIZED RETURN?**

2 A No, Northern is not earning its authorized return. Absent the Transaction,
3 because Northern is not earning its authorized return, Northern anticipated that it
4 would need to increase delivery rates to recover the higher costs of providing
5 service to its customer in both New Hampshire and Maine.

6 **Q HOW WILL THE SYNERGY SAVINGS REALIZED BY THE**
7 **TRANSACTION BE SHARED WITH UNITIL’S CUSTOMERS?**

8 A Synergy savings from the Transaction will allow Northern to defer filing for an
9 increase in delivery rates for at least a year, and to use the synergy savings to
10 stabilize rates thereafter. At the time of next rate case, the synergy savings will be
11 fully reflected in the cost of service and passed on to Unitil’s customers.
12 Generally, the synergy savings will help to extend the period between rate cases,
13 stabilize rates, reduce cost to serve, and improve the financial health of Unitil so it
14 can efficiently meet its public service obligations.

15

16 **Q HOW WILL THE COSTS OF THE TRANSACTION AND THE**
17 **TRANSITION COSTS BE TREATED?**

18 A The Joint Petitioners are seeking authorization to amortize the costs of the
19 Transaction and the transition costs over 10 years. Unitil will not seek to recover
20 these costs in rates.

21

1 **Q ARE THERE OTHER POTENTIAL SYNERGISTIC BENEFITS IN**
2 **ADDITION TO THE PRELIMINARY ESTIMATE OF SAVINGS FROM**
3 **THE TRANSACTION?**

4 A Yes. Northern will benefit from Unitil’s overall corporate strategy to continually
5 pursue operational efficiencies and achieve cost savings. Unitil’s recent
6 investments in improvements to its data networks and technology systems have
7 also improved the timeliness, availability and accuracy of data, and have lead to
8 efficiencies and opportunities for productivity improvements in the future.
9 Additionally, Unitil has consistently demonstrated adequate access to capital
10 markets at reasonable terms to finance its existing utility operations. The addition
11 of Northern will increase Unitil’s total capitalization by over 60 percent, and
12 broaden Unitil’s access to capital markets and utility financings.

13
14 **Q PLEASE EXPLAIN HOW UNITIL’S MANAGEMENT WILL PROVIDE**
15 **BENEFITS TO NORTHERN.**

16 A Unitil has well established local management and utility operating capabilities.
17 Northern’s customers will benefit from Unitil’s local utility operations,
18 organizational structure, and management experience ~~that~~ will be further
19 enhanced with the additional employee talent and resources moving to Unitil from
20 Northern. From the very outset, throughout the integration and transition process,
21 Unitil will adopt best practices, processes and systems to ensure that Northern’s

1 customers benefit from excellent safety and operating practices in the Northern
2 system.

3
4 Unitil, through the activities of Service Corp. and FG&E's gas division, is
5 currently an active participant in the New England regional gas markets. Unitil
6 has developed extensive experience and understanding of the gas markets and
7 principles that guide the management of its existing gas supply and transportation
8 portfolio. The Transition Plan will ensure a seamless transfer of supply
9 responsibilities at Northern from Bay State to Unitil. Northern's customers will
10 benefit from Unitil's gas supply and transportation portfolio management,
11 ensuring reliable service at the lowest reasonable cost while maintaining
12 flexibility to respond to variable and changing requirements.

13 Unitil is also committed to excellence in customer service and reliability.
14 Although Unitil's utility operating subsidiaries in New Hampshire and
15 Massachusetts are not operating under performance based rate plan mechanisms,
16 UES and FG&E track call statistics as well as customer satisfaction in order to
17 better serve their customers. In fact, in FG&E's recent rate order in
18 Massachusetts, the MDPU commented favorably on FG&E's service quality in all
19 areas, with a superior result in handling Gas/Emergency Odor calls.

