

STATE OF NEW HAMPSHIRE

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Debra A. Howland



PUBLIC UTILITIES COMMISSION  
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Concord, N.H. 03301-2429

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ORIGINAL
N.H.P.U.C. Case No. <u>DE-10-055</u>
Exhibit No. <u>#2</u>
Witness <u>Panel</u>
DO NOT REMOVE FROM FILE

June 4, 2010

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

Re: DE 10-055 Unitil Distribution Service Rate Case  
Temporary Rates Stipulation and Settlement

Dear Ms. Howland:

Attached please find an original and six copies of a Stipulation and Settlement Regarding Temporary Rates entered into by Unitil, the Office of Consumer Advocate, and Commission Staff in the above-captioned docket. This Stipulation and Settlement will be presented at the hearing scheduled for June 10, 2010.

Sincerely,

A handwritten signature in cursive script that reads "Lynn Fabrizio".

Lynn Fabrizio  
Staff Attorney

cc: Service List (via electronic mail)

**THE STATE OF NEW HAMPSHIRE  
before the  
PUBLIC UTILITIES COMMISSION**

**UNITIL ENERGY SYSTEMS, INC.  
PETITION FOR INCREASE IN ELECTRIC SERVICE RATES**

Docket No. DE 10-055

**Stipulation and Settlement Regarding Temporary Rates**

This Stipulation and Settlement is entered into this 4<sup>th</sup> day of June 2010, by Unitil Energy Systems, Inc. (Unitil), the Office of Consumer Advocate (OCA), and the Staff of the Public Utilities Commission (Staff) (hereinafter referred to collectively as “Unitil, OCA and Staff”). This Stipulation and Settlement resolves all issues regarding Unitil’s request for temporary rates in this proceeding.

**A. INTRODUCTION**

On April 15, 2010, Unitil filed a petition for temporary and permanent rate increases, accompanied by the pre-filed written testimonies, schedules and work papers of Mark H. Collin, George E. Long, Jr., Thomas P. Meissner, Jr., Samuel C. Hadaway, and Paul M. Normand. The petition for temporary rates requested a temporary increase in distribution service revenues for effect on July 1, 2010, of \$6.7 million, which would be a 19 percent increase above present distribution revenues and a 4.3 percent increase in overall revenues.

Representatives of Unitil, OCA, and Staff attended a technical session on May 7, 2010, and a settlement conference on the temporary rate petition on May 27, 2010. A follow-up conference call including all parties was held on June 2, 2010, resulting in agreement on temporary rate issues, including agreement on a total annual temporary distribution service revenue level approximately \$ 5.2 million above the current revenue level. The settlement presented herein will result in an increase to distribution service rates effective with service rendered on and after July 1, 2010.

**B. SETTLEMENT OF TEMPORARY RATE REQUEST**

1. **Temporary Revenue Increase.** The calculation of the proposed temporary \$5.2 million annual increase to Unitil's current distribution revenue level is detailed in the schedules contained in Attachment 1. The proposed temporary revenue increase will be collected by applying a uniform per kWh surcharge of \$0.00438 to all of Unitil's current rate schedules. The calculation of the temporary rate surcharge is shown on Attachment 2. The difference between temporary rates and permanent rates as approved by the Commission will be fully reconciled in accordance with RSA 378:29.

For purposes of this Stipulation and Settlement on temporary rates, Unitil, OCA and Staff agree to a temporary revenue increase based upon a capital structure and overall cost of capital that incorporates the return on equity (ROE) of 9.67% allowed in Docket No. DE 05-178, Unitil's most recent distribution rate case, applied to the average rate base for the test year underlying Unitil's Permanent Rate Petition (the twelve months ending December 31, 2009). This adjustment amounts to approximately \$4.2 million of the \$5.2 million proposed annual increase in distribution revenues.

2. **Recovery of Storm Costs.** The \$5.2 million increase in temporary rates also includes initial recovery of costs incurred by Unitil during the December 2008 ice storm. As approved by the Commission in Order No. 25,042 on November 9, 2009, in Docket No. DE 09-155, Unitil has deferred approximately \$2 million of costs related to the ice storm. Issues related to the reasonableness of Unitil's response to the December 2008 ice storm are under review in Docket No. DE 10-001. A hearing is scheduled in that docket for July 8, 2010. Staff also conducted an audit of Unitil's ice storm expenses. Notwithstanding the fact that Staff's review in Docket No. DE 10-001 remains pending, Unitil, OCA and Staff recommend that Unitil commence recovery of the December 2008 ice storm expenses as of July 1, 2010, at an initial level of \$500,000 to be recovered on an annual basis through temporary rates. Further consideration of the costs incurred by

Unitil related to the December 2008 ice storm and appropriate recovery of those costs will take place during the permanent rate portion of the instant proceeding.

