

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DW 12-349

PENNICHUCK EAST UTILITY, INC.

Verified Petition for Approval of Increase of Short Term Debt Limit

Order Approving Waiver of Short Term Debt Limit

ORDER NO. 25,482

March 28, 2013

I. BACKGROUND

On December 6, 2012, Pennichuck East Utility, Inc. (PEU) filed a Verified Petition for Approval of Increase of Short Term Debt Limit. PEU seeks an extension, through June 30, 2014, of a waiver of the short term debt limit contained in N.H. Code Admin. Rule Puc 608.05 previously granted by the Commission in Order No. 25,326 (Feb. 1, 2012) in Docket No. DW 11-267. That Order permitted PEU to carry a short term debt balance of up to 15% of its net fixed plant, with that authority expiring December 31, 2012. The instant petition requests that the Commission extend this waiver through June 30, 2014, at a level of up to 18% of PEU's net fixed plant. On December 20, 2012, the Office of the Consumer Advocate (OCA) filed a notice of participation in this docket. The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, is posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2012/12-349.html>.

According to PEU, its internal cash generation is adversely affected by its low level of earnings. While it will be filing for rate relief in 2013, the timing of an anticipated increase in

revenues resulting from temporary and permanent rates is uncertain at this time. In addition, PEU made capital expenditures of approximately \$1.9 million for the ten months ending October 31, 2012, of which only \$300,000 were funded through permanent financing in the form of State Revolving Loan Funds (SRF). The remainder was funded through the use of short term debt. In 2013, PEU expects to incur additional capital expenditures of \$2.2 million, relying on short term debt for \$1.3 million of this amount. PEU continues to seek new long term debt options, including refinancing of short term debt, but in the meantime, current circumstances require the Company to rely heavily on short term debt. Thus, PEU seeks authority to issue short term debt up to a level of 18% of its net fixed plant through June 30, 2014.

On December 27, 2012, Staff filed a letter with the Commission, explaining that after discussion with PEU, Staff and PEU were recommending a 90 day extension of PEU's short term debt limit waiver up to the requested level of 18% of the company's net fixed plant. Staff explained that with limited time to review PEU's request, and in light of the fact that the company was continuing to assess its options as to long term debt, a 90 day extension would permit time for discovery of all the issues related to PEU's current financing circumstances. Staff's letter stated that the OCA did not oppose the requested extension. On December 31, 2012, the Commission approved the extension of time, with further recommendations from Staff and the parties due no later than March 15, 2013.

On March 13, 2013, Staff filed a letter on behalf of itself, PEU, and OCA recommending PEU's waiver for its level of short term debt be extended to December 31, 2013. Staff explained that, on January 16, 2013, PEU filed a petition for approval of three new long term loans. In that filing, assigned Docket No. DW 13-017, PEU seeks approval of three long term debt issues, two

of which replace short term debt in the aggregate amount of \$3,925,000. Staff stated this is the first long term debt financings proposed since the City of Nashua acquired PEU and its affiliates and that under the new ownership, PEU is financed solely with debt capital. Without equity capital, PEU has less financial flexibility than it would typically have under a traditional, balanced capital structure. Commission approval of those new loans would reduce the level of short term debt PEU will need going forward.¹

Staff and the parties recommend that the waiver extension be provided in two parts: First, an extension of the existing short term debt limit of 18% of net fixed plant to a point 45 days after the effective date of an order approving the long term loans, which will allow PEU ample time to close one or more of the long term loans and thus reduce its level of short term debt. Second, after the 45 days, Staff and the parties recommend approval of a waiver of the short term debt limit up to 12% of net fixed plant through December 31, 2013. They state that PEU has analyzed its anticipated short term debt needs through the remainder of 2013, predicated on the requested approvals in Docket No. DW 13-017. A 12% short term debt limit will account for contingencies such as a shortfall in budgeted revenues, higher than anticipated costs, and variation in the timing of capital improvements. By the end of 2013, a combination of rate relief and new long term debt financing should permit PEU to be comfortably below the 10% short term debt limit, according to Staff and the parties.

II. COMMISSION ANALYSIS

Pursuant to N.H. Code Admin. Rules 201.05(a), the Commission may waive a rule if it finds that the waiver is in the public interest and that it will not disrupt the orderly and efficient

¹ The Commission, on March 27, 2013, approved the three long term loans on a *nisi* basis in Order No. 25.480.

resolution of matters before the Commission. We agree with Staff and the parties that a continued waiver of the short term debt limit in Puc 608.05 would serve these purposes. PEU states that the combination of low earnings levels, continued investment in capital improvements, and its ongoing search for long term debt has led to a reliance on short term debt for liquidity.

Our recent approval of three new long term loans in Order No. 25,480, two of which will reduce short term debt by \$3,925,000, will lower the short term debt carried by PEU to 12%. PEU, Staff, and OCA agree that a 12% short term debt limit for the rest of 2013 is adequate. PEU's use of short term debt appears reasonable under the circumstances and the reduction to 12% for the remainder of the year serves the public interest. We will approve a continued waiver of Puc 608.05 for the balance of 2013 as requested, pursuant to Puc 201.05(a). A 45-day window following the expiration of the *nisi* period in Order No. 25,480 permits PEU time to close one or more of the loans. From that point to the end of 2013, a 12% short term debt limit is approved.

Based upon the foregoing, it is hereby

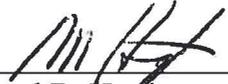
ORDERED, that Pennichuck East Utility, Inc.'s request for a waiver of Puc 608.05, as modified after discussions with Staff and the Office of Consumer Advocate, for a short term debt limit up to 18% of net fixed plant for 45 days beyond the effective date of Order No. 25,480 issued in Docket No. DW 13-017 is GRANTED; and it is

FURTHER ORDERED, that a waiver of Puc 608.05 to permit a short term debt limit of 12% of net fixed plant after the 45 day period following the effective date of Order No. 25,480 through December 31, 2013 is GRANTED.

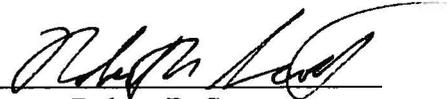
By order of the Public Utilities Commission of New Hampshire this twenty-eighth day of
March, 2013.



Amy L. Ignatius
Chairman

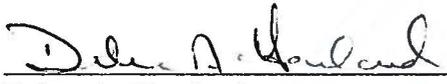


Michael D. Harrington
Commissioner



Robert R. Scott
Commissioner

Attested by:



Debra A. Howland
Executive Director