20

1 **V. OTHER REGULATORY AUTHORIZATIONS**

2 **Q WHAT OTHER REGULATORY AUTHORIZATIONS WILL UNITIL**
3 **AND NORTHERN BE SEEKING FROM THE NHPUC IN REGARDS TO**
4 **THE TRANSACTION?**

5 A Under a separate petition, the Joint Petitioners will be requesting authority for
6 Northern to issue long-term debt in connection with the Transaction. Unitil is
7 also seeking the Commission's review of a revised Unitil Cash Pooling and Loan
8 Agreement (Joint Petition Exhibit 5) to be effective upon closing of the
9 Transaction. Unitil is also providing with this filing a proposed Service
10 Agreement between Northern and Service Corp.(Joint Petition Exhibit 6), which
11 Northern will execute and file under RSA 366:3 following closing of the
12 Transaction, as well as the Unitil Tax-Sharing Agreement, (Joint Petition Exhibit
13 7), which Northern will participate in as a result of the Transaction. These
14 affiliate agreements are discussed in more detail below and in the testimony of
15 Company witness Brock.

16

17 **Q WHAT AUTHORIZATION IS NORTHERN SEEKING FOR LONG TERM**
18 **DEBT?**

19 A As discussed above, Northern will be acquired debt free. In order to finance the
20 transaction, both long-term notes and common equity issuances are planned.
21 Northern will be seeking authority during the course of this proceeding, pursuant
22 to RSA 369:1, 369:2 and 369:4, to issue, at par, to institutional investors a

1 promissory note or notes evidencing unsecured long-term debt in an aggregate
2 amount of up to ninety million dollars (\$90,000,000) (hereinafter referred to as
3 the “Notes”). The term of the Notes are likely to range between 10 and 30 years
4 and are to bear fixed annual rates of interest, to be determined through an auction
5 process.

6

7 **Q WHAT IS THE INTENDED USE OF THE PROCEEDS FROM THIS**
8 **LONG-TERM DEBT FINANCING?**

9 A Given that Northern will be transferred to Unitil debt-free, this portion of the
10 financing can be viewed as a refinancing or replacement of the NiSource inter-
11 company debt formerly included in the capital structure of Northern. The
12 proceeds from this long term debt financing will be utilized to provide cash to
13 fund the acquisition on Northern debt free, as described above. Unitil will make
14 best efforts to close the Note financing for Northern concurrently with the close of
15 the transaction.

16

17 **Q HOW WILL NORTHERN DETERMINE THE OPTIMAL SIZE AND**
18 **STRUCTURE OF THE LONG TERM DEBT FINANCING?**

19 A The proposed permanent capital structure financing for the acquisition (i.e.,
20 excluding short-term debt) will target approximately 50 percent debt and 50
21 percent equity. The specific amount of debt financing will be set at the time the
22 Notes are offered for sale and will be based on the projected permanent capital

1 needs of Northern at the time of closing. The proposed maturities of the Notes
2 will be designed both to balance the timing of future maturitie s and to reflect
3 liability matching to the useful lives of Northern's gas distribution plant. Unitil
4 anticipates that the proposed term structures of new Notes will reflect a staggered
5 portfolio of maturities from 10 to 30 years. Other considerations that will shape
6 the final structure of the Note offering include funding availability, investor
7 preferences, overall market conditions and/or the interest rate environment.

8

9 **Q DO THE UNITIL COMPANIES PARTICIPATE IN A CASH POOLING**
10 **AND LOAN AGREEMENT?**

11 A Yes. The Unitil Corporation Cash Pooling and Loan Agreement was created in
12 1985. All Unitil subsidiaries are members of the Cash Pool. As discussed in the
13 Joint Petition, the Amended and Restated Unitil Cash Pooling and Loan
14 Agreement to allow Northern to participate is provided in proposed form to the
15 Joint Petition (Exhibit 5) to allow for an investigation and review concurrent with
16 consideration of the Transaction. As a party to the agreement, Northern would be
17 able to request advances from and contribute surplus funds to Unitil's Cash Pool,
18 and cause it to be bound by all provisions of the agreement as if it were originally
19 a party thereto.

