

STATE OF NEW HAMPSHIRE

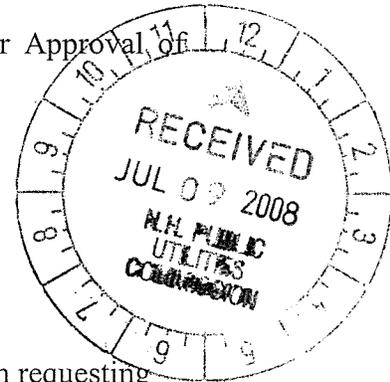
Inter-Department Communication

DATE: July 9, 2008
AT (OFFICE): NHPUC

FROM: *SEM*
Steven E. Mullen
Assistant Director - Electric Division

SUBJECT: DE 08-085, Unitol Energy Systems, Inc. – Petition for Approval of Increase to Short-Term Debt Limit

TO: Commissioners
Debra A. Howland, Executive Director & Secretary



On June 12, 2008, Unitol Energy Systems, Inc. (UES) filed a petition requesting an increase to its existing authorized short-term debt borrowing limit. UES' request consisted of two parts. First, it asked for an increase from the current \$16 million short-term debt limit to \$24 million effective no later than August 11, 2008, or 60 days after the filing date. The second part of the request was for the Commission to approve a formula approach for determining a short-term debt limit on an annual basis. In terms of dealing with its two-part request, UES suggested that the Commission consider bifurcating its review of the proposed formula approach from the more immediate request to increase the short-term debt limit to \$24 million, thereby allowing more time for a review of the details and implications of UES' proposed short-term debt formula.

Regarding the proposed bifurcation of the request to increase UES' short-term debt limit to \$24 million from the request for approval of an annual short-term debt formula approach, Staff agrees that such a separation of issues is reasonable. Although discovery has begun, UES' proposed formula for determining an annual short-term debt limit will require additional time for review. Therefore, this recommendation deals only with UES' request to increase its short-term debt limit from \$16 million to \$24 million.

Staff supports UES' request to increase its short-term debt limit to \$24 million, but recommends that the Commission approve the request on a temporary basis, with a final determination to be made at the time the Commission issues an order on the remaining issue in this proceeding; i.e., UES' proposed annual formula for determining a short-term debt limit. The proposed \$24 million limit is, in part, supported by UES' proposed formula approach, so a permanent decision regarding an annual short-term debt level should necessarily be postponed until the details of the proposed method can be fully examined.

According to UES, it uses short-term debt to fund capital projects and working capital for energy-related and distribution operating expenses. As discussed in its testimony, UES' current short-term debt limit of \$16 million has been in existence for over ten years. Pursuant to Puc 307.05, a utility must obtain Commission approval to issue short-term debt in excess of 10% of its net fixed plant. UES stated that at the end of 2007 its net fixed plant was approximately \$125 million – as opposed to \$64.5 million at the time the \$16 million limit was established – which at the 10% of net plant limit would suggest a \$12.5 million limit by itself. In addition, UES testified that its working capital requirements associated with purchased power and transmission costs for default service, cash obligations for credit assurance as a participant in the New England ISO, and ongoing energy-related stranded cost obligations have all increased, necessitating the request for a higher short-term debt limit.

In schedules attached to the testimony, UES provided its forecast of monthly short-term debt requirements through March 2009 along with a historical analysis of its monthly peak borrowings over a seventeen-month period ended May 2008. From those analyses, UES forecasted a peak end-of-month short-term debt balance of \$19.4 million in March 2009 and stated that its month-end balances can differ from a peak day balance by as much as \$3 million. Allowing for contingencies that could impact its short-term borrowing needs, UES proposed a short-term debt limit of \$24 million. In addition, UES stated that an increased short-term debt limit will reduce the frequency of long-term debt issuances, thereby reducing issuance costs and allowing for more attractive debt offerings (due to the larger size of the offerings).

Staff has reviewed the testimony and schedules and recommends that the Commission approve, on a temporary basis, UES' request to increase its short-term debt limit to \$24 million. The \$24 million limit is just that – a limit – and actual outstanding short-term debt balances will be less than that amount. Looking at UES' total capital structure as of March 31, 2008 and, assuming a) the entire \$24 million limit of short-term debt was outstanding, and b) roughly 50% of the amount outstanding would be included in UES' capital structure in a rate case (as the other 50% would relate to energy-related costs), long-term and short-term debt combined would represent a reasonable level of just under 60% of the total capital structure.

Further, Staff recommends that the Commission make a final determination of UES' short-term debt limit in connection with whatever decision it renders concerning UES' request to establish a formula for an annual determination of an authorized short-term debt limit. Further review of UES' proposed formula will allow for more informed decision making in terms of an overall short-term debt limit.

Please let me know if you have any questions or would like to discuss this issue further.

cc: Tom Frantz
Suzanne Amidon