

**STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION**

**Re: Pennichuck East Utility, Inc.**

**DW 12-\_\_\_\_\_**

**Verified Petition for Approval of Increase of Short Term Debt Limit**

Pennichuck East Utility, Inc. (“PEU” or the “Company”) hereby petitions the New Hampshire Public Utilities Commission (the “Commission”) for approval of an extension through June 30, 2014 of the temporary waiver of the short term debt limit under N.H. Code Admin. Rule Puc 608.05 heretofore granted by the Commission and for authority to increase its short term debt limit to 18% of its net fixed plant. The requested extension would cover the period until permanent rates are approved by this Commission in the rate case required to be filed in the second quarter of 2013, based upon the 2012 test year. In support of its Petition, PEU states as follows:

1. PEU is a New Hampshire public utility corporation providing retail water service to approximately 6,800 customers in the towns of Atkinson, Barnstead, Bow, Chester, Conway, Derry, Exeter, Hooksett, Lee, Litchfield, Londonderry, Middleton, Pelham, Plaistow, Raymond, Sandown, Tilton, Weare and Windham located in New Hampshire. PEU is wholly owned by Pennichuck Corporation (“Pennichuck”) which, in turn, is wholly owned by the City of Nashua.

2. Pursuant to Puc 608.05, a public utility is authorized to issue and renew its notes, bonds and other evidences of indebtedness payable less than twelve (12) months after the date thereof (“short term debt”) provided that the aggregate amount outstanding at any one time does not exceed 10% of the utility’s net fixed plant without Commission approval. *See* N.H. Code Admin. Rule Puc 608.05. On February 1, 2012 the Commission approved an increase in the short term debt limit up to 15% of the Company’s net fixed plant in Order 25,326 (DW 11-267) with an

expiration date of December 31, 2012. The Order also stipulated that “if PEU does not secure suitable long term financing to bring its short term debt limit back below 10% before year-end 2012, it should advise the Commission as soon as practicable and make appropriate filing for further consideration.”

3. As of October 31, 2012, PEU’s net short term debt totaled approximately \$4.1 million or 13.0% of PEU’s net fixed plant in service.

4. Based on the latest financial information available, PEU now expects that it will be required to maintain short term debt at levels in excess of the 10% limit set forth in Puc 608.05 due to several circumstances.

5. First, PEU’s internal cash generation is adversely affected by its low level of earnings. PEU expects to have only nominally positive net income for 2012. In addition, PEU is currently projecting that it is likely to have only nominally positive net income in the second quarter of 2013, but nominally negative net income overall for the year 2013.

6. Second, in the ten-month period ended October 31, 2012, PEU made capital expenditures of approximately \$1.9 million, of which only \$0.3 million were funded through permanent financing in the form of long term State Revolving Fund (“SRF”) loans, with the remaining \$1.6 million being funded by short term debt. In 2013, PEU expects to make additional necessary capital expenditures of approximately \$2.2 million. PEU expects approximately \$0.9 million of those capital expenditures to be funded through SRF loans, with the remaining \$1.3 million being funded by short term debt.

7. Third, as a result of PEU’s nominal net income in 2011, PEU was unable to issue new long term debt, including the SRF long term debt, because the loan covenants under PEU’s Business Finance Authority of New Hampshire (“BFA”) loan required PEU to have earnings of at least 1.5 times the interest expense at the time of issuance of any new long term debt. To

remove this constraint, PEU repaid the BFA loan of \$925,000 in April 2012 and eliminated the covenant requirement, thereby renewing access to low cost long term financing for certain capital projects through SRF loans during the remainder of 2012. Therefore, part of the increase in short term debt in 2012 was due to the payoff of the BFA loan.

8. Fourth, PEU is currently exploring refinancing the \$925,000 payoff of the BFA loan (as well as \$1.7 million of long term intercompany debt) with external long term debt from CoBank ACB. If PEU successfully completes the refinancing in March or April 2013, the resulting cash will reduce the short term debt incurred to repay the BFA loan. Additionally, PEU is currently working on possible long term capital financing arrangements to fund capital expenditures for the next few years, which would provide access to long term funding to support its long term capital needs, eliminating the need to utilize short term debt for capital expenditures.

9. Finally, pursuant to the settlement agreement approved by the Commission in Docket DW 11-026, PEU is required to file a full rate case on or before June 1, 2013. *See* Order No. 25,292. PEU anticipates that the filing will demonstrate the need for temporary and permanent rate increases. If a temporary increase is approved, the increase in revenues is anticipated to occur in the fourth quarter of 2013 with the resulting cash flow increase commencing late in that quarter. As a result, the rate case impact on providing additional cash in 2013 will be minimal. The full impact of these rate increases will not be realized until permanent rates are received sometime in 2014, providing for additional cash to fund short term working capital needs.

