

**STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**DE 08-085**

**UNITIL ENERGY SYSTEMS, INC.**

**Petition for Approval of Increase to Short-Term Debt Limit**

**Order *Nisi* Approving Settlement Agreement**

**ORDER NO. 25,027**

**October 22, 2009**

On June 12, 2008, Unitil Energy Systems, Inc. (UES) filed a petition for approval of a permanent increase of its short-term debt limit from \$16 million to \$24 million. In addition, it seeks authority to establish a short-term debt limit formula to be updated annually for effect on June 1 of each year. UES asked that its requests be treated separately to allow for additional time to review the details of its proposed formula approach. According to UES, it relies on short-term debt for capital expenditures, working capital for distribution operating expenses (e.g., payroll, employee benefits, maintenance and taxes) and energy-related costs, pending recovery of those costs from customers through reconciliation mechanisms. With its petition, UES filed the supporting testimony and schedules of Mark H. Collin, Senior Vice President, Chief Financial Officer and Treasurer of Unitil Corporation and Treasurer of UES.

The petition was filed pursuant to N.H. Code Admin. Rule Puc 307.05, which requires a utility to obtain Commission approval to issue short-term debt in excess of 10% of the value of net fixed plant. According to UES, its existing \$16 million short-term debt borrowing limit was originally established by the Commission in 1997. *See Exeter and Hampton Electric Company*, 82 NH PUC 645, Order No. 22,705 (September 4, 1997) and *Concord Electric Company* 82 NH PUC 646, Order No. 22,706 (September 4, 1997). Further, UES stated that other than a

temporary increase to \$22 million in 2003 and 2004, the \$16 million short-term debt limit has remained in effect since that time. *See Unital Energy Systems, Inc.*, 88 NH PUC 228, Order No. 24,168 (May 2, 2003) and *Unital Energy Systems, Inc.*, 88 NH PUC 426, Order No. 24,212 (September 25, 2003).

In its petition, UES stated that its net fixed plant at the end of 2007 was approximately \$125 million, which would equate to a short-term debt limit of approximately \$12.5 million pursuant to Puc 307.05. In contrast, UES stated that its peak short-term debt borrowings reached \$15.6 million in March 2008; \$400,000 below its \$16 million authorized limit. Further, 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 Independent System Operator system, and ongoing energy-related stranded cost obligations have all increased, necessitating the request for a higher short-term debt limit. UES said that it forecasted a peak end-of-month short-term debt limit of \$19.4 million in March 2009, and that its month-end balances can differ from a peak day balance by as much as \$3 million. Testimony of Mark H. Collin (Testimony) at 4-5 and Schedule MHC-1, page 1.

On July 9, 2008, Staff filed a recommendation with the Commission supporting UES' request that the docket be bifurcated, with the Commission first addressing UES' request to increase its short-term debt and deferring a decision on UES' proposed annually adjusting formula-based approach to allow for further investigation of such an approach. Staff recommended that the Commission approve UES' request to increase its short-term debt limit to \$24 million on a temporary basis until the Commission issued an order regarding UES' proposed formula-based approach. The Commission issued Order No. 24,875 (July 23, 2008) approving

an increase in UES' short-term debt limit to \$24 million "...until we rule on the request for a formula-based approach to setting an annual short-term debt limit." Order No. 24,875 at 3.

On September 21, 2009, Staff filed a settlement agreement between UES and the Staff regarding the formula approach to setting an annual short-term debt limit. During the course of the proceeding, UES responded to two rounds of discovery and met with Staff in a technical session. Based upon the information gathered and discussed including UES' prefiled testimony, discovery responses and additional information reviewed at the technical session, UES and Staff reached agreement on the outstanding issues in the proceeding. Settlement Agreement at 2.

Pursuant to the settlement agreement, UES and Staff agreed that the temporary increase in UES' short term debt limit to \$24 million shall be permanent subject to an annual update. Beginning May 1, 2010 and annually thereafter, UES shall submit an annual filing in which it will calculate its short-term debt limit as 10 percent of net utility plant, as of December 31 for the prior year as reported in UES' Federal Energy Regulatory Commission (FERC) Form 1, plus \$10 million. The resulting short-term debt limit would take effect June 1 for the ensuing twelve-month period. To put the results of UES's proposed formula into perspective, based on its most recent FERC Form 3-Q<sup>1</sup> the net utility plant as of June 30, 2009 was approximately \$138 million. Applying the formula to that amount would result in a short term debt limit of \$23.8 million, which is very close to the currently approved \$24 million short-term debt limit.

