

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

<b>UNITIL ENERGY SYSTEMS, INC.</b>	) ) )	<b>DOCKET NO. DE 23-XXX</b>
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**PETITION OF UNITIL ENERGY SYSTEMS, INC.  
FOR WAIVER OF PUC 307.05 AND AUTHORITY TO  
CHANGE SHORT-TERM DEBT LIMIT FORMULA**

Unitil Energy Systems, Inc. ("UES" or "the Company") respectfully petitions the New Hampshire Public Utilities Commission ("the Commission"), pursuant to RSA 369:7 and N.H. Admin. Rule Puc 307.05, for authority to change the currently effective short-term debt limit formula pursuant to which the Company's short-term debt limit is revised annually each June 1. Unitil requests that the Commission issue an Order *Nisi* within ninety (90) days of this filing, or on or before September 20, 2023, authorizing the requested change, allowing the Company to apply to new formula and raise the Company's effective short-term debt limit as of the date of the Order, and allowing the Company to thereafter revise the short-term debt limit pursuant to the formula on June 1 of each year. In support of its petition, UES states the following:

**I. Petitioner**

1. UES is a New Hampshire corporation and public utility primarily engaged in the distribution of electricity in the capital and seacoast regions of New Hampshire.

## II. Background

2. UES uses short-term debt principally to fund seasonal working capital requirements and construction work in progress. The Company's funding is derived primarily from internally generated funds, which consist of net operating cash flows including depreciation, amortization and deferred income taxes. UES supplements internally generated funds through short-term borrowings under the Unitil Corporation<sup>1</sup> Cash Pool, which is supported by bank borrowings under Unitil Corporation's credit facility. When UES' short-term balance builds to a sufficient level, the Company seeks long-term financing to reduce the short-term debt and appropriately match the long-term utility asset lives with long-term funding

3. On June 12, 2008 UES filed a petition requesting a waiver of Puc 307.05 and seeking authority to increase its short-term debt limit and to establish a short-term debt limit formula. *See generally* Docket DE 08-085. In October 2009 the Commission approved a settlement agreement among UES and the Staff of the Commission establishing a short-term debt limit formula equal to 10% of Net Utility Plant plus \$10 million, to be updated annually for effect on June 1 of each subsequent year. *Unitil Energy Systems, Inc.*, DE 08-085, Order No. 25,027 at 5-6 (October 22, 2009). At the time of the 2009 Order, the Company's short-term debt limit was \$24 million.

4. The currently effective short-term debt limit formula has been in place for approximately fourteen years, and various factors are now contributing to the Company approaching its borrowing limit faster. Approaching the borrowing limit faster turn

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<sup>1</sup> UES is a wholly-owned subsidiary of Unitil Corporation.

necessitates more frequent long-term debt or equity financings; more frequent permanent financings result in less efficient issuance sizes and higher issuance costs, which are ultimately borne by customers.

5. One significant factor putting pressure on the Company's short-term borrowings is the increased frequency of long-term debt maturity. As explained in the Testimony of Andre J. Francoeur and Christopher J. Goulding, UES has several Serial Bonds that have been maturing at regular intervals since 2015. Unlike Term Bonds, which mature in their entirety on a single date, Serial Bonds mature at staggered dates, providing flexibility to recapitalize the maturing debt at appropriate times and reduce refinance risk. The Company's various Serial Bonds have maturity dates spanning up to 10 years and the staggered debt retirements are often referred to as sinking fund payments. From 2018 to 2022, sinking fund payments at UES totaled \$32 million, and over the next five years, payments will total \$17.5 million.

6. As a result of this debt maturity schedule, short-term borrowings are increasing at a faster rate than they were previously. When sinking fund payments become due, they are immediately funded with short-term debt if the Company does not have sufficient cash on hand. As such, sinking fund payment obligations put pressure on short-term borrowings and cause the Company to pursue long-term financings more frequently.

7. Higher working capital requirements, specifically purchased power, are also placing pressure on UES's short-term debt levels. Working capital requirements related to purchased power increased significantly in 2023 and a substantial portion of the Company's short-term debt capacity is being utilized for that purpose, causing short-term

debt levels to approached the Company's current borrowing limit. Though the Company had zero short-term borrowings in early January, borrowings quickly grew to a peak of \$36 million in April 2023 as a result of energy supply payments. The peak borrowing amount through April of 2023 was within \$3.0 million of the existing borrowing limit.

8. Finally, the Company's growth in the approximately fourteen years since the Commission approved the Company's last change in the debt limit formula has caused the limit to become increasingly restrictive, limiting financing flexibility. The debt limit at June 1, 2010, the year in which the current formula (10% Net Utility Plant plus \$10 million) first took effect, was \$24.3 million. At the time, that limit as a percentage of Net Utility Plant was 17.0%. Comparatively, the limit that took effect on June 1, 2023 (\$40 million) is only 13.3% of Net Utility Plant. This decrease illustrates that the existing formula has become increasingly restrictive relative to the Company's asset growth and higher level of capital spending.

