STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTIITIES COMMISSION

Pennichuck East Utility, Inc.
Pittsfield Aqueduct Company, Inc.

DW 15-___

JOINT PETITION TO INCREASE
SHORT TERM DEBT LIMIT

Pennichuck East Utility, Inc. (PEU) and Pittsfield Aqueduct Company, Inc. (PAC) (jointly, the Companies) request that the New Hampshire Public Utilities Commission (Commission) increase the 10% limitation on their short term debt under N.H. Admin. Rule Puc 608.05, which states:

> No utility shall issue or renew any notes, bonds or other evidence of indebtedness payable less than 12 months after the date thereof if said short term debt exceeds 10% of the utility's net fixed plant without prior commission approval pursuant to Puc 201.05.

The Companies, consistent with the requirement of Puc 201.05, assert that waiver of the rule serves the public interest and will not disrupt the orderly and efficient resolution of matters before the Commission. Moreover, the Companies contend that compliance with the rule would be onerous and that the purpose of the rule would be satisfied by an alternative method.

As explained in the testimony of Larry D. Goodhue, Chief Financial Officer of Pennichuck Corporation, PEU and PAC differ fundamentally from other investor-owned public utilities in New Hampshire. As a result of Docket No. DW 11-026, the City of Nashua acquired Pennichuck Corporation, which included the indirect acquisition of the Companies. See Order No. 25,292 (November 23, 2011). A critical feature of the acquisition involved the transition to a capital structure composed primarily of debt, as opposed to a traditional capital structure, such as the 49.5% debt to 50.5% equity capital structure approved for PAC in Docket No. DW 10-090 by Order No. 25,229 (June 8, 2011). Because the cost of debt is typically lower than the cost of equity, capital investment for the Companies under the new structure is less costly and customers benefit from a lower revenue requirement and lower rates. At the same time, however, the change in the Companies' capital structures limits their options for financing capital expenditures, which is aggravated by the limitation in Puc 608.05 on the use of short term debt.

The Companies have sought and been granted waivers of Puc 608.05 in the past, including Dockets No. DW 13-247 for PAC and DW 14-191 for PEU. The Commission recognized the Companies' limited financial flexibility in these cases and that their use of short term debt fluctuates continuously, in a range that often exceeds 10%, depending on earnings levels, the need for capital improvements, the timing of property tax payments, and the time required to secure long-term financing. The waiver for PAC expired December 31, 2014, and the waiver for PEU expired May 31, 2015. Rather than continuing to request waivers on an *ad hoc* basis, the Companies seek a more durable resolution to what is effectively an endemic aspect of their capital structures, which ultimately benefits customers because the cost of debt is generally lower than the cost of equity.

In Docket DW 00-109, the Commission increased the short term debt limit for Hampton Water Works Company (Hampton). The Commission, among other things, noted that: RSA Chapter 369 governs the issuance of securities by public utilities; RSA 369:1 pertains to securities payable more than 12 months after issuance, i.e., long term; RSA 369:7 pertains to securities payable less than 12 months after issuance, i.e., short term; and, Puc 608.05 limits the level of short term indebtedness to 10% of net fixed plant, unless a waiver is granted. As part of its approval of a financial services agreement between Hampton and its parent company, the

Commission increased Hampton's short term debt limit to $2,500,000, or approximately 15 % of its net utility plant.

Under the statutory scheme, the issuance of long term debt requires pre-approval by the Commission, while short term debt may be issued without prior approval. RSA 369:7 provides:

> I. No public utility engaged in business within this state shall issue or renew any notes, bonds, or other evidences of indebtedness payable less than 12 months after the date thereof, except as provided in this section, by rules adopted by the commission, or by specific order of the commission in an individual case.
> II. In establishing the amounts of the notes, bonds, and other evidences of indebtedness which the utility is permitted to issue or renew without prior commission approval, the commission shall consider the size, circumstances, and other characteristics of each utility, the aggregate term of the renewals of such notes, bonds, and other evidences of indebtedness, and the time period and manner for reporting such renewals to the commission.

Pursuant to RSA 369:7, the Commission may establish the amount of short term indebtedness a public utility may issue without prior approval by rule or by specific order in an individual case. The Commission is required to consider "the size, circumstances, and other characteristics of each utility" when establishing the permissible level of indebtedness. By Order No. 23,535 (July 21, 2000) in Docket No. DW 00-019, the Commission increased Hampton's short term debt limit above that permitted by rule, pointing out that it "could realize savings from the proposed [financial services] arrangement, especially in view of Hampton's small size."

The Companies propose that the Commission increase PEU's and PAC'S short term debt limits to 18% of their net fixed plant. As explained by Mr. Goodhue, the size, circumstances, and characteristics of the Companies warrant an increased level of short term indebtedness. The public interest is served by providing financial flexibility, stabilizing revenues, and reducing costs to the Companies and customers.

The purpose of the short term debt limit rule is to establish the general level of short term indebtedness that a public utility may incur without prior approval. As expressly provided in

369: 7, I, however, the Commission may also establish the level of short term indebtedness by a specific order in an individual case. Consequently, the governing statute itself provides an alternative method to satisfy the rule. Furthermore, the rule is onerous, that is, it causes hardship and its obligations outweigh its advantages, inasmuch as customers would ultimately benefit from a higher limit on short term indebtedness in view of the Companies' unique capital structure. Finally, setting an 18% limit on short term debt will promote the orderly and efficient resolution of maters before the Commission by obviating petitions for waivers.

The Companies propose that the increased short term debt limits apply through June 30, 2019, and that the Companies include monthly levels of short term debt with their Annual Reports. In addition, the Companies propose that they notify Commission Staff and the Office of Consumer Advocate in writing in any month that short term debt exceeds 15% of net fixed plant. Finally, the Companies propose that the increased levels become permanent if the Commission does not issue, prior to April 30, 2019, an order pursuant to RSA 365:28 altering its order in this proceeding.

WHEREFORE, the Companies respectfully request that the Commission:

A. Increase the limitation on their short term indebtedness;

B. Issue an Order *Nisi* approving their request; and

C. Grant such other relief that is just and reasonable.

Respectfully submitted,

PENNICHUCK EAST UTILITY, INC.
PITTSFIELD AQUEDUCT COMPANY, INC.

By Their Attorneys,

DEVINE, MILLIMET & BRANCH
PROFESSIONAL ASSOCIATION

Date: July 23, 2015

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