

DE 03-086

UNITIL ENERGY SYSTEMS, INC.

Petition for Authority to Adjust Stranded Cost Charge and to
Issue Short Term Debt

Order Approving Temporary Increase in Short Term Debt Limit and
Procedural Order

O R D E R N O. 24,168

May 2, 2003

APPEARANCES: Scott J. Mueller, Esq., of LeBoeuf, Lamb, Greene & MacRae, L.L.P., for Unitil Energy Systems, Inc.; F. Anne Ross, Esq. for the Office of Consumer Advocate; Edward N. Damon, Esq., for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On April 1, 2003, Unitil Energy Systems, Inc. (UES or the Company), filed with the New Hampshire Public Utilities Commission (Commission) a Petition for Authority to Adjust the UES Stranded Cost Charge and to Issue Short-Term Debt (Petition). UES filed written testimony of Mark H. Collin, Karen M. Asbury and Francis X. Wells in support of the Petition.

On April 9, 2003, the Commission issued an Order of Notice establishing, inter alia, a Prehearing Conference, which was held at the Commission on April 21, 2003. In accordance with the Order of Notice, a Technical Session was held at the Commission offices before the Prehearing Conference. The Order

of Notice also established a timetable for service of initial data requests on the Company.

On April 11, 2003, the Office of Consumer Advocate (OCA) filed notice of its intent to participate in this docket on behalf of residential ratepayers consistent with RSA 363:28, II.

On April 17, 2003, UES filed a Motion for Protective Order requesting confidential, protective treatment for certain information contained in UES' response to Staff Data Request number 47(a) regarding the salaries of certain UES and Unitil Service Corporation employees, whose positions were eliminated in 2003 as part of an internal reorganization.

On April 24, 2003, UES filed another Motion for Protective Order requesting confidential, protective treatment for certain information provided in response to Staff requests made at the Technical Session regarding (i) documentation of UPC's savings from short term power purchases (labeled by UES as Staff Data Request 2-1), (ii) material from board of directors' meetings addressing the internal reorganization (labeled by UES as Staff Data Request 2-2), and (iii) Unitil's financial forecast (labeled by UES as Staff Data Request 2-3).

II. PRELIMINARY POSITIONS OF THE PARTIES AND STAFF

A. UES

In its Petition, UES is requesting the Commission's approval to (i) increase its Stranded Cost Charge (SCC) effective May 1, 2003, by \$0.00696 per kilowatt-hour in order to collect the final balances for fuel and purchased power over a 12 month period and (ii) increase its short term debt limit effective May 1, 2003 from its current level of \$16 million to \$24 million on a temporary basis until UES' next permanent financing and to \$20 million on a permanent basis.

On an overall basis, the Company's rates would increase by 7.13 percent as a result of the proposal to adjust the SCC, according to the Company. Taken together with the other rate changes scheduled for May 1, 2003, overall rates would increase by 12.86 percent over those currently in effect. In the case of a residential customer with a 500 kWh per month bill, the overall increase would mean a total bill increase of \$5.95 per month, or 11.3 percent, on May 1, 2003 over the rates currently in effect.

At the Prehearing Conference, UES stated that it expects there will be an underrecovery of the final fuel and purchased power balances as of April 30, 2003, which will exceed \$8 million. The expected underrecovery consists of an

underrecovery of more than \$6 million in Unutil Power Corp.'s final balance under the Unutil System Agreement to be included in Contract Release Payments billed to UES in May 2003 under the Amended Unutil System Agreement and an underrecovery of more than \$2 million in UES Interim Fuel and Purchased Power Expense. UES attributes the significant increase in the underrecovery to the dramatic rise in natural gas and fuel prices during the first quarter of 2003. According to UES, the request for an increase in the short term debt limit is driven in part by the size of the underrecovery, as well as by temporary, restructuring-related working capital needs and on-going capital improvements spending.

UES also stated at the Prehearing Conference that its request for a temporary increase to its short term debt limit should be treated as an emergency request since by the third week in May, UES will need approximately \$20 million in short term funding. UES orally requested the Commission to issue an order nisi for a temporary, short term debt limit increase by May 1, 2003. UES stated that it had more flexibility regarding the timing of a permanent increase in its short term debt and an adjustment to the SCC.

In response to Staff's and the OCA's statements of position, which are described below, UES said that the short

term debt issue will not impact its debt to equity ratio on a long term basis because \$10 million of energy supply obligations will no longer exist in 12 months. Further, UES said it would work to improve its debt to equity ratio. Regarding the timing of the filing of the Petition, UES said that it had been planning on an increase to its short term debt limit for some time. According to UES, it has known about the additional NEPOOL-ISO financial assurance requirements but the significant underrecovery of the final fuel and purchased power balances creates the need for an immediate increase in the short term debt limit. UES said that its testimony and its pre-filed report in Phase III of the DE 01-247 restructuring proceedings indicated that it was waiting to file for a SCC adjustment depending on the level of fuel prices.

