

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

_____)
New Hampshire Gas Corporation)
_____)

Docket No. DG 09-038

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into this ^{30th} day of September, 2009, by and among New Hampshire Gas Corporation ("NHGC" or the "Company"), the Staff of the New Hampshire Public Utilities Commission ("Staff"), and the Office of the Consumer Advocate (the "OCA") (collectively "Staff and the Parties"), with the intent of resolving the issues discussed herein. This Agreement constitutes the recommendation of Staff and the Parties with respect to the Commission's approval of NHGC's permanent delivery rate levels.

ARTICLE I.
INTRODUCTION

1.1. On February 27, 2009, pursuant to N.H. Code of Admin. Rules Puc 1604.05, NHGC filed a Notice of Intent to file Rate Schedules with the New Hampshire Public Utilities Commission (the "Commission").

1.2. On March 31, 2009, pursuant to RSA 378:7 and 378:8, NHGC filed a petition and revised tariff pages requesting approval of: (1) a permanent propane air service delivery rate increase in the amount of \$423,806; and (2) temporary delivery rates pursuant to RSA 378:27, in the amount of \$69,995, the level consistent with NHGC's most recent level of deferred revenues for the period May 2008 through April 2009, to be effective on May 1, 2009.

1.3. In accordance with Rule Puc 1600 *et seq*, NHGC filed direct testimony and exhibits in support of the petition and revised tariff pages, as well as such supplementary information as required by the Commission.

1.4. On April 2, 2009, the Commission entered Order No. 24,955 suspending the tariffs and establishing a Pre-hearing Conference and Hearing on Temporary Rates, which was held on April 21, 2009. Oral testimony was presented by NHGC in support of temporary rates. The OCA and the Staff did not oppose NHGC's request for temporary rates.

1.5. Following the April 21 hearing, on April 27, 2009, the Commission issued a Secretarial Letter in which the procedural schedule previously agreed to between Staff and the Parties was adopted. In Order No. 24,964, dated April 30, 2009, the Commission authorized the Company to implement temporary delivery rates that include an incremental \$69,995, the level consistent with the most recent level of deferred revenues for the period May 2008 through April 2009, to be effective May 1, 2009.

1.6. Staff conducted a field audit between May 2009 and July 2009 with respect to test year information included in the Company's request for rate relief. The results of that review are included in a Final Audit Report dated July 9, 2009. NHGC filed responses to Staff's and the OCA's information requests on July 30, 2009.

1.7. Following a technical conference and settlement conference on August 17, 2009, and further settlement discussions during September 2009, Staff and the Parties reached agreement on the issues in this proceeding as set forth below. This Agreement results in a permanent delivery base rate increase phased in over 3 years of \$288,732, or 8.54% percent above pro-forma test year overall revenues, and 29.12% percent above pro-forma test year base delivery revenues, effective November 1, 2009, on a bills-rendered basis. The Agreement also provides for the implementation of a temporary rate reconciliation and rate case expense surcharge as described below.

ARTICLE II. REVENUE DEFICIENCY

2.1. Staff and the Parties agree that a permanent increase in annual revenues of \$288,732 phased in over 3 years, or 8.54 percent over current test year revenues will result in rates that are just and reasonable. The increase is based upon a test year ended December 31, 2008, using the following components as detailed in Attachment A:

- A. Stipulated Rate Base: The pro forma rate base for the test year 2008 is \$2,236,222. The parties agree that land held for future use is removed from rate base. In the event that the parcel of land is subsequently sold, the proceeds from the sale will be for the benefit of shareholders.
- B. Stipulated Cost of Capital: The overall allowed rate of return shall be 8.875 percent.
- C. Stipulated Adjusted Net Operating Income: The pro forma test year net operating income is \$26,741.
- D. Stipulated Revenue Deficiency: The stipulated revenue deficiency is \$288,732.

2.2. Staff and the Parties agree that NHGC's delivery rate increase will be phased in over three years to produce increases in annual revenue, effective on a bills rendered basis, as follows:

	<u>Revenue Increase</u>	<u>Cumulative Increase</u>	<u>Deferred Revenue</u>	<u>Effective Date</u>
Year 1	173,239	173,239	115,493	November 1, 2009
Year 2	57,747	230,986	57,746	November 1, 2010
Year 3	57,746	288,732		November 1, 2011

2.3 Depreciation Rates and Accumulated Depreciation Changes: Staff and the Parties agree that NHGC's current depreciation rates for certain accounts should be reduced as follows, effective January 1, 2009:

	<u>Current Rate</u>	<u>Settlement Rate</u>
Mains	5.00%	3.00%
Meters	5.00%	4.00%
Transportation Vehicles	20.00%	10.00%
Tools & Shop Equipment	20.00%	10.00%

Depreciation will not be charged to plant accounts that have fully depreciated (i.e., depreciation reserve shall not exceed book value).