3. **Recovery of Tree Trimming Costs.** The proposed temporary rate increase also includes provision for the recovery of \$500,000 on an annual basis for incremental costs incurred as Unitil expands its existing tree trimming programs. Unitil has proposed an increase of approximately \$1 million above its existing annual tree trimming budget. Unitil, OCA and Staff agree that the proposed overall increase will be subject to further inquiry during the permanent rate portion of this proceeding.

#### **C. MISCELLANEOUS PROVISIONS**

Unitil, OCA and Staff agree to the following miscellaneous provisions:

1. **Binding on Parties.** Unitil, OCA and Staff agree to support the terms and conditions contained herein. Unitil, OCA and Staff understand that this Stipulation and Settlement is subject to Commission approval. The Signatories acknowledge that in reaching this Stipulation and Settlement, Staff and the OCA have relied on Unitil's filing, discovery responses, and representations in settlement discussions.

2. **Integrated Terms of Settlement.** This Stipulation and Settlement represents an integrated resolution of issues concerning Unitil's request for temporary rates. Accordingly, the effectiveness of this Stipulation and Settlement is conditioned upon the Commission adopting this Stipulation and Settlement in its entirety, without condition or modification. If the Commission does not approve this Stipulation and Settlement in its entirety and without modification or condition, Unitil, OCA and Staff shall have an opportunity to amend or terminate this Stipulation and Settlement. If terminated, this Stipulation and Settlement shall be deemed withdrawn and shall not constitute a part of the record in any proceeding or be used for any purpose.

3. **Procedure.** Unitil, OCA and Staff shall cooperate in submitting this Stipulation and Settlement promptly to the Commission for approval so that it may be implemented on July 1, 2010. Unitil, OCA and Staff shall request that the Commission consider this Stipulation and Settlement at the previously scheduled hearing on the merits to be held June 10, 2010, and shall make a witness or witnesses available as necessary to answer questions in support of this Stipulation and Settlement, or provide such other support as the Commission requests. Unitil, OCA and Staff agree to cooperate, in good faith, in the development of such other information as may be necessary to support and explain the basis of this Stipulation and Settlement and to supplement the record accordingly.

4. **No Precedent.** Unitil, OCA and Staff enter into this Stipulation and Settlement to avoid further expense, uncertainty and delay in undertaking the permanent phase of the case. By executing this Stipulation and settlement, neither Unitil, OCA nor Staff shall be deemed to have accepted or consented to the facts, principles, methods, or theories employed in arriving at the terms of the Stipulation and Settlement, and except to the extent expressly set forth in this Stipulation and Settlement, Unitil, OCA and Staff shall not be deemed to have agreed that such a Stipulation and Settlement is appropriate for resolving any issues in the permanent rate portion of this proceeding or in any other proceeding. Unitil, OCA and Staff are free to take different positions on any of the issues and/or adjustments included in this temporary rate settlement for purposes of determining permanent distribution rates or in other future proceedings.

5. **Confidentiality.** This Stipulation and Settlement is the product of confidential settlement negotiations. The content of these negotiations, including any documents prepared during the course of 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.

6. **Execution.** This Stipulation and Settlement may be executed by Unitil, OCA and Staff in several counterparts, through original and/or facsimile signature, and as executed shall constitute one agreement.

**WHEREFORE**, Unitil, OCA and Staff recommend that the Commission issue an order authorizing Unitil to increase its electric service rates on a temporary basis, pursuant to RSA 378:27, by \$5.2 million annually effective for service rendered on or after July 1, 2010, in the manner specified herein.

Respectfully submitted,

**Unitil Energy Systems, Inc.**

By: 

Gary Epler, Esq.  
Chief Regulatory Counsel  
Unitil Service Corp.

