

**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

Petition for Approval of)
Investment in and Rate Recovery)
for Distributed Energy Resources)
Unitil Energy Systems, Inc.)

DOCKET NO. DE 09-137

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into this 16th day of December, 2009, by and among Unitil Energy Systems, Inc. ("UES"), the New Hampshire Office of Consumer Advocate ("OCA"), and the Staff of the New Hampshire Public Utilities Commission ("Staff") (collectively, the "Settling Parties and Staff") with the intent of resolving the issues described below related to UES' proposed Time of Use pilot project in the above-captioned proceeding.

ARTICLE I.
Introduction

1.1 On August 5, 2009, UES filed with the New Hampshire Public Utilities Commission its proposal for approval of investment in and rate recovery for Distributed Energy Resources ("DER") as authorized under RSA 374-G. A discrete part of this filing included a proposal for a Time-of-Use/Demand Response (TOU) Pilot Program, which was described in the pre-filed testimony and schedules of UES witness Justin C. Eisfeller. On October 6, 2009, Staff filed a letter with the Commission which indicated that the Parties and Staff had agreed to place the TOU Pilot Program on a faster track than the other proposed projects in the UES filing. The TOU Pilot was placed on a faster track in order to allow the Pilot to take place during the Summer of 2010, as a joint program involving customers of UES and its Massachusetts affiliate Fitchburg Gas and Electric Light Company ("FG&E"). This Settlement Agreement is strictly limited to the issues

concerning this specific TOU Pilot Program. All other aspects of UES' August 5, 2009 DER proposal remain at issue and pending in this docket, are not affected by this Settlement Agreement, and the Settling Parties and Staff retain all rights with respect to those pending issues.

1.2 The TOU Pilot Program, as described in Mr. Eisfeller's testimony and attachments thereto, is designed to investigate the costs and benefits associated with three distinct demand reduction programs for a sample of seventy-six Residential customers who have central air conditioning. Two of these programs, the Simple TOU program and the Enhanced Technology Program, will investigate TOU Default Service rates incorporating low, medium and high-cost time based rates with a critical peak period (CPP) rate that can be initiated during periods of extremely high electricity demand.¹ The third program, the Smart Thermostat Program, is not a TOU rate program but instead utilizes a thermostat that requires no intervention from the customer, allowing the utility to control the device in order to curtail load.

1.3 The TOU Pilot Program is proposed to be conducted jointly in the service territories of UES and its Massachusetts affiliate Fitchburg Gas and Electric Light Company (FG&E) in order to achieve maximum efficiency at the lowest cost to the ratepayers of either state.² UES initially proposed to recover its share of the costs of the TOU Pilot Program through a surcharge on base distribution rates pursuant to RSA 374-G, but now intends to recover those costs through Default Service rates. This change means that UES is no longer seeking approval of the TOU Pilot Program under RSA 374-G.

¹ UES proposed that distribution service rates remain unchanged.

² FG&E has applied for approval with the Massachusetts Department of Public Utilities ("Department"). The Department has docketed the filing as Docket D.P.U. 09-31. In addition, UES and FG&E jointly filed for grant funding for up to 50 percent of the project costs from the United States Department of Energy under the Smart Grid Investment Grant Program, but were unsuccessful in obtaining a grant.

1.4 A duly noticed prehearing conference was held in this proceeding on September 18, 2009. Subsequently, a technical session was held at the offices of the Commission on September 22, 2009.

1.5 A procedural schedule with respect to the TOU Pilot Program was established by Secretarial Letter issued on October 13, 2009.

1.6 During the course of the procedural schedule, several rounds of discovery were propounded to and responded to by UES, including data requests and during technical sessions.

1.7 Based upon UES testimony, information gathered through discovery, and technical sessions, the Settling Parties and Staff have reached agreement on the TOU Pilot Program issues in this proceeding as follows:

ARTICLE II.
Time-of-Use Pilot

UES' proposal to implement a TOU Pilot Program during the summer of 2010 shall be approved as filed, subject to the following modifications and amendments:

2.1 TOU Default Service Rates: UES agrees to modify its pricing proposal to provide time-differentiated Default Service rates (off-peak, on-peak, critical peak) that reflect actual market energy and capacity costs. Specifically, the on-peak, off-peak and CPP rates will reflect the corresponding weighted average Locational Marginal Price ("LMP") for the New Hampshire zone. In addition, the CPP rate will collect all generation capacity costs.

2.2 Time Periods and Critical Peak Criteria: UES and its affiliate FG&E will finalize the selection of appropriate time periods and critical peak criteria in consultation with Commission Staff, the OCA and the parties to Massachusetts Docket DPU 09-31. The critical peak criteria will be established based on an expected activation of between two and eight times during the Pilot period based on normal weather. UES will modify the application of the criteria in the summer of 2010, if necessary, in order to insure that a minimum of two and a maximum of eight critical peak events are called.

2.3 Tariff Filing: Final pricing provisions including time periods, TOU rates and critical peak criteria will be filed by Tariff for approval by the New Hampshire Commission and the Massachusetts Department at least sixty days in advance of the Default Service rate period, which begins on May 1, 2010.

2.4 Incremental Cost Recovery: UES' share of the incremental program costs will be recovered as a component of its Non-G1 Default Service rate over one year, commencing with the Default Service rate period beginning on November 1, 2010. Cost information will be filed 60 days in advance. As proposed by UES, incremental joint or common costs will be allocated between UES and FG&E equally, and incremental variable costs will be allocated on the basis of the number of customer participants.

2.5 Stratification and Sampling: Stratification and sampling will be as proposed, with the addition of enhanced low income customer sampling to provide a statistically valid comparison for low income customers, as compared to the results for non-low income residential customers. Low income customers will be subject to the screening process applied to other residential customers.

2.6 UES Reservation of Option for Participation Incentive: UES will proceed on the assumption that a participation incentive will not be required to secure sufficient enrollment for the TOU Pilot Program, but reserves the option to introduce such incentives if enrollment is insufficient.

2.7 Peak Reward Pricing Incentive: The Smart Thermostat Program will include a Peak Reward incentive that rewards customers for demand reductions during Critical Peak Pricing periods. The size of the incentive will be based upon the expected critical peak benefits net of the cost of the smart thermostat, and developed in consultation with Commission Staff, the OCA and the parties to Massachusetts Docket DPU 09-31.

2.8 Evaluation Protocol: UES and its affiliate FG&E will work with Commission Staff, DPU Staff, the New Hampshire OCA and the Massachusetts Attorney General on the development of an evaluation protocol for the pilot program designed to ensure that study results provide adequate and reliable conclusions and specific recommendations as to expansion of the pilot or broader scale implementation.

2.9 Non-G1, Non-Residential TOU Pilot Proposal: UES agrees to develop a proposal for a TOU Pilot Program for its non-G1, non-Residential customers to be implemented in the summer of 2011. UES will file such a proposal on or before November 1, 2010.

ARTICLE III.
General Provisions

3.1 The Settling Parties and Staff agree and recommend that the Commission find that the terms of this Settlement Agreement are just and reasonable and consistent with the public interest and should be adopted in full.

3.2 This Agreement is expressly conditioned upon the Commission's acceptance of all its provisions, without change or further condition. If the Commission does not accept the Agreement in its entirety, without change or condition, or if the Commission makes any findings that go beyond the scope of this Agreement, and any of the Settling Parties or Staff is unable to agree with said changes, conditions or findings, the Agreement shall be deemed to be withdrawn and shall not constitute any part of the record in this proceeding and shall not be used for any other purpose.

3.3 Under this Agreement, the Settling Parties and Staff agree to this joint submission to the Commission as a resolution of the issues specified herein only.

3.4 The Settling Parties and Staff agree that the Commission's acceptance of this Agreement does not constitute continuing approval of, or precedent for, any particular issue in this proceeding, except that the matters set forth in this agreement shall be binding to the extent expressly set forth herein. Acceptance of this Settlement Agreement by the Commission shall not be deemed to restrain this Commission's exercise of its authority to promulgate future orders, regulations or rules that resolve similar matters affecting other parties in a different fashion, nor shall this Settlement Agreement be deemed to restrain the authority of the Legislature to enact any law that would resolve the matters covered by this Settlement Agreement in a different fashion.

3.5 This Agreement shall not be deemed an admission by any of the Settling Parties or Staff that any allegation or contention in this proceeding by any other Party, other than those specifically agreed to herein, is true and valid. This Agreement shall not be deemed to foreclose Staff or a Settling Party from taking any position in any subsequent proceedings, with the exception of those specifically agreed to herein.

3.6 The Settling Parties and Staff agree that the pre-filed testimony and supporting schedules of UES witness Justin C. Eisfeller shall be admitted as full exhibits for the purpose of consideration of this Agreement, and be given whatever weight the Commission deems appropriate. Agreement to admit this pre-filed testimony without challenge does not constitute agreement of the OCA or Staff that the content of the pre-filed testimony is accurate or that the views of the witness should be assigned any particular weight by the Commission.

3.7 The rights conferred and obligations imposed on any Settling Party by this Settlement Agreement shall be binding on or inure to the benefit of their successors in interest or assignees as if such successor or assignee was itself a Party hereto.

3.8 This Settlement Agreement is the product of confidential settlement negotiations. The content of these negotiations, including any documents prepared during such negotiations for the purpose of reaching a settlement, shall be privileged and all offers of settlement shall be without prejudice to the position of any party presenting such offer.

3.9 This Agreement may be executed in multiple counterparts, which together shall constitute one agreement.

ARTICLE IV.
Conclusion

The Settling Parties and Staff affirm that the proposed Settlement Agreement is appropriate, just and reasonable and should be approved.

UNITIL ENERGY SYSTEMS, INC.

By: _____

Gary Epler, Attorney for UES

OFFICE OF CONSUMER ADVOCATE

By:  _____

Meredith A. Hatfield, Consumer Advocate

STAFF OF THE NEW HAMPSHIRE PUBLIC
UTILITIES COMMISSION

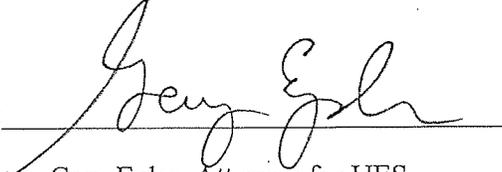
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Suzanne G. Amidon, Staff Attorney

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