ARTICLE III. DEFERRED REVENUES

3.1. Deferred Revenue: Staff and the Parties agree that effective November 1, 2009 upon implementation of new delivery rates, NHGC is authorized to defer on its books the difference between the amount which would be collected under the maximum rates designed to recover additional annual revenues of \$288,732, and the actual revenue being billed to customers, pursuant to Article 2.2. Interest will not be accrued on the deferred revenue balance. Recovery of the deferred revenue may begin November 1, 2012, and occur over a 24 month period thereafter. Should NHGC file for a delivery rate increase during the 24 month period after November 1, 2012, the surcharge will cease when temporary rates become effective, and NHGC will forgo any unrecovered deferred revenues. NHGC, at its discretion, but consistent with Generally Accepted Accounting Principles, shall determine when, or whether, to recognize deferred revenues as income (i.e., in the year earned or collected). Deferred revenues recognized as income, and not recovered through the 24 month surcharge, shall be written off against retained earnings. NHGC shall provide notice to the Commission of the deferred revenue surcharge as part of its 2012-2013 and 2013-2014 winter cost of gas adjustment filings. Such notice shall be accompanied by an explanation of the amount of the surcharge and its projected impact on customers.

ARTICLE IV.
RECONCILIATION AND SURCHARGE

4.1. Staff and the Parties agree that, consistent with RSA 378:29, revenues collected pursuant to NHGC's authorized temporary rates must be reconciled for the period in effect with the permanent rate level established by the Commission. The difference between the temporary rates which were set at \$69,995 (the level consistent with the most recent level of deferred revenues for the period May 2008 through April 2009) and permanent rates, based upon the first year of the phase-in, shall be recovered via a surcharge over the first 12 months of the Rate Plan.

4.2. Staff and the Parties also agree that prudently incurred rate case expenses will be recovered through the surcharge on customer bills over the first 12 months of the Rate Plan. Staff and the Parties further agree that rate case expenses shall exclude affiliate charges from The Berkshire Gas Company and outside expenses related to the Commission audit of NHGC's books and records, which were approximately \$500.

4.3. NHGC shall file by October 15, 2009, a calculation for the surcharge to be collected in rates beginning November 1, 2009. The calculation of the surcharge shall include an estimate of the final accounting of the approved rate case expenses and the amount of the difference between temporary rates and permanent rates reflecting actual billing data (May through September 2009) and estimated billing data for October 2009. The surcharge shall be subject to reconciliation, including costs incurred as a result of the October 22, 2009 hearing.

4.4. On or before October 15, 2010, NHGC shall file with the Commission, for its review and approval, a reconciliation of the surcharge. The reconciliation shall include the final calculation of the difference between temporary rates and permanent rates being collected through the surcharge and a recommendation for treatment of any under- or over-recovered balances projected to remain at the end of the surcharge.

ARTICLE V.
CAPITAL EXPENDITURES

5.1. Staff and the Parties agree that as established in Order No. 24,812 in DG 07-083, the Commission's approval of the acquisition of NHGC by Iberdrola, S.A., NHGC shall continue to: (1) maintain the current level of eight full-time employees; and (2) maintain the operations and service center in Keene, NH. However, pursuant to the portion of the order permitting reevaluation of NHGC's commitments, Staff and the Parties agree that for the period of the Rate Plan, i.e., through October 31, 2012, the required minimum average annual capital expenditures shall be reduced to \$200,000 from \$275,000. During that period, NHGC shall continue to replace cast iron and bare steel mains, services and related equipment in conjunction with municipal and state projects that afford NHGC the opportunity to do so at a reduced cost.

ARTICLE VI.
LOW INCOME AND ENERGY EFFICIENCY

6.1. Staff and the Parties agree that NHGC shall provide its customers twice annually with a bill stuffer containing information regarding energy conservation measures and budget billing. This brochure shall also be available at the Company's Keene office and will also be provided to all new customers. The brochure will be developed in conjunction with the OCA and Staff.

6.2. Staff and the Parties agree that NHGC shall continue its current practice of directing customer inquiries regarding availability of low-income programs to the following agencies and organizations: 1) Southwestern Community Services (for local fuel assistance and other assistance programs); 2) the Veterans Administration; 3) the City of Keene (Keene City Welfare); 4) the Salvation Army; and 5) other various local charities. In addition, NHGC's customer service representatives shall continue to assist customers to establish affordable payment programs.