B. Office of Consumer Advocate

The OCA stated it recognized Unitil's short term need for cash. OCA did, however, express concerns regarding the amount of debt included in UES' capital structure¹ and stated that it would like to see the percentage of debt reduced. The OCA suggested that if the Commission authorizes a temporary increase in UES' short term debt limit, it do so in connection with a possible dividend reduction as a means of addressing the

¹ According to the Petition, UES's capital structure would consist of 71 percent debt based on 2002 pro forma numbers and assuming the full amount of short term debt is outstanding.

capital structure issues. Regarding the issue of an increase in the SCC, the OCA said that UES' request could have been made earlier.

C. Staff

Staff stated that it shared the OCA's concerns and would be evaluating the information obtained at the Technical Session.

III. COMMISSION DISCUSSION

The Company's filing reveals that it had almost \$9.5 million in short term debt outstanding as of February 28, 2003. The Company also provided a 2003 cash forecast showing its short term debt requirements. According to the Company's filing, in addition to on-going amounts for capital improvement expenditures, the Company needs cash to pay approximately \$1.3 million to NEPOOL under its Financial Assurance Policy, \$6.2 million to UPC for outstanding undercollections being transferred as part of restructuring on a one-time basis, and \$1.9 million per month for two months to UPC as advance payment required under the Amended Unutil System Agreement. The Company's proposed collection of the UPC underrecovery would offset these payments by approximately \$500,000 per month. Based on these figures, UES projects that it will need short

term cash of approximately \$19.7 million in May 2003, increasing to a maximum of almost \$21 million in November 2003.

Since there does not appear to be any feasible alternative, we will approve an increase in UES' short term debt limit on a temporary basis, to \$22 million for a period not to exceed six months, pending a hearing in accordance with the procedural schedule set forth below and a decision on UES' request regarding a permanent increase in UES' short term debt limit. Our approval is conditioned on UES not making any further dividend payments to Unutil Corporation from and after the date of this Order, until further order. We also expect that the Company will carry out its construction program, its tree trimming initiatives and its other on-going operational activities. The \$22 million amount provides a \$1 million cushion for unexpected events and should be an added incentive for the Company to manage its finances carefully.

The 2002 pro forma debt capitalization ratios included in the Company's filing reflects a debt to equity ratio of approximately 70 percent debt and 30 percent equity, assuming the Company obtains the requested increases in its short term debt. This information, together with the provision in the DE 01-247 restructuring docket Phase II Settlement Agreement reflecting the desirability of increasing the equity component

of its capital structure over time in order to ensure that it has continued financial flexibility and continued access to capital at reasonable rates,² gives us concern about the impact a permanent increase in the Company's short term borrowings will have on its financial condition and its resulting capital structure. In addition, having just completed the Phase III proceedings in Docket 01-247³ without hearing from the Company about a need for an immediate increase in the short term debt limit and an immediate recovery of the SCC, we are concerned about the timing of the Company's requests. We expect that these issues, among others, will be explored at the upcoming hearings.

We will accordingly hold a separate hearing on UES' request for an adjustment to its SCC in accordance as follows:

Second round data requests to the Company	May 9, 2003
Second round data responses from the Company	May 14, 2003
Testimony, if any	May 19, 2003
Hearing regarding UPC-UES underrecovery	May 21, 2003
Hearing regarding short term debt limit	August 12, 2003

² See section 3.3.3.1 and *Concord Electric Company and Exeter & Hampton Electric Company*, Order No. 24,072 (October 25, 2002).

³ The hearings concluded on March 7 and we issued the Phase III Order a week later, see *Unitil Energy Systems, Inc. and Unitil Power Corp.*, Order No. 24,139 (March 14, 2003).

At the first hearing, we will also take up UES' two outstanding Motions for Protective Order.

Based upon the foregoing, it is hereby

ORDERED, that subject to the effective date of May 2, 2003, an increase in UES' short term debt limit on a temporary basis, to \$22 million for period not to exceed six months, pending a hearing and a decision on UES' request regarding a permanent increase in UES' short term debt limit, is hereby approved, conditioned on UES not making any further dividend payments to Unutil Corporation from and after the date of this Order, until further order; and it is

FURTHER ORDERED, that that the procedural schedule as set forth above is hereby adopted.

By order of the Public Utilities Commission of New Hampshire this second day of May, 2003.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary