

THE STATE OF NEW HAMPSHIRE

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PUBLIC UTILITIES COMMISSION
21 S. Fruit Street, Suite 10
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September 27, 2013

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

NHPUC 27SEP'13PM3:03

Re: DW 13-247 Pittsfield Aqueduct Company, Inc.
Petition to Increase Short Term Debt Limit
Staff Recommendation for Approval

Dear Ms. Howland:

On August 28, 2013, Pittsfield Aqueduct Company, Inc. (PAC) filed a Petition for Approval of an Increase of its Short Term Debt Limit. PAC seeks a waiver, pursuant to N.H. Code Admin. Rule Puc 201.05, of the short term debt limit under Puc 608.05. Under Puc 608.05, a public utility is authorized to issue notes, bonds and other evidences of indebtedness payable less than twelve months after the date thereof provided that the aggregate amount outstanding at any one time does not exceed 10% of the utility's net fixed plant without Commission approval. PAC seeks approval to issue such short term debt up to a level of 18% of its net fixed plant until December 31, 2014. After review, Staff supports the requested relief and recommends approval.

In its petition, PAC states that as of July 31, 2013, its net short term debt exceeded the 10% limit, totaling approximately \$389,000 or 11.65%. On August 22, 2013, the Commission received a letter from Larry D. Goodhue, Chief Financial Officer of PAC, explaining that the company had exceeded the short term debt limit on July 31, 2013 and that PAC was in the process of preparing the instant petition. Mr. Goodhue's letter is attached to this recommendation as Attachment 1. In Mr. Goodhue's letter and in the instant petition, PAC explains that the company's internal cash generation is adversely affected by its current low level of earnings. In fact, the company's current revenue levels are below the level of its approved revenue requirement in its last rate proceeding, DW 10-090. In addition, PAC expects to have only a small positive net income for both 2013 and 2014. Due to the company's small size, minor changes in earnings and cash flows can have a significant impact on the company's need for cash and thus significantly impact the level of short term debt being carried at any given time. PAC states that the increase in its short term debt balance in July was primarily caused by payment of accounts payable balances. Because PAC's current level of capital investment in its water system is roughly equal to its ongoing level of depreciation expense, net fixed plant remains relatively steady. Thus, the limit of short term debt that can be issued is reached more quickly than if net fixed plant was increasing.

PAC expects that enhanced cash flows as a result of its current rate proceeding, Docket No. DW 13-128, will assist in reducing its short term debt level. In particular, in the short term,

DW 13-247 Pittsfield Aqueduct Company, Inc.
Staff Recommendation

PAC expects that enhanced cash flows as a result of its current rate proceeding, Docket No. DW 13-128, will assist in reducing its short term debt level. In particular, in the short term, PAC seeks temporary rates at a level of 7% over its current rates, and proposes that increase to be effective for service on and after July 1, 2013¹. PAC is seeking an overall permanent rate increase of 9.34% in that docket, and anticipates that the full impact of new rates in later 2014 will enable the company to reduce its level of short term debt below the 10% limit. In the meantime, PAC will continue to borrow short term funds under its existing Money Pool Agreement with Pennichuck Corporation, its parent.

Staff has propounded discovery upon PAC in furtherance of its review of this request; the company's responses are attached hereto as Attachment 2. The issues raised in this filing are very similar to those encountered by PAC's sister utility, Pennichuck East Utility, Inc. (PEU), as documented in PEU's request for waiver of the short term debt limit in Docket No. DW 12-349. Management of the three utilities has encountered a number of challenges following the acquisition of Pennichuck Corporation by the City of Nashua as it works to establish long term financing to match the needed capital improvements, and to reduce the reliance on short term debt. Because of the unique ratemaking structure established in the Commission's approval of the settlement agreement in the Nashua acquisition, the ongoing capital requirements of the three utilities are to be henceforth solely financed with debt capital². Without equity capital, PAC and its sister utilities have less financial flexibility than would typically exist under a traditional, balanced capital structure. This, combined with PAC's small size, results in more reliance on short term debt. Staff has had discussions with PAC regarding all these circumstances, as Mr. Goodhue acknowledges in his August 22, 2013 letter. Staff, therefore, agrees with and supports PAC's request for a waiver of the short term debt limit contained in Puc 608.05, at a level up to 18% of its net fixed plant, such waiver to expire at the end of 2014.

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

Sincerely,



Mark A. Naylor
Director, Gas & Water Division

Attachments

Cc: Docket-Related Service List

¹ Staff and PAC have reached agreement on temporary rates at the requested level of 7% over current rates, and expect to file a stipulation agreement in early October. A hearing on temporary rates is scheduled for October 22, 2013.

