

Background

- 2) The Commission has authorized a short-term debt borrowing limit of \$16 million for UES. This is the maximum amount of short-term debt that can be outstanding on any given day.

- 3) UES utilizes short-term debt as interim financing for capital additions, extensions and betterments to the Company's property, plant and equipment and working capital for energy-related and distribution operating expenses. UES proposes to use the proceeds of any increase in its short term debt for these same purposes.

- 4) UES' present \$16 million short-term debt limit was originally established by the Commission for UES' predecessor companies over 10 years ago, in Order No. 22,705 in DF 97-164 (Exeter & Hampton Electric Company) and in Order No. 22,706 in DF 97-165 (Concord Electric Company). The \$16 million short-term debt limit represented approximately 32 percent of permanent capitalization at December 31, 1997. By Order No. 24,168 in DE 03-086, the limit was temporarily increased to \$22 million, effective May 2, 2003, for a period not to exceed six months. Pursuant to a subsequent Settlement Agreement approved by Order No. 24,212, the \$22 million limit expired April 30, 2004, and the limit returned to \$16 million.

- 5) As of April 30, 2008, UES had \$11.8 million of short-term debt outstanding. In the 12 months ended April 30, 2008, UES' peak day borrowing requirement was \$15.6 million (March 20, 2008).

- 6) UES relies on short-term debt to help fund capital expenditures for additions, extensions and betterments to the Company's property, plant and equipment. Such capital expenditures are initially financed with short-term debt and subsequently refinanced with permanent financing. UES' capital expenditures have grown over time, driven by customer growth, improvements and replacement of facilities, and other mandated projects. UES' annual capital expenditures have steadily increased over the past ten years, from \$7.2 million in 1997 to \$19.8 million in 2007. UES' 2008 construction budget is \$16.9 million.

- 7) UES' net plant investment, including CWIP, has nearly doubled since 1997, from \$64.5 million to \$125.4 million in 2007.

- 8) In addition, UES relies on short-term debt to provide working capital for distribution operating expenses such as payroll, employee benefits, maintenance and taxes.

- 9) UES also relies on short-term debt to fund UES' energy-related costs, pending recovery of such costs from customers through reconciliation mechanisms.

Energy-related costs are currently recovered through several rates, including Default Service rates, External Delivery charges, Stranded Cost charges and System Benefits charges. Between 1997 and 2007, purchased power and transmission expenses increased by \$35 million or 43 percent, from \$82 million to \$117 million.

- 10) Available short-term debt capacity to fund capital expenditures and distribution operating requirements under the currently authorized short-term debt limit of \$16 million is being “crowded out” by the working capital requirements associated with energy-related costs.

- 11) UES’ peak day short-term debt requirements are a principally a function of the energy payments due, pursuant to the contract term with default service suppliers. UES’ energy-related costs may be higher or lower over time and are subject to a number of interrelated and changing variables, including price changes from suppliers, customer usage changes due to competition, conservation and price response, and seasonal variations. Based upon UES’ most recent Default Service filing, projected default service costs will average \$8.1 million per month for the period May – July 2008.

- 12) For the period January 2007 to May 2008, UES' intra-month peak day requirements have exceeded average monthly borrowing requirements by as much as \$4.8 million, and have exceeded month-end balances by as much as \$3 million.

- 13) UES projects it may require \$19.4 million by March 31, 2009, which suggests a peak day borrowing requirement of approximately \$22.4 million (\$19.3 million + \$3 million) for the projected period through March 2009. This does not include a contingency for unanticipated events that may impact short-term debt borrowing requirements. The requested permanent increase in UES' short-term debt limit would help the Company manage short-term liquidity needs on peak borrowing days and fund its significant energy-related working capital, construction expenditures and distribution operating working capital.

- 14) A higher short-term debt limit would also enable UES to refinance its short-term debt with a more efficient offering size, and reduce the frequency of long-term financings, thus saving transaction and legal costs.

- 15) To be responsive to periodic changes in capital expenditure and distribution operating requirements, including energy-related costs, subsequent to the increase in its short-term borrowing limit authorized as a result of the instant Petition, UES proposes to reestablish its short-term borrowing requirements annually, based upon a set formula. UES' proposed formula consists of a net plant component,

which is based upon 10 percent of FERC-reported net plant values; an energy component, which is based upon projected costs reflected in UES' default service tariffs, external delivery charges and stranded cost reconciliation filings approved by the Commission; and a contingency factor for unanticipated events. UES proposes to file updates to the formula with the Commission by May 1 of each year, for effect the following June 1.

- 16) Further support and explanation of the need for an increase in UES' short term borrowing needs and the components of the proposed formula for reestablishing short term borrowing requirements annually are more fully described in the testimony and schedules of Mark H. Collin, Senior Vice President, Chief Financial Officer and Treasurer of Unitil Corporation, attached hereto as Exhibit MHC-1.

Conclusion

- 17) UES submits that the increase in short-term borrowing limit and the reestablishment of this short term borrowing limit on an annual basis as contemplated by and described in this Petition and accompanying exhibit are consistent with the statutory requirements, Commission rule, and public good and should be granted.

Wherefore, UES requests that this Commission:

1. Issue an Order *Nisi*, effective no later than August 11, 2008 or 60 days after the filing of this Petition, authorizing a short-term debt limit of \$24 million for UES; and,
2. To the extent that the Commission requires additional times to review the reasonableness of the proposed formula for annually updating the Company's short-term debt limit, bifurcate its review of this portion of the Petition, and subsequent to such review, issue an order approving the Company's proposed formula for annually updating UES' short-term debt limit; and
3. Take such further action and make such other findings and orders as in its judgment may be just, reasonable and in the public good.

Respectfully submitted this 12th day of June, 2008.

Unitil Energy Systems, Inc.

By its attorney:

/s/ Gary Epler

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CERTIFICATE OF SERVICE

I certify that I have caused copies of Unitil Energy System's, Inc., "Petition Of Unitil Energy Systems, Inc. For Authority To Increase Its Short Term Debt Limit And Establish A Short Term Debt Limit Formula" to be served on the following parties or individuals:

F. Anne Ross, Staff Counsel (by Hand-Delivery)
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Meredith Hatfield, Consumer Advocate (by Hand-Delivery)
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Dated at Hampton, New Hampshire this 12th day of June, 2008.

/s/ Gary Epler

Gary Epler