10. The foregoing circumstances require PEU to temporarily increase its short term borrowings in order for the Company to fund its ongoing operating and capital requirements. Based on the Company's financial projections, the Company believes that establishing a short term debt level of 18% of its net fixed plant will be sufficient to meet the Company's cash needs

for the period through June 30, 2014, the date by which new permanent rates will be determined. Thereafter, the Company believes a 10% limit will again be sufficient. If a different limit is appropriate at that time, the Company will petition for a new short term debt limit based on the circumstances at that time.

11. PEU plans to continue to borrow under its existing Money Pool Agreement with Pennichuck to meet its short term debt requirements.

12. Puc 201.05 provides that the Commission shall waive the provisions of any of its rules upon request by an interested party and if the Commission finds that the waiver serves the public interest and will not disrupt the orderly and efficient resolution of matters before the Commission. *See* N.H. Code Admin. Rule Puc 201.05.

13. In the instant case, waiver of the 10% short term debt borrowing limit under Puc 608.05 will serve the public interest. The requested increase is appropriate and constitutes an adequate alternative to Puc 608.05's 10% short term debt limit given the circumstances described in this petition.

14. Further, waiver of Puc 608.05 will not disrupt the orderly and efficient resolution of any proceeding before the Commission.

15. The requested waiver is in the public interest and satisfies the standard under Puc 201.05, and thus, the Commission should temporarily waive the 10% limit set forth in Puc 608.05 and authorize the Company to increase its short term debt limit to 18% of its net fixed plant through June 30, 2014, the date by which new rates will have been approved for the rate case being filed in the second quarter of 2013, based upon the 2012 test year.

16. In further support of this Petition, the Company submits the following exhibits:

Exhibit 1 - The Company's Year to Date balance sheet as of October 31, 2012.

Exhibit 2 - The Company's Year to Date income statement for the ten months ended October 31, 2012.

WHEREFORE, Pennichuck East Utility, Inc. respectfully requests that the Commission:

- A. Waive the 10% short term debt borrowing limit set forth in Puc 608.05 for the period through June 30, 2014; and
- B. Authorize PEU to increase its short term debt borrowing limit to 18% of its net fixed plant for the period through June 30, 2014; and
- C. Grant such other and further relief as may be just and equitable.

Respectfully submitted,

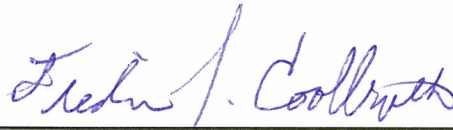
PENNICHUCK EAST UTILITY, INC.

By Its Attorneys,

DEVINE, MILLIMET & BRANCH  
PROFESSIONAL ASSOCIATION

Date: December 6, 2012

By:



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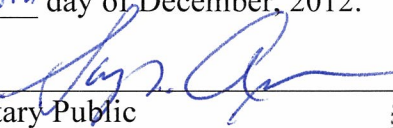
I, Larry Goodhue, Chief Financial Officer, Treasurer and Controller of Pennichuck East Utility, Inc., being first duly sworn, hereby depose and say that I have read the foregoing Verified Petition for Approval of Increase of Short Term Debt Limit, and the facts alleged therein are true to the best of my knowledge, information and belief.

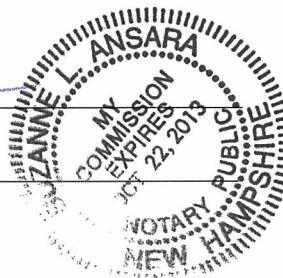
Dated: December 6, 2012

  
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Larry D. Goodhue

STATE OF NEW HAMPSHIRE  
COUNTY OF HILLSBOROUGH

Sworn to and subscribed before me this 6<sup>th</sup> day of December, 2012.

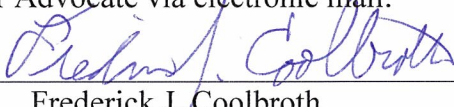
  
\_\_\_\_\_  
Notary Public  
My Commission Expires: \_\_\_\_\_



Certificate of Service

I hereby certify that a copy of this Verified Petition for Approval of Increase of Short Term Debt Limit has been forwarded to the Office of Consumer Advocate via electronic mail.

Dated: December 6, 2012

  
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Frederick J. Coolbroth