² As a part of the City of Nashua's acquisition of Pennichuck, the existing equity capital in the three water utilities was essentially replaced with a share of the City's acquisition debt. While it is anticipated that some equity capital may accumulate slowly over time as a result of any net income the utilities may generate, it is not anticipated to ever be a significant portion of the capital structure in any of the three companies.



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August 22, 2013

Ms. Debra Howland
Executive Director
New Hampshire Public Utilities Commission
21 S. Fruit St., Suite 10
Concord, N.H. 03301-2429

RE: Short Term Debt Limitation for Pittsfield Aqueduct Company, Inc. ("PAC")

Dear Ms. Howland:

During the technical sessions following the recent pre-hearing conferences in our various rate cases, we discussed with Commission Staff and the Office of Consumer Advocate the need to address rate structure issues going forward for PAC, Pennichuck East, Utility, Inc. ("PEU") and Pennichuck Water Works, Inc. ("PWW"). One aspect of the current rate structure is that a seemingly significant increase in the short term debt ratio to Total Net Utility Plant can occur for benign reasons. For example, PAC's short-term debt rose to the level of 9.97% of its Total Net Utility Plant as of June 30, 2013, as a result of a property tax payment to the town of Pittsfield during the month. In the preceding seventeen months, the Company had been trending at a level between 5% and 9%. As a result, I was optimistic that we would remain under the 10% threshold for July, and possibly for the months of August and September. However, for the month of July, the short-term debt level reached 11.65% of the Total Net Utility Plant.

Inasmuch as PAC is a relatively small company, minor fluctuations in the short-term debt level can cause large swings in this debt ratio. Although the Total Net Utility Plant has remained relatively constant at a level of approximately \$3.3 million, the short-term borrowing level increased by approximately \$60K during the month of July. The increase was primarily related to the payment of accounts payable invoices due within the month, while the company only generated approximately \$4K in net income for the month, and approximately \$19K in operating cash flow.

In the next week, I will be preparing a petition for a temporary waiver of this short-term debt threshold, similar to the one filed for Pennichuck East utility, Inc. in Docket No. DW 12-349. In all likelihood, we will be seeking this temporary waiver through the end of next year (2014), until the impact of any temporary and/or permanent rates can be realized. We would like to discuss both this



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petition and a longer term and more permanent solution to this particular matter with Staff and the Consumer Advocate. Because the current rate structure for PAC, PEU and PWW is aligned with net income levels that will approximate "break even" levels going forward, the ability to maintain a level of short-term borrowings below the 10% level on a consistent basis between rate cases may be difficult and temporary waivers may have to be requested on a continuing basis. Consideration of possibilities to mitigate this would be very helpful, and I look forward to the opportunity to begin those discussions.

Thank you for your time. I will be preparing the petition for the waiver, and will submit it as soon as it is ready.

Sincerely,

A handwritten signature in black ink, appearing to read 'L. Goodhue', written over a light blue horizontal line.

Larry D. Goodhue
Chief Financial Officer, Treasurer and Controller
Pennichuck Corporation

Cc:

Mark Naylor
Director, Gas & Water Division

Rorie E. P. Hollenberg
Assistant Consumer Advocate

**DEVINE
MILLIMET**

ATTORNEYS AT LAW

September 20, 2013

THOMAS B. GETZ
603.695.8542
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VIA ELECTRONIC MAIL

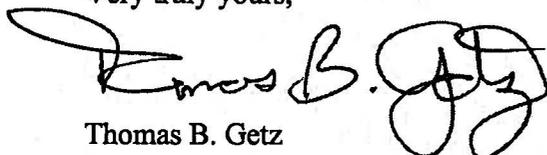
Marcia A. Brown
Staff Attorney
New Hampshire Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, NH 03301

Re: DW 13-247; Pittsfield Aqueduct Company, Inc.
Petition to Increase Short Term Debt Limit

Dear Attorney Brown:

Enclosed are responses by Pittsfield Aqueduct Company, Inc. to Staff Data Requests Set 1, dated September 10, 2013.

Very truly yours,



Thomas B. Getz

TBG:aec

Enclosures

cc via electronic mail:
Discovery Electronic Service List

DW 13-247
PITTSFIELD AQUEDUCT COMPANY, INC.
WAIVER OF SHORT TERM DEBT LIMIT
Responses to Staff's Data Requests – Set 1

Date Request Received: 9/10/13
Request No. Staff 1-1

Date of Response: 9/20/13
Witness: Larry D. Goodhue

REQUEST: Please describe PAC's projected need for long term debt, if any, for the years 2014 through 2018. This response should include the following:

- a) approximate timeframes that debt may be sought;
- b) the amount(s) likely to be sought; and
- c) the relationship of long term debt to existing capital expenditure plans.

