REDACTED

NORTHERN UTILITIES, INC.

DIRECT TESTIMONY OF

DAVID L. CHONG

New Hampshire Public Utilities Commission

Docket No. DG 11-____

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SCHEDULES

Schedule DLC-1

Schedule DLC-2

Schedule DLC-3

Forecasted Winter Borrowings

Current Short-Term Debt Limit

Proposed Short-Term Debt Limit

1 I. INTRODUCTION

2	Q.	Please state your name and business address.
3	A.	David L. Chong, 6 Liberty Lane West, Hampton, New Hampshire 03842.
4	Q.	What is your position and what are your responsibilities?
5	A.	I am Director of Finance for Unitil Service Corp., a subsidiary of Unitil
6		Corporation that provides managerial, financial, regulatory and engineering
7		services to Unitil Corporation's principal subsidiaries: Fitchburg Gas and Electric
8		Light Company, Granite State Gas Transmission, Inc., Northern Utilities, Inc. (the
9		"Company"), and Unitil Energy Systems, Inc. In this capacity I am responsible
10		for managing treasury operations and banking relationships; planning and
11		executing financing programs; financial planning and analysis; overseeing
12		property and liability insurance programs; interfacing with the financial
13		community and investors; and managing certain regulatory, cost of service and
14		other ratemaking objectives.
15	Q.	Please describe your business and educational background.
16	A.	I have approximately ten years of professional experience in the energy industry.
17		From 2001 through 2005, I worked for Exxon Mobil Corporation in various
18		facilities engineering roles with my last position as a Senior Project Engineer.
19		From 2005 through 2008, I worked for RBC Capital Markets Corporation in the
20		energy investment banking group, where I provided corporate finance and
21		mergers and acquisitions advisory services. While at RBC, I raised equity and

1		debt capital on numerous occasions for various energy companies. I also advised
2		on several buy-side and sell-side mergers and acquisitions transactions. From
3		2008 through 2009, I worked for El Paso Exploration & Production Company in
4		its business development group as an Acquisition & Divestiture Principal. I
5		began working for Unitil Service in August 2009 as the Director of Finance. I
6		hold a Master's Degree in Business Administration from Tulane University and a
7		Bachelor of Science degree in Mechanical Engineering with Honors from the
8		University of Texas at Austin.
9	Q.	Have you previously testified before this Commission?
10	A.	Yes, I have previously presented testimony before this Commission in Dockets
11		DE 09-236, DG 09-239, DE 10-028 and DG 11-069.
12	II. S	SUMMARY OF TESTIMONY
13	Q.	What is the purpose of your testimony?
14	A.	The purpose of my testimony is to present the Company's request for an increase
15		of its short-term debt limit. The Company proposes to increase the net plant
16		sublimit from fifteen to twenty percent of its aggregate short-term debt limit,
17		which will provide for approximately \$10 million of additional short-term
18		borrowing capacity.
19	III. (OVERVIEW OF SHORT-TERM DEBT LIMIT INCREASE

20 Q. Why is the Company seeking an increase in its short-term debt limit?

1	А.	In this upcoming winter season, the Company anticipates approaching or slightly
2		exceeding its current short-term debt limit of \$46.9. Accordingly, the Company is
3		seeking an increase in its short-term debt limit to provide adequate short-term
4		borrowing capacity for the Company to finance its operations.
5	Q.	What are your projected borrowings for the Company for this upcoming
6		2011-2012 winter season?
7	A.	In Schedule DLC-1, I have prepared a forecast of short-term borrowings for the
8		Company for the upcoming winter season, November 1, 2011 through April 30,
9		2012. Schedule DLC-1 shows that peak borrowings are expected to be
10		approximately \$53 million this upcoming winter season.
11	Q.	What is causing the Company to incur these levels of short-term debt?
12	A.	Presently, the Company's revenues under its current rates are insufficient to
13		recover its distribution cost of service and provide a reasonable opportunity for a
14		return to its investors. The Company is currently in base rate proceedings in both
15		its New Hampshire and Maine operating jurisdictions.
16		In the New Hampshire proceeding (Docket DG 11-069), I explain that the New
17		Hampshire division earned a "per books" return on equity of 5.67% in 2010, and
18		that it has been approximately 10 years since its last rate case. Over that 10-year
19		period, the New Hampshire rate base increased over twenty percent from \$58.9
20		million to \$71.4 million. In addition, inflation has increased over twenty percent
21		from 2001 through 2010. Also, the New Hampshire division is incurring sizeable

- programmatic capital spending under its bare steel replacement program, which is
 largely non-revenue producing.
- 3 In the Maine proceeding (Docket 2011-92), the Maine division recorded a net loss 4 of (0.8) million with a negative return on equity in 2010. In Maine, the 5 Company has not filed for a base rate case since 1983. Since that time, there have 6 been numerous changes in the cost of service. Additionally, the Maine division 7 has undertaken substantial capital-intensive and non-revenue producing projects, 8 such as cast iron replacement programs in Lewiston / Auburn which was recently 9 completed and in Portland / Westbrook which is in the first year of a 14 year 10 program.
- 11 **Q**. What specifically have you proposed in the New Hampshire and Maine rate 12 cases to address the Company's under-earning and borrowing requirements? 13 The Company has presented a 2010 test year distribution cost of service. In A. 14 developing this cost of service, the Company used a year-end rate base, which 15 reduces earnings attrition, because it aligns expenses, revenues and rate base with 16 the period in which rates are going to be in effect. In addition, both jurisdictions 17 proposed 2012 Step Adjustments to recover capital spending in 2011, and a 18 Targeted Infrastructure Replacement Adjustment cost recovery mechanism to 19 recover programmatic capital spending for cast iron and bare steel replacement in 20 2012 and beyond. The combination of all of these items are designed and 21 intended to raise the Company's revenues to recover its cost of service and 22 provide a reasonable return to its investors, and to provide meaningful revenue

and retained earnings support to mitigate the borrowing requirements of the
 Company's future capital programs.

