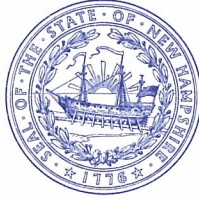


THE STATE OF NEW HAMPSHIRE

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EXECUTIVE DIRECTOR
AND SECRETARY
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November 16, 2011

Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301-2429

Re: DG 11-208 Northern Utilities, Inc.
Petition for Increase in Non-fuel Short Term Debt Limit
Staff Recommendation



Dear Ms. Howland:

On September 15, 2011, Northern Utilities, Inc. (Northern) filed a petition for approval to increase the non-fuel short term debt limit of 15 percent of net utility plant to 20 percent of net utility plant. The 15 percent non-fuel short term debt limit was approved in Docket No. DG 09-239, Northern's petition to issue securities, by Order 25,068 (January 22, 2010). In that proceeding Northern indicated that the non-fuel short term debt limit of 15 percent was sufficient to allow it to conduct its normal operations as well as allow it to address environmental remediation costs and accelerated bare steel pipe replacement costs.

In its filing Northern states that it is incurring sizeable programmatic capital spending in both Maine and New Hampshire and that those capital investments are largely non-revenue producing. Northern asserts that its revenues under its current rates are insufficient to recover its distribution cost of service and provide a reasonable opportunity for a return to its investors. The Company is currently in base rate proceedings in Maine and New Hampshire and has proposed a Targeted Infrastructure Replacement Adjustment cost recovery mechanisms to recover programmatic capital spending for cast iron and bare steel programs in 2012 and beyond.

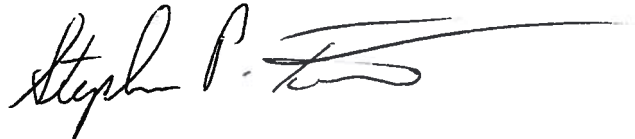
In response to Staff discovery, Northern provided a detailed list of projects funded by non-fuel short term debt since the 15 percent borrowing limit was approved, together with its capital spending plans, and has provided a pro formed capital structure based on short term borrowing at the proposed maximum. The list of projects completed with

short term borrowing and future projects appear to be the type done in the normal course of utility operations, such as the installation of meters, mains and services. The proposed capital structure indicates a negligible change if the non-fuel short term borrowing is increased from 15 to 20 percent, which if fully utilized would produce a slight decrease in Northern's overall cost of capital.

Based on its review of the filing and discovery and for the reasons cited above, Staff recommends that the Commission grant Northern's request to increase its non-fuel short term borrowing limit to 20 percent of net plant but for a period of no more than three years or until Northern receives the proceeds from an equity or long-term debt issuance, whichever is shorter. Approving a temporary increase in the non-fuel short term debt limit will allow for a resolution of Northern's rate proceedings which could increase revenues and allow sufficient time for Northern to issue equity and/or long term debt that could be used in part to refinance short term debt and fund future projects.

In addition, Staff recommends Commission approval of Northern's motion for confidential treatment related to Northern's internal financial forecasts and related information for the reasons cited in the motion.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen P. Frink", with a long horizontal flourish extending to the right.

Stephen P. Frink
Assistant Director, Gas & Water Division

cc: Service List