RESPONSE: The Company is currently seeking long term financing for the years 2014-2016, as a part of an overall long term debt financing facility for all of the regulated utilities owned by Pennichuck Corporation. The portion of this facility that is anticipated to be available for PAC during this time period is between \$50K-\$200K per annum, based on identified needs for capital expenditures in the exhibit attached to this response. The Company anticipates obtaining long term financing sources for available funding every three years, providing for funding of capital expenditures for the subsequent three year period of time, with periodic or annual drawdowns of those funds in support of capital dollars expended. As such, it is anticipated that the amount of financing to be sought for the years 2017 and 2018 would be between approximately \$100K and \$250K, in support of the capital need forecast supplied as an exhibit to this response.

Pittsfield Aqueduct Company
DW-247 **Staff 1-1**
Projected Five Year Capital Improvements Budget

Projected 2014 Capex

Paint and Seal WTP Floor	\$	15,000
Radio Replacement (1% per year)	\$	717
Meter Replacement (0.5% per year)	\$	359
Hydrant Replacement (1 per year)	\$	5,000
New Services, including meter (1 per year)	\$	4,200
Service Renewals (2 per year)	\$	8,000
Gate Valve Replacement (1 per year)	\$	4,000
Replace Filter Backwash Pump (1)	\$	3,000
Survey, Design of Catamount Street Project	\$	12,000
Total Projected Capital Spending -	\$	52,276

Projected 2015 Capex

Radio Replacement (1% per year)	\$	717
Meter Replacement (0.5% per year)	\$	359
Hydrant Replacement (1 per year)	\$	5,000
New Services, including meter (1 per year)	\$	4,200
Service Renewals (2 per year)	\$	8,000
Gate Valve Replacement (1 per year)	\$	4,000
Replace Filter Backwash Pump (1)	\$	3,000
Catamount Road Main Project (Phase 1)	\$	165,000
Total Projected Capital Spending -	\$	190,276

Projected 2016 Capex

Radio Replacement (1% per year)	\$	717
Meter Replacement (0.5% per year)	\$	359
Hydrant Replacement (1 per year)	\$	5,000
New Services, including meter (1 per year)	\$	4,200
Service Renewals (2 per year)	\$	8,000
Gate Valve Replacement (1 per year)	\$	4,000
Catamount Road Main Project (Phase 2)	\$	165,000
Total Projected Capital Spending -	\$	187,276

Projected 2017 Capex

Radio Replacement (1% per year)	\$	717
Meter Replacement (0.5% per year)	\$	359
Hydrant Replacement (1 per year)	\$	5,000
New Services, including meter (1 per year)	\$	4,200
Service Renewals (2 per year)	\$	8,000
Gate Valve Replacement (1 per year)	\$	4,000
Filtlers - Repaint, New Media	\$	75,000
Total Projected Capital Spending -	\$	97,276

Projected 2018 Capex

Radio Replacement (1% per year)	\$	717
Meter Replacement (0.5% per year)	\$	359
Hydrant Replacement (1 per year)	\$	5,000
New Services, including meter (1 per year)	\$	4,200
Service Renewals (2 per year)	\$	8,000
Gate Valve Replacement (1 per year)	\$	4,000
Catamount Road Watermain replacement project	\$	220,000
Total Projected Capital Spending -	\$	242,276

DW 13-247
PITTSFIELD AQUEDUCT COMPANY, INC.
WAIVER OF SHORT TERM DEBT LIMIT
Responses to Staff's Data Requests – Set 1

Date Request Received: 9/10/13
Request No. Staff 1-2

Date of Response: 9/20/13
Witness: Larry D. Goodhue

REQUEST: Does PAC expect to reduce its short term debt in 2014 solely through the use of operating cash flow, as opposed to the issuance of long term debt?

RESPONSE: Yes.

The issuance of long term debt in 2014 will be directly tied to investments in fixed assets for the business, as those needs occur or would need to be planned for. Please note that PAC has no capacity to acquire long term debt to retire the existing short term debt as that debt is the result of operating expense losses. Even if a lender would consider converting the short term debt associated with these operating expense losses there would be no rate mechanism to recover the capital necessary to service the new long term debt as PAC's rate base would not change and hence the necessary return on investment to service the new long term debt would not exist.

Any reductions in short term debt contemplated in 2014 will come from operating cash flow, based upon existing revenue rates, and temporary and/or permanent rate increases earned from the rate case filed on May 31, 2013 (DW 13-128). Because PAC does not generate a significant amount of operating cash flow, it is anticipated that the level of short term debt will remain at or above existing levels.

