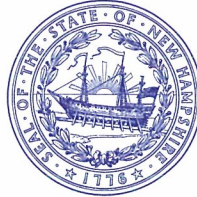


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NHPUC 4AUG14PM1:28

August 4, 2014

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

Re: DW 14-191 Pennichuck East Utility, Inc.
Request for Waiver of Short Term Debt Limit
Staff Recommendation for Approval

Dear Ms. Howland:

On July 16, 2014, Pennichuck East Utility, Inc. (PEU) filed a request for a waiver of its short term debt limit, pursuant to the provisions of Puc 201.05. PEU seeks a waiver of Puc 608.05, which establishes a short term debt limit equal to 10% of a utility's net fixed plant, in order to carry short term debt up to 12% of its net fixed plant until October 31, 2014. After review, Staff recommends approval. This recommendation is based on PEU's unique circumstances, including dependence on 100% debt financing for capital improvements, PEU's intent to file for approval of new long term debt by September 1 of this year, and PEU's needed increase in revenues from its recently concluded rate case, DW 13-126. Staff believes the waiver serves the public interest and will not disrupt the orderly and efficient resolution of matters before the Commission.

As PEU points out in its request, PEU's short term debt limit has been the subject of two recent proceedings, both subsequent to the acquisition of PEU's parent company, Pennichuck Corporation, by the City of Nashua. In Docket No. DW 11-267, PEU was granted a short term debt limit of 15% for the calendar year 2012. In Docket No. DW 12-349, PEU was granted a short term debt limit of 18% for a limited time, reduced to a 12% limit to the end of 2013. As the Commission is aware, PEU and its two sister utilities are now exclusively capitalized with debt under municipal ownership. This capitalization reduces the financial flexibility of the utilities by eliminating access to the equity markets. Specifically with respect to PEU, its continued investment in infrastructure (necessitating the use of short term debt) and lower earnings while PEU waits to implement its new rates from DW 13-126¹ caused the company to exceed the 10% short term debt limit at the end of May 2014. While PEU's calculation indicated short term debt at a level of 10.26% of net fixed plant at the end of May, PEU reports that the level was 9.99% at the end of June. PEU is actively working to acquire new long term debt,

¹ A stipulation agreement in PEU's rate case was approved in Order 25,696 issued July 25, providing for an overall permanent increase in revenues of 9.91% and a step adjustment increase of 1.62%.

DW 14-191 Pennichuck East Utility, Inc.
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anticipating a filing with the Commission prior to September 1 of this year, and it is expected that the company will use some of those proceeds to reduce its short term debt levels. PEU also indicates that it expects its short term debt level to stay in a range of 10% to 12% until such time as the company's cash flow begins to improve as a result of its new rates approved in DW 13-126.

After Staff's review, Staff recommends approval of PEU's request for a waiver of its short term debt limit, until October 31, 2014, to a level of up to 12% of net fixed plant. Staff believes the request is reasonable based on the circumstances as outlined above.

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

Sincerely,



Mark A. Naylor
Director, Gas & Water Division

Cc: Docket-Related Service List

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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Docket #: 14-191-1 Printed: August 04, 2014

FILING INSTRUCTIONS:

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:

DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429

- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.
- c) Serve a written copy on each person on the service list not able to receive electronic mail.