ARTICLE VII.
GENERAL PROVISIONS

7.1. This Agreement is expressly conditioned upon the Commission's acceptance of all its provisions, without change or 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 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.

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

7.3. Staff and the Parties agree that the Commission's acceptance of the Agreement does not constitute continuing approval of, or precedent for, any particular issue in this proceeding other than those specified herein. Acceptance of this Settlement Agreement by the Commission shall not be deemed to restrain the 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 be deemed to restrain the authority of the Legislature to enact any law that would resolve the matters covered by this Settlement in a different fashion.

7.4. This Agreement shall not be deemed an admission by any of the Parties or Staff that any allegation or contention in this proceeding by any other Party or by Staff, other than those specifically agreed to herein, is true and valid. This Agreement shall not be construed to represent any concession by any party hereto regarding positions taken with respect to NHGC's permanent rate request in Docket DG 09-038. Nor shall this

Agreement be deemed to foreclose any Party or Staff from in the future taking any position in any subsequent proceedings.

7.5. Staff and the Parties agree that all pre-filed testimony and supporting documentation should be admitted as full exhibits for the purpose of consideration of this Agreement, and be given whatever weight the Commission deems appropriate. Agreement by all parties to admit all pre-filed testimony without challenge does not constitute agreement by any of the Parties or Staff that the content of the pre-filed testimony is accurate or that the views of the witnesses should be assigned any particular weight by the Commission. In addition, the resolution of any specific issue in this Agreement does not indicate the Parties' or Staff's agreement to such resolution for purposes of any future proceedings.

7.6. The rights conferred and obligations imposed by this Settlement on the Company shall be binding on or inure to the benefit of its successors in interest or assignees as if such successor or assignee was itself a Signatory hereto.

7.7. 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.

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

ARTICLE VIII.
CONCLUSION

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

NEW HAMPSHIRE GAS CORPORATION

By: Karen Zink
Treasurer, New Hampshire Gas Corp.

STAFF OF THE NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

By: [Signature]
Staff Attorney

OFFICE OF THE CONSUMER ADVOCATE

By: Kenneth E. Tran
Asst. Cons. Advoca

NEW HAMPSHIRE GAS CORPORATION
Revenue Requirement

	Reference	NHGC Pro Forma	Staff/Settlement Pro Forma
Rate Base Proposed	p. 3 of 4	2,755,117	2,236,222
Rate of Return	p. 4 of 4	9.625%	8.875%
Income Required		265,180	198,465
Adjusted Net Operating Income	p. 2 of 4	13,124	26,741
Deficiency		252,056	171,724
Tax Effect		1,6814	1,6814
Revenue Deficiency		423,806	288,732
Percent Increase - Base Revenues			
Revenue Deficiency		423,806	288,732
Test Year Base Revenue		991,645	991,645
Percent Increase		42.74%	29.12%
Percent Increase - Total Revenues			
Revenue Deficiency		423,806	288,732
Test Year Revenues & Deferred Revenue Surcharge *		3,381,386	3,381,386
Percent Increase		12.53%	8.54%

* Deferred revenue recognized as income in year earned but recovered during test year - \$59,745.

NEW HAMPSHIRE GAS CORPORATION
Revenues & Expense

	NHGC Test Year	NHGC Adjustments *	NHGC Pro Forma Test Year	Staff Proforma Adjustments *	Staff/ Settlement
Revenues					
Residential Sales	315,206	19,524	334,730		
Residential Sales - COG	546,161		546,161		
Commercial Sales	637,492	36,453	673,945		
Commercial Sales - COG	1,783,835		1,783,835		
Other Gas Rev (accrued gas, service, forfeits)	38,947		38,947		
Total Operating Revenues	3,321,641	55,977	3,377,618	14,020	3,391,638
Expenses					
Purchased Gas Costs	2,324,216		2,324,216		
Gas Production Costs	110,521		110,521		
Distribution O&M	217,603		217,603		
Customer Accounts Expense	131,273		131,273		
Selling & Advertising	9,970		9,970		
Admin & General Expenses	339,280	(1,160)	338,120		
	3,132,863	(1,160)	3,131,703		3,131,703
Depreciation & Amortization	155,664		155,664	(8,875)	146,789
Taxes Other Than Income Taxes	66,573		66,573		66,573
Interest Expense	1,612		1,612		1,612
Total Operating Expenses	3,356,712	(1,160)	3,355,552	(8,875)	3,346,677
Profit from Non-Utility Operations	59,732	(59,732)			
Operating Income Before Federal Income Taxes	24,661	(2,595)	22,066	22,895	44,961
State Income Taxes	(11,558)	(221)	(11,779)	1,946	(9,833)
Federal Income Taxes	(64,322)	(831)	(65,153)	7,332	(57,821)
Deferred State Income Tax	13,654		13,654		13,654
Deferred Federal Income Tax	72,220		72,220		72,220
Total Income Taxes	9,994	(1,052)	8,942	9,278	18,220
Operating Income After Federal & State Income Taxes	14,667	(1,543)	13,124	13,617	26,741
* Adjustment Summary					
Revenue increase for weather normalization		55,977			
Revenue increase correcting for error in year end unbilled revenues				14,020	
Expense decrease to remove charitable donations		(1,160)			
Expense decrease to reflect reduction in depreciation rates				(8,875)	
Changes in income taxes due to adjustments		(1,052)		9,278	

