

STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION

DW 13-247

PITTSFIELD AQUEDUCT COMPANY, INC.

Petition for Approval to Increase Short Term Debt Limit

Order Approving Waiver of Short Term Debt Limit

O R D E R N O. 25,581

October 10, 2013

**I. BACKGROUND**

On August 28, 2013, Pittsfield Aqueduct Company, Inc. (PAC or Company) 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 contained in Puc 608.05. PAC requests that it be permitted to issue short term debt up to a level of 18% of its net fixed plant until December 14, 2014. The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, is posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2013/13-247.html>.

According to PAC, as of July 31, 2013 its level of outstanding short term debt, calculated at 11.65% of its net fixed plant in service, exceeded the 10% limit allowed pursuant to Puc 608.05. PAC states that, in the preceding seventeen months, PAC's short term debt level fluctuated between 5% and 9% of its net fixed plant. The increase in July was largely attributed to cash needs for accounts payable, while at the same time the Company only generated about \$4,000 in net income for the month. PAC states that its

internal cash generation is affected by its low level of earnings, citing that its revenues are lower than the level of revenues approved in PAC's last rate case, Docket No. DW 10-090. PAC expects to have only nominally positive income for 2013. In addition, because the Company's investment in new utility plant has been modest over the last several years, approximately at the level of its current depreciation expense, its net fixed plant balance has remained approximately the same. This is significant because a steady balance of net fixed plant from which the debt limit is measured results in a stable level of short term debt that may be issued under the 10% limit. According to PAC, if neither the net fixed plant balance nor the amount of short term debt changes, PAC cannot absorb the fluctuations in expenses and revenues. PAC believes, therefore, that the percentage of short term debt must change. PAC believes that temporary rate relief in its current rate case, Docket No. DW 13-128, expected later in 2013, will be helpful but will not obviate the need for the short term debt limit waiver. PAC does not expect that it can reduce its level of short term debt below the 10% limit until new permanent rates become effective in the later part of 2014. In the meantime, PAC will continue to borrow under its existing Money Pool Agreement with Pennichuck Corporation, its parent, to fund its cash working capital needs.

On September 27, 2013, Staff filed a letter with the Commission recommending approval of PAC's request. Staff stated that these short term debt issues are similar to those encountered by PAC's sister utility, Pennichuck East Utility, Inc. (PEU), as detailed in PEU's request for a waiver of its short term debt limit in Docket No. DW 12-349. Staff explained that PAC and PEU's management has encountered challenges in securing access to long term debt and reducing its reliance on short term debt following the acquisition of

Pennichuck Corporation by the City of Nashua. The unique ratemaking structure of the three utilities means that all three companies are reliant on debt capital for ongoing capital improvements. The three utilities have virtually no equity capital following the acquisition, which reduces the flexibility available to more typically capitalized utilities. Combined with PAC's small size, these circumstances cause the Company to be more reliant on short term debt, particularly when the Company's actual rate of return is low. For all of these reasons, Staff supports PAC's request for a waiver of the short term debt limit, up to a level of 18% of net fixed plant in service until the end of 2014.

The Commission received no requests for intervention and no other persons commented on the filing.

## **II. COMMISSION ANALYSIS**

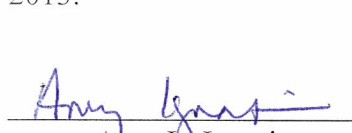
Pursuant to N.H. Code Admin. Rule 201.05(a), the Commission may waive a rule if it finds that the waiver is in the public interest and that it will not disrupt the orderly and efficient resolution of matters before the Commission. We agree with PAC and Staff that a waiver of the short term debt limit in Puc 608.05 would serve these purposes. PAC states that its current low earnings level and resulting limited cash flow generation increases its reliance on short term debt for liquidity. Staff advises that all three of the Pennichuck utilities, following the acquisition of Pennichuck Corporation by the City of Nashua, continue to work to seek long term financing to match capital planning requirements. In the meantime, there is a greater reliance on short term debt, particularly for PAC as a small utility serving just 650 customers.

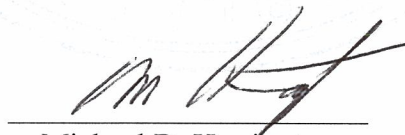
PAC requests a waiver such that it can issue short term debt at a level of up to 18% of its net fixed capital. PAC currently has a rate case pending before us, and asserts that temporary rate relief and, later in 2014, permanent rate relief, if approved, will restore an earnings level to the Company sufficient to bring the Company back below the 10% short term debt limit. Given the Company's assertion of low earnings, the need for rate relief, and the elimination of equity in the Company's capital structure as a result of the Nashua acquisition, we find that a waiver of the short term debt limit is appropriate. We will approve the requested limit of 18% and grant approval for this level to remain in effect through the end of 2014. In the event rate relief is not forthcoming, the Company may wish to revisit this waiver request toward the end of 2014.

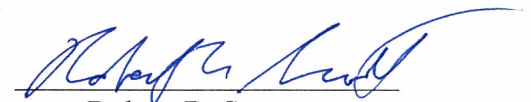
**Based upon the foregoing, it is hereby**

**ORDERED**, that Pittsfield Aqueduct Company, Inc.'s request for a waiver pursuant to Puc 201.05, for a short term debt limit up to 18% of net fixed plant through December of 2014, is **GRANTED**.

By order of the Public Utilities Commission of New Hampshire this tenth day of October, 2013.

  
Amy L. Ignatius  
Chairman

  
Michael D. Harrington  
Commissioner

  
Robert R. Scott  
Commissioner

Attested by:

  
Debra A. Howland  
Executive Director

**SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED**

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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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