As has been discussed in testimony in support of the current rate case (DW 13-128) there is currently no mechanism in place to repay any monies borrowed from the Rate Stabilization Fund, should PAC's revenues be deficient with regards to their portion of the City Bond Fixed Revenue Requirement. Additionally, under current rate structure, it is anticipated that short term debt levels related to rate base will continue to trend at or above the 10% maximum level. The Company does not have the capacity currently to generate sufficient excess operating income to materially alter this trend line.

DW 13-247
PITTSFIELD AQUEDUCT COMPANY, INC.
WAIVER OF SHORT TERM DEBT LIMIT
Responses to Staff's Data Requests – Set 1

Date Request Received: 9/10/13
Request No. Staff 1-3

Date of Response: 9/20/13
Witness: Larry D. Goodhue

REQUEST: Other than for payments for PAC's CBFRR, has PAC distributed any other dividends since the City's acquisition of Pennichuck Corporation? If yes, please provide details.

RESPONSE: No.

DW 13-247
PITTSFIELD AQUEDUCT COMPANY, INC.
WAIVER OF SHORT TERM DEBT LIMIT
Responses to Staff's Data Requests – Set 1

Date Request Received: 9/10/13
Request No. Staff 1-4

Date of Response: 9/20/13
Witness: Larry D. Goodhue

REQUEST: Please provide the calculation of the ratio of short term debt to net fixed plant for PAC as of December 31, 2012.

RESPONSE: Please see attached schedule. Upon subsequent review, the petition on page 2, line 2 was incorrect in referring to the "preceding ~~seventeen~~ months." It should have said: "In the preceding ~~seventeen~~ **seven** months, PAC's short term debt had fluctuated between 5% and 9%." Additionally, please see attached revised Exhibit 1 to the Petition. The original Exhibit 1 reflected the 2013 monthly changes to the Company's balance sheet. The revised Exhibit 1 reflects the total balances for each month.

PITTSFIELD AQUEDUCT COMPANY, INC.
Ration of Short Term Debt to Net Fixed Plant
For the Period Ended December 31, 2012

Staff 1-4

Plant in Service	\$ 4,346,778
Accumulated Depreciation	\$ 1,155,170
Net Fixed Plant	<u>\$ 3,191,608</u>
Short Term Debt:	
PCP Intercompany	\$ 45,999
PWW Intercompany	\$ 4,996
	<u>\$ 50,995</u>
Ratio Plant to STD	<u>1.60%</u>

DW 13-247
PITTSFIELD AQUEDUCT COMPANY, INC.
WAIVER OF SHORT TERM DEBT LIMIT
Responses to Staff's Data Requests – Set 1

Date Request Received: 9/10/13
Request No. Staff 1-5

Date of Response: 9/20/13
Witness: Larry D. Goodhue

REQUEST: Re: paragraph 5 of the petition. Please describe in greater detail the decline in revenues cited.

RESPONSE: The Company evaluated consumption patterns by focusing on the winter quarter consumption because it is not impacted by summer usage and irrigation and is considered in the industry to be representative of base residential consumption. Please see attached schedule, which details the current consumption patterns. This schedule reflects a reduction in base residential per day household consumption, amounting to 17.1% over the past 3 years. The impact on revenues of the drop in base consumption of 15.4 CCF per household per year was further impacted by a 1.4% decrease in customers. The net result of these two changes is that the \$683,969 in revenues generated in 2012 fell \$48,612 short of the revenue requirement of \$732,581 approved in Order 25,229 (DW 10-090).

Pittsfield Aqueduct Company
Consumption Patterns in 100 CCFs by Customer Class
2009 - 2012

Staff 1- 5

Pittsfield Aqueduct Company									
2009					2012				
	Number of Customers	1st Quarter Usage in CCF's	Gallons per day per customer	Year Ending Total	Number of Customers	1st Quarter Usage in CCF's	Gallons per day per customer	Year Ending Total	Percent Change ¹ (2009 - 2012)
Residential -	553	12,286	184.6	46,624	549	10,108	153.0	43,049	-17.1%
Commerical -	71	2,723	318.7	10,185	68	2,134	260.8	8,239	-18.2%
Industrial -	6	135	187.0	501	4	88	182.8	453	-2.2%
Municipal -	6	304	421.1	1,145	6	307	425.3	1,108	1.0%
Total -		15,448		58,455		12,637		52,849	

1. Percent change is based on comparing the gallons per day per customer data
2. Customer counts represents the number of customers at the end of the 1st quarter of each period.