We have reviewed the information filed in this proceeding and the settlement agreement. Based on our review of that information including the testimony and attachments of UES' witness, we find that UES has demonstrated a need for a permanent increase in its short-term debt limit based on its monthly payment obligations and its forecasted peak monthly

---

<sup>1</sup> FERC Form 3-Q is the quarterly version of the annual FERC Form 1.

expenditures. According to UES, the peak expenditures are mainly driven by seasonal energy requirements and contract payment terms for purchased power and transmission expenses and seasonal requirements for distribution capital expenditures. In increasing UES' short-term debt borrowing limit, we note that, while the increase will allow UES to meet its forecasted peak borrowing needs, we do not expect UES to continually have outstanding short-term debt balances at that limit. UES still remains responsible for managing its capital structure and borrowing requirements in a prudent manner.

In addition, we find that the formula approach recommended in the settlement agreement is a reasonable means for UES to adjust its short-term debt limit on a going forward basis. The formula approach also promotes administrative efficiency as it eliminates the need for UES to seek Commission approval for annual increases to its short-term debt borrowing limit that would otherwise fall within the parameters of the formula. Any proposed change to the formula, however, must receive Commission approval.

While UES did not specifically request a waiver of Puc 307.05, which limits a utility's short-term debt issuances to 10% of fixed plant without prior Commission approval, we have considered whether the petition meets the requirements of Puc 201.05 regarding requests for waivers of Commission rules. Pursuant to Puc 201.05, the Commission shall waive a provision of rules if the waiver serves the public interest and the waiver does not disrupt the orderly and efficient resolutions of matters before the Commission. In determining the public interest, the rule instructs us to consider whether compliance with the rule would be onerous or inapplicable given the circumstances of the affected person or whether the purpose of the rule would be satisfied by an alternative method proposed. The party asking for the waiver must specify the basis for the waiver and the proposed alternative for compliance, if any.

Considering that UES' petition proposed an alternative for determining its short-term debt limit in excess of 10 percent of net fixed plant and the fact that UES' existing approved short-term debt limit is in excess of the limit prescribed in Puc 307.05, we will treat UES' petition as a request for a waiver of Puc 307.05. Applying the requirements of Puc 201.05, we find that UES has demonstrated that a short-term debt limit of in excess of 10 percent of net fixed plant is appropriate given UES' projected monthly peak borrowing requirements. In addition, we find that the proposed alternative, which is to set an annual short-term debt limit by a formulaic filing, is a reasonable alternative method that will allow for the orderly and efficient determination of UES' short-term debt authorization. Therefore, we find that the proposed approach to setting short-term debt limits on an annual basis as set forth in the settlement agreement is just and reasonable and in the public interest.

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

**ORDERED *NISI***, that subject to the effective date below, the settlement agreement entered into by Staff and Unitil Energy Systems, Inc. addressing the issues raised by the instant petition is hereby APPROVED; and it is

**FURTHER ORDERED**, that UES' short-term debt limit is increased to \$24 million, until ordered otherwise, subject to an annual update to first occur with a May 1, 2010 filing; and it is

**FURTHER ORDERED**, that, beginning with the May 1, 2010 filing, UES will file an update of its short-term debt limit based on 10% of net fixed plant, as stated in its annual FERC 1 filing, plus \$10 million; and it is

**FURTHER ORDERED**, that the Petitioner shall cause a copy of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions

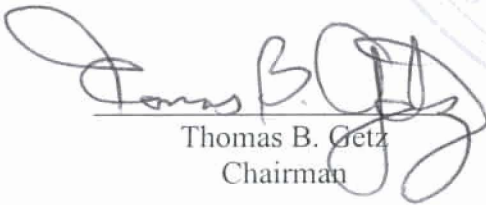
of the state where operations are conducted, such publication to be no later than November 2, 2009 and to be documented by affidavit filed with this office on or before November 22, 2009; and it is

**FURTHER ORDERED**, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than November 9, 2009 for the Commission's consideration; and it is

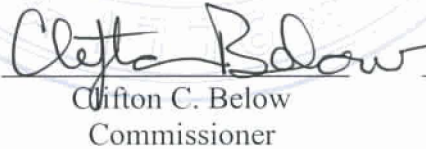
**FURTHER ORDERED**, that any party interested in responding to such comments or request for hearing shall do so no later than November 16, 2009; and it is

**FURTHER ORDERED**, that this Order *Nisi* shall be effective November 22, 2009, unless the Petitioner fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date.

By order of the Public Utilities Commission of New Hampshire this twenty-second day of October, 2009.



Thomas B. Getz  
Chairman

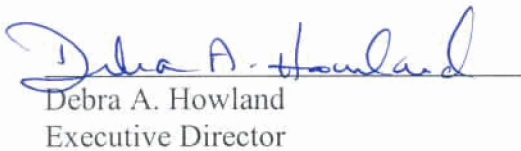


Clifton C. Below  
Commissioner



Amy Ignatius  
Commissioner

Attested by:



Debra A. Howland  
Executive Director