20

21

1 **Q DO THE UNITIL AFFILIATES PARTICIPATE IN A SERVICE**
2 **AGREEMENT?**

3 A Yes. As described more fully in the testimony of Mr. Brock, as a result of the
4 Transaction, Northern will enter into a Service Agreement with Service Corp. A
5 copy of the Service Agreement is being provided with the Joint Petition (Exhibit
6 6), for review in this proceeding and will be filed with the Commission within 10
7 days of execution, pursuant to RSA 366:3.

8
9 **Q DO THE UNITIL AFFILIATES PARTICIPATE IN A TAX SHARING**
10 **AGREEMENT?**

11 A Yes. As discussed more fully in the testimony of Mr. Brock, as a result of the
12 Transaction, Northern will become a party to Unitil's Tax Sharing Agreement
13 effective with the close of the Transaction. A copy of that Tax Sharing
14 Agreement is being provided with the Joint Petition (Exhibit 7), for review in this
15 proceeding.

16
17 **Q PLEASE EXPLAIN NORTHERN'S REQUEST TO DEFER AND**
18 **AMORTIZE THE TRANSACTION AND TRANSITION COSTS?**

19 A The Joint Petitioners request that the Commission authorize Northern to defer and
20 amortize the costs of the transaction and the transition costs resulting from the
21 Transaction over 10 years. The deferral and amortization is reasonable as these
22 are the up-front transaction and transition costs incurred to obtain the benefits and

costs savings that are expected to be realized over time. A straight-line amortization over 10 years creates a better match between the costs to obtain the savings and the realization of those savings. As stated earlier, Unitil commits that it will not seek to recover the transaction and transition costs from its customers.

VI. INTRODUCTION OF WITNESSES

Q PLEASE SUMMARIZE THE ADDITIONAL PRE-FILED TESTIMONIES BEING SUBMITTED IN SUPPORT OF THE JOINT PETITION.

A Along with my testimony, the Joint Petition is supported by five additional Unitil witnesses.

- Mr. Laurence Brock, Unitil's Chief Accounting Officer and Controller, discusses the service company affiliate structure and provides a preliminary estimate of the operating savings or synergies that are expected to result from the transaction. In addition, Mr. Brock summarizes the transition plan to integrate Northern into Unitil and the accounting allocation of the purchase price for the transaction.
- Mr. Thomas Meissner, Unitil's Chief Operating Officer, describes how Northern's field operations, construction programs, gas safety and compliance plans will be managed and integrated with Unitil's existing utility operations.
- Mr. David Foote, Unitil's Vice President of Energy Contracts, and Mr. Francis Wells, Unitil's Senior Energy Trader, jointly discuss gas supply

1 and transportation matters and describe how Northern's gas supply and
2 transportation contracting process will be transitioned to and managed by
3 Unitil following completion of the transaction.

- 4 • Mr. George Gantz, Unitil's Sr. Vice President, Customer Service and
5 Communications, describes Unitil's existing customer service operations
6 and how Northern's customer service requirements will be integrated into
7 this function. He also discusses Unitil's community relations and
8 economic development programs. In addition, Mr. Gantz will describe
9 Unitil's customer outreach and communication plan.

10
11 **VII. CONCLUSION**

12 **Q WHAT IS THE PROJECTED TIMELINE TO COMPLETE THE**
13 **TRANSACTION?**

14 A As discussed in the Joint Petition, Unitil is requesting that the Commission issue a
15 final order in this proceeding on or before October 1, 2008, or 6 months from the
16 date of this filing. Northern will also be seeking the Commission's authorization
17 during the course of this proceeding to issue up to \$90 million of senior long-term
18 notes concurrently with the closing of the Transaction. After all the required
19 regulatory approvals have been received, and any applicable appeal periods have
20 expired, Unitil's objective is to close on the transaction as soon as practical
21 thereafter.

22

1 **Q DOES THIS CONCLUDE YOUR TESTIMONY?**

2 **A Yes, it does.**