NEW HAMPSHIRE GAS CORPORATION
Average Rate Base

	Total Gas Plant In Service	Accumulated Depreciation	Utility Materials & Supplies A/C 151-154	Prepayments	Deferred Taxes	Customer Deposits	(Total) Net Utility Plant Service
December-07	3,392,932	(1,176,281)	179,764	72,573	(117,297)	(49,959)	2,301,532
January-08	3,392,932	(1,189,531)	151,823	64,635	(138,405)	(49,659)	2,231,795
February-08	3,454,425	(1,202,820)	189,509	55,932	(138,232)	(49,814)	2,309,000
March-08	3,358,724	(1,119,799)	143,159	51,045	(120,267)	(50,209)	2,262,653
April-08	3,358,724	(1,132,419)	212,851	49,087	(73,617)	(48,322)	2,366,304
May-08	3,370,703	(1,145,119)	171,655	39,537	(61,222)	(44,492)	2,331,062
June-08	3,398,308	(1,157,956)	161,041	51,232	(50,338)	(46,192)	2,356,095
July-08	3,398,308	(1,170,852)	232,730	40,465	(56,410)	(45,867)	2,398,374
August-08	3,398,308	(1,183,422)	222,062	30,598	(52,681)	(47,367)	2,367,498
September-08	3,501,259	(1,192,766)	269,314	21,680	(106,149)	(51,667)	2,441,671
October-08	3,482,763	(1,184,455)	255,422	69,905	(124,250)	(58,142)	2,441,243
November-08	3,482,763	(1,197,262)	230,991	85,307	(124,331)	(59,467)	2,418,501
December-08	3,650,935	(1,198,348)	213,277	87,958	(203,170)	(60,942)	2,489,710
Subtotal	44,641,084	(15,251,030)	2,633,598	720,254	(1,366,369)	(662,099)	30,715,438
Less:							
1/2 December 07	1,696,466	(588,141)	89,882	36,187	(58,649)	(24,980)	1,150,766
1/2 December 08	1,825,468	(599,174)	106,639	43,979	(101,585)	(30,471)	1,244,855
	3,521,934	(1,187,315)	196,521	80,166	(160,234)	(55,451)	2,395,621
Total	41,119,151	(14,063,716)	2,437,078	640,089	(1,206,136)	(606,649)	28,319,817
Average (Total ÷ 12)	3,426,596	(1,171,976)	203,090	53,341	(100,511)	(50,554)	2,359,985

	NHGC	Staff/ Settlement
Utility Plant in Service - 13 month average	3,426,596	3,426,596
* Land held for future use	-	(418,384)
Less: Accumulated Depreciation - 13 month average	(1,171,976)	(1,171,976)
Net Utility Plant	2,254,620	1,836,236
Plus: Working Capital	294,621	294,621
Materials and Supplies - 13 month average	203,090	203,090
Prepayments - 13 month average	53,341	53,341
Less: Customer Deposits - 13 month average	(50,554)	(50,554)
* Deferred Taxes - 13 month average	-	(100,511)
Average Rate Base	2,755,117	2,236,222
* Adjustment summary		
Not in service and no definitive plans as to when, or if, will be placed in service		(418,384)
Tax benefit due to timing differences		(100,511)

NEW HAMPSHIRE GAS CORPORATION
Overall Rate of Return
For Ratemaking Purposes

NHGC PROPOSAL

<u>Item</u>	<u>Component Ratio (%)</u>	<u>Component Cost Rate(%)</u>	<u>Weighted Average Cost Rate (%)</u>
Common Stock ¹	50%	11.25%	5.625%
Long Term Debt ²	50%	8.00%	4.000%
Total Overall Rate of Return	100%		9.625%

1) DR 1-9 11.25% ROE based on recently utility requests (NYSEG 12.0% & RG&E 12.2%)

2) DR 1-9 Proxy - Berkshire Gas embedded cost of debt of 8.27%

SETTLEMENT AGREEMENT

Total Overall Rate of Return 8.875%