

THE STATE OF NEW HAMPSHIRE

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**PUBLIC UTILITIES COMMISSION**  
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December 27, 2012

Debra A. Howland  
Executive Director  
New Hampshire Public Utilities Commission  
21 S. Fruit St., Suite 10  
Concord, New Hampshire 03301

Re: DW 12-349 Pennichuck East Utility, Inc.  
Petition for Increase in Short Term Debt Limit

Dear Ms. Howland:

On December 6, 2012, Pennichuck East Utility, Inc. (PEU) filed a Verified Petition for Approval of Increase of Short Term Debt Limit. The petition seeks an extension, through June 30, 2014, of a waiver of the short term debt limit under N.H. Code Admin. Rule Puc 608.05 previously granted by the Commission in Order No. 25,326 in DW 11-267. That Order permits PEU to carry a short term debt balance of up to 15% of its net fixed plant, with that authority expiring December 31, 2012. PEU now requests that the Commission extend this waiver at a level of up to 18% of its net fixed plant. PEU's petition provides a number of reasons why it seeks this approval, indicating that it continues to rely on short term debt due to weak earnings, the company's need to continue to invest in capital improvements in its various water systems, its decision to use short term debt to pay off a Business Finance Authority loan in order to eliminate a loan covenant that restricted the ability of PEU to obtain long term debt, and the fact that it delayed filing a rate case until 2013 as a result of the settlement agreement in DW 11-026, the City of Nashua acquisition of Pennichuck Corporation.

As stated, PEU's current authority with respect to its short term borrowing limit is expiring at December 31, 2012. Staff believes there is a need for discovery on this matter, and it is likely that a Staff review could not be completed before the end of this month. Staff therefore consulted with the company, and Staff and PEU recommend a 90 day extension of PEU's authority to exceed the 10% short term debt limit as outlined in Puc 608.05. Attached is a letter from Larry D. Goodhue, CFO of PEU, requesting that the Commission approve a 90 day extension of the short term debt limit at a level of 18% above net fixed capital. Mr. Goodhue's letter provides additional detail on the reasons for the request. PEU continues to assess its options as to long term debt, and as indicated in Mr. Goodhue's letter, PEU intends to file a petition seeking approval of new permanent financing by January 31, 2013.



Staff and PEU therefore recommend that the Commission grant a 90 day extension of the existing waiver of PEU's short term debt limit, at a level of up to 18% of net fixed plant, to allow more extensive discovery on all of the issues implicated by this filing. It would be the intention of Staff to provide additional recommendations in this matter by mid-March of 2013, prior to the proposed March 31, 2013 expiration date.

Staff provided a draft of this recommendation to the OCA prior to filing. The OCA authorized Staff to represent that the OCA does not oppose an extension of the short term debt limit, as proposed at the higher level of 18%, for a period of 90 days.

Thank you for your assistance in this matter. Please advise if there are any questions.

Sincerely,



Mark A. Naylor  
Director, Gas & Water Division

Attachment

Cc: Docket-Related Service List



**PENNICHUCK**  
CORPORATION

25 MANCHESTER STREET  
PO BOX 1947  
MERRIMACK, NH 03054-1947  
(603) 882-5191  
FAX (603) 913-2305  
WWW.PENNICHUCK.COM

December 13, 2012

Mark A. Naylor  
Director, Gas & Water Division  
New Hampshire Public Utilities Commission  
21 S. Fruit Street, Suite 10  
Concord, NH 03301-2429

RE: Short Term Debt Limit of Pennichuck East Utility, Inc.

Dear Mr. Naylor,

Pennichuck East Utility, Inc. ("PEU") hereby requests a temporary 90-day extension of the expiration date of the waiver of Puc 608.05 granted by the Commission's Order No. 25,326 in DW 11-267, from December 31, 2012 through March 31, 2013, giving the necessary time for the Commission Staff to review the petition filed by PEU on December 6, 2012 in Docket DW 12-349.

During this 90-day extension period, we request that the limit on PEU's short term debt ("STD") limit be set at 18%, as supported by the attached analysis. Included in this analysis are the following factors, contributing to the current and anticipated STD levels:

1. The current forecasted level of STD and Net Utility Plant ("Plant") for the period from 12/31/2012 through 3/31/2013 is based upon the existing STD and Plant on the books of PEU as of 11/30/2012, and takes into consideration anticipated revenues and costs through March 31, 2013.
2. Approximately \$126,000 of new Plant is forecasted to be placed in service during this period of time, based upon estimated levels of capital improvements.
3. In January 2013, an intercompany dividend of approximately \$813,000 is included in the STD balance, relating to the CBFRR revenues generated by PEU during 2012. The settlement agreement approved by the Commission's Order No. 25,292 in Docket DW 11-026 relating to the acquisition of Pennichuck Corporation by the City of Nashua, provides for the funding of the City's acquisition debt through the City Bond Fixed Revenue Requirement ("CBFRR"). Each of the subsidiary utility companies pays its CBFRR amount to Pennichuck Corporation to service the acquisition debt. During the year, as cash is collected from CBFRR revenues, these monies are



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transferred from PEU to Pennichuck Corporation to be held under the intercompany Money Pool Agreement on file with the Commission, thereby reducing the intercompany STD. However, the transfer of the PEU's CBFRR amount residing in the equity section of the balance sheet of PEU in the form of either retained earnings or paid in capital occurs only once a year via an intercompany dividend, thereby reducing PEU's equity and increasing PEU's intercompany STD.

4. Also included in the budgeted STD as of 3/31/2013 is the anticipated refinancing of \$925,000 of BFA bonds which were retired in April of 2012, in order to eliminate a covenant constraint and thereby provide access to low cost long term external funding for PEU. This process was described in the PEU's petition filed in DW 11-267, and further delineated in PEU's petition filed in DW 12-349. PEU intends to file a petition seeking approval of the new permanent financing by January 31, 2013.
5. As described in PEU's petition filed in Docket DW 12-349, PEU's internal cash generation is adversely affected by its low level of earnings. PEU is required to file a full rate case for the 2012 test year, pursuant to DW 11-026 (Order No. 25,292), on or before June 1, 2013. PEU anticipates that the filing will demonstrate the need for an increase in rates.

We appreciate your consideration of this request, and look forward to your response with regards to the approval of this 90-day extension.

Sincerely,

Larry D. Goodhue  
Chief Financial Officer, Treasurer and Controller  
Pennichuck East Utilities, Inc.

PEU Short-term debt threshold forecast thru 3/31/2013

<u>Pre-Adjusted Fest/Budget</u>	<u>Forecast</u>		<u>Budget <sup>2</sup></u>	
	<u>12/31/2012 <sup>1</sup></u>	<u>1/31/2013 <sup>3</sup></u>	<u>2/28/2013</u>	<u>3/31/2013 <sup>4</sup></u>
S-T Debt	4,704,961	5,625,136	5,502,584	4,641,354
Total Net Utility Plant, excluding CWIP	31,632,352	31,988,672	31,956,693	31,959,142
percentage	14.9%	17.6%	17.2%	14.5%

Note 1 - ST Interco Debt per 2013 Budgeted B/S beginning balances, and Net Utility Plant per 11/30/12 balances forecasted thru 12/31/2012.

Note 2 - Balances per the Budgeted 2013 Balance Sheet.

Note 3 - ST Debt includes \$803K intercompany dividend from PEU to Pennichuck Corporation for the CBFRR revenues in 2012.

Note 4 - ST Debt includes \$925K refinancing of BFA bonds retired in April 2012.