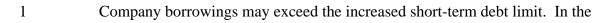
3 IV. DESCRIPTION OF SHORT-TERM DEBT LIMIT INCREASE

4 Q. How is the Company's current short-term debt limit currently derived?

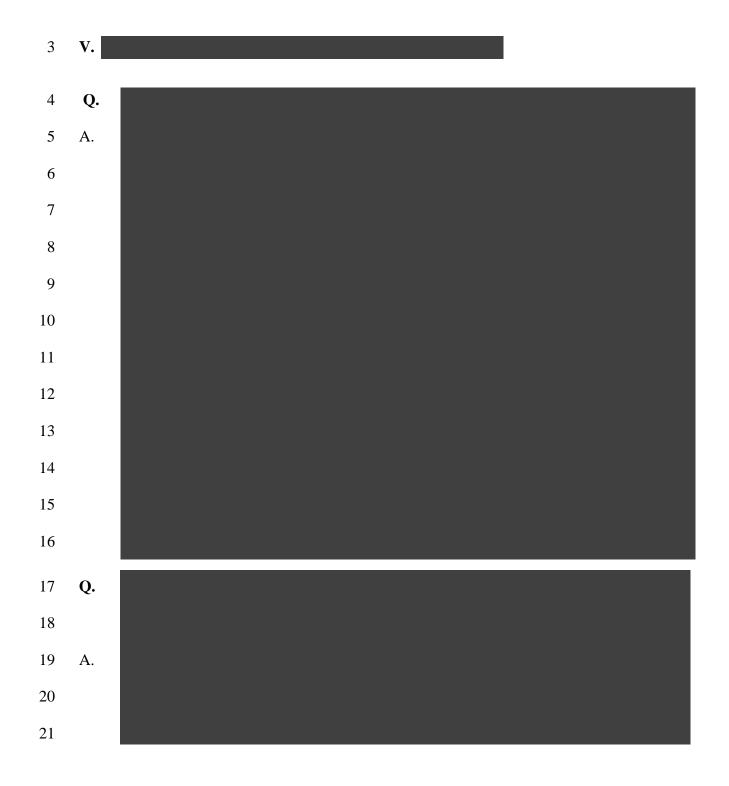
5	А.	The Company's current short-term debt limit was established in Docket DG 09-
6		239 and is the combination of two factors, fuel financing and non-fuel financing.
7		First, the fuel financing sublimit is derived by applying thirty percent to total
8		winter gas costs for the upcoming winter season. Second, the non-fuel financing
9		sublimit is derived by applying fifteen percent to the estimated year-end net utility
10		plant balance excluding plant acquisition adjustment. The total short-term debt
11		limit for the Company consists of the combined fuel financing and non-fuel
12		financing sublimits.
13	Q.	What is the Company's current short-term debt limit?
14	A.	Please see Schedule DLC-2. The Company's short-term debt limit calculated
15		with the above methodology (thirty percent of winter gas costs and fifteen percent
16		of net utility plant) for the period from November 1, 2011 through October 31,
17		2012 is \$46.9 million. The Company filed this short-term debt limit calculation in

- 18 its most recent Cost of Gas Docket DG 11-___, Schedule 24.
- 19 Q. How does the Company propose to modify its short-term debt limit?

1	А.	The Company is proposing to modify its short-term debt limit by increasing the
2		percentage utilized in the non-fuel financing sublimit. The Company proposes to
3		increase the percentage applied to net utility plant from fifteen to twenty percent.
4	Q.	Is the Company aware of any other gas utilities operating in New Hampshire
5		with a similar short-term debt limit?
6	A.	Yes. EnergyNorth Natural Gas, Inc. has a similar short-term debt calculation.
7		EnergyNorth calculates thirty percent of total winter gas costs and adds to that
8		twenty percent of projected net plant to determine its short-term debt limit.
9	Q.	What will the resulting short-term debt limit be if the Commission accepts
10		the Company's proposal to increase the net plant sublimit to twenty percent?
11	A.	If the Company's proposal to increase the net plant sublimit is approved by the
12		Commission, the new short-term debt limit will be \$56.5 million as derived in
13		Schedule DLC-3. This represents an increase of approximately \$10 million over
14		its current short-term debt limit as shown in Schedule DLC-2.
15	Q.	Will an increase in the net plant sublimit from fifteen to twenty percent
16		provide the Company with sufficient borrowing capacity for this upcoming
17		winter season?
18	A.	Projected short-term borrowings for the 2011-2012 winter season are expected to
19		peak at approximately \$53 million. The increase in the net plant sublimit from
20		fifteen to twenty percent should provide sufficient borrowing capacity. However,
21		natural gas prices and working capital requirements are volatile, and the Company
22		can not forecast this volatility with precision. Accordingly, it is possible that the



2 event this happens, the Company will inform the Commission promptly.



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13 VI. CONCLUSION

- 14 Q. Does this conclude your testimony?
- 15 A. Yes, it does.