### **III. Request for Waiver and Change to Short-Term Debt Limit Formula**

9. Commission rule Puc 307.05 states: "No utility shall issue or renew any notes, bonds or other evidences of indebtedness payable less than 12 months after the date thereof if such short-term debt exceeds 10% of the utility's net fixed plant without prior commission approval pursuant to Puc 201.05." Puc 307.05.

10. Under Puc 201.05, the Commission "shall waive the provisions of any of its rules . . . if the [C]ommission finds that: (1) The waiver serves the public interest; and (2) the waiver will not disrupt the orderly and efficient resolution of matters before the [C]ommission." Puc 201.05(a). "In determining the public interest, the Commission shall

waive a rule is: (1) Compliance with the rule would be onerous or inapplicable given the circumstances of the affected person; or (2) the purpose of the rule would be satisfied by an alternative method proposed.” Puc 201.05(b).

11. The Commission previously granted a waiver of Puc 307.05 in 2009, allowing the Company to issue short-term debt in an amount up to 10% of Net Utility Plant plus \$10 million. *Unitil Energy Systems, Inc.*, DE 08-085, Order No. 25,027 at 5-6 (October 22, 2009). For good cause shown, including the reasons described above, the Company requests that the Commission continue to waive Puc 307.05 and authorize the Company to change the short-term debt limit formula from “10% of Net Utility Plant plus \$10 million” to simply 20% of Net Utility Plant, without any additional fixed component.

12. UES requests that the Commission authorize the Company to raise its short-term debt limit based on the proposed new formula (20% of Net Utility Plant) on the date that the Commission issues its Order ruling on the Company’s waiver proposal. The Company requests that the Commission issue an Order *Nisi* within ninety (90) days of this filing, or on or before September 20, 2023, to allow the proposed increase to take effect. The Company will thereafter change its short-term debt limit pursuant to the new formula on June 1 of each year, consistent with the currently effective schedule.

13. UES believes it is prudent to have a short-term borrowing limit that allows for permanent financings to be spaced up to three years apart, a cycle that allows transaction costs to be spread over larger amounts of capital and provides financing flexibility during times of capital market volatility. To achieve this, the Company requires a limit similar to the forecasted increase in short-term borrowings over a three-year period absent any

additional permanent capital. The simple and straightforward “20% of Net Utility Plant” will result in the appropriate short-term debt level. In this instance, the proposed formula would yield a short-term debt limit of \$59.9 million; the Company’s forecasted short-term debt increase over the three-year period is approximately \$62 million.

14. Waiving Puc 307.05 and authorizing the Company to implement a new short-term debt limit formula of 20% of Net Utility Plant is in the public interest. The proposed borrowing limit would allow the Company to reduce the frequency of long-term financings, which benefits customers by spreading issuance costs over larger amounts of capital. Larger issuances of long-term debt can also result in a more competitive bidding process which can lead to lower debt rates.

15. The proposed formula will also rebalance the limit as a percentage of Net Utility Plant, provide additional liquidity for working capital requirements, and allow for the limit to grow with the Company’s needs over the coming years.

16. Increasing the short-term debt limit will afford the Company the flexibility to access capital markets during more favorable periods and increase the size of the financings. Absent the requested increase, the Company will likely have to access capital markets at a minimum interval of two years which affords considerably less flexibility.

17. Larger debt offerings are generally more efficient, attract more investor interest in the private placement market, and can result in more competitive pricing. Less frequent financings also have the benefit of spreading issuance costs, such as legal fees, over larger amounts of capital and reducing the Company’s resources used when organizing and executing long-term financings. Customers also benefit from short-term debt,

typically the least expensive funding source, which the Company uses to fund CWIP.

Customers benefit from funding CWIP with short-term debt by keeping the Allowance for Funds Used During Construction rate as low as possible.

18. 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 continue to reestablish its short-term borrowing requirements annually on June 1, based upon the set formula proposed herein.

19. 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 Andre J. Francoeur and Christopher J. Goulding.

### **Conclusion**

20. 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 September 20, 2023 or 90 days after the filing of this Petition, waiving Puc 307.05, authorizing a new short-term debt limit formula for UES equal to 20% of Net Utility Plant, and allowing the Company to

increase its short-term debt limit in a manner consistent with the new formula on the date the Order is issued; and,

2. 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 22<sup>nd</sup> day of June, 2023.

Unitil Energy Systems, Inc.

By its attorney:



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**CERTIFICATE OF SERVICE**

I certify that I have caused copies of Unitil Energy System's, Inc., "Petition for Waiver of Puc 307.05 and Authority to Change Short-term Debt Limit Formula" to be served on the following parties:

New Hampshire Department of Energy  
21 S. Fruit Street, Suite 10  
Concord, NH 03301-2429

Office of the Consumer Advocate  
21 S. Fruit Street, Suite 18  
Concord, NH 03301-2429

Dated at Hampton, New Hampshire this 22<sup>nd</sup> day of June, 2023.



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Patrick H. Taylor