**Office of the Consumer Advocate**

By: 

Meredith Hatfield, Esq.  
Consumer Advocate

**Staff of the Public Utilities Commission**

By: 

Lynn Fabrizio, Esq.  
Staff Counsel

# **ATTACHMENT 1**

Unitil Energy Systems, Inc.  
DE 10-055  
Temporary Rates  
Revenue Requirement

Rate Base (Sched. 2)	128,619,813
Rate of Return	<u>8.37%</u>
Operating Income Requirement	10,769,163
Operating Income (Sched. 3)	<u>7,955,687</u>
Revenue Deficiency Before Taxes	2,813,476
Gross Revenue Conversion Factor (Sched. 1A)	<u>1.6559</u>
Revenue Deficiency	4,658,845
Initial Recovery of December 2008 Ice Storm Costs	<u>500,000</u>
Total Temporary Rate Increase	5,158,845
Test Year Operating Revenue (Sched. 3)	<u>35,342,805</u>
Revenue Requirement	<u>40,501,650</u>
Percentage Increase to Distribution Revenues	<b>14.60%</b>



Unitil Energy Systems, Inc.  
DE 10-055  
Effective Tax Factor

Taxable Income	100.00%
Less: NH Business Profits Tax	<u>8.50%</u>
Federal Taxable Income	91.50%
Federal Income Tax Rate	<u>34.00%</u>
Effective Federal Income Tax Rate	31.11%
Add: NH Business Profits Tax	<u>8.50%</u>
Effective Tax Rate	<u><u>39.61%</u></u>
Percent of Income Available if No Tax	100.00%
Effective Tax Rate	<u>39.61%</u>
Percent Used as a Divisor in Determining the Revenue Requirement	<u><u>60.39%</u></u>
Gross Revenue Conversion Factor	<u><u>1.655903</u></u>

Unitil Energy Systems, Inc.  
DE 10-055  
Temporary Rates  
Cost of Capital

<u>Component</u>	<u>Balance 12/31/2009</u>	<u>Proforma Adjs.</u>	<u>Adjusted Balances</u>	<u>Weighted Component Ratio</u>	<u>Cost Rate</u>	<u>Average Cost Rate</u>
Common Equity	58,496,154	5,000,000	63,496,154	44.18%	9.670%	4.272%
Preferred Stock Equity	225,000		225,000	0.16%	6.000%	0.009%
Long-Term Debt	<u>65,000,000</u>	<u>15,000,000</u>	<u>80,000,000</u>	<u>55.66%</u>	7.350%	<u>4.091%</u>
	<u><u>123,721,154</u></u>	<u><u>20,000,000</u></u>	<u><u>143,721,154</u></u>	<u><u>100.00%</u></u>		<u><u>8.373%</u></u>

Unitil Energy Systems, Inc.  
DE 10-055  
Temporary Rates  
Rate Base  
Year Ended December 31, 2009

	(NHPUC Form F-1) 5 Quarter Average	UES Proforma Adjustments	UES Proformed 5 Quarter Average	Settlement Adjustments	Adj#	Adjusted Rate Base
Utility Plant in Service	193,218,909		193,218,909			193,218,909
Less: Accumulated Depreciation	<u>62,648,141</u>		<u>62,648,141</u>			<u>62,648,141</u>
Net Plant in Service	130,570,768	0	130,570,768	0		130,570,768
Plus: M&S Inventories	1,174,985		1,174,985			1,174,985
Cash Working Capital	5,053,754		5,053,754	61,644	1	5,115,398
Prepayments	9,188,754		9,188,754			9,188,754
ISO Deposit	2,656,159		2,656,159			2,656,159
Less: Deferred Income Taxes (Net)	17,578,121		17,578,121			17,578,121
Customer Deposits	1,852,738		1,852,738			1,852,738
Customer Advances	<u>655,392</u>		<u>655,392</u>			<u>655,392</u>
<b>TOTAL RATE BASE</b>	<u><u>128,558,169</u></u>	<u><u>0</u></u>	<u><u>128,558,169</u></u>	<u><u>61,644</u></u>		<u><u>128,619,813</u></u>

Unitil Energy Systems, Inc.  
DE 10-055  
Temporary Rates  
Rate Base Adjustments

**PROFORMA ADJUSTMENTS TO RATE BASE:**

Adj. #

CASH WORKING CAPITAL ALLOWANCE

1	Total Adjustments to Operation & Maintenance Expenses	500,000
	X 45 days/365 days	<u>12.33%</u>
	Cash Working Capital allowance adjustment	<u><u>61,644</u></u>

Unitil Energy Systems, Inc.  
DE 10-055  
Temporary Rates  
Operating Income Statement  
Year Ended December 31, 2009

	UES Schedule RevReq-2			Adjusted Income Statement	PROOF	
	Test Year - Distribution	Settlement Adjustments	Adj #		Revenue Deficiency	Test Year Proforma
Distribution Revenue	34,250,334			34,250,334	5,158,845	39,409,179
Other Operating Revenue	1,092,471			1,092,471		1,092,471
Total Operating Revenues	<u>35,342,805</u>	<u>0</u>		<u>35,342,805</u>	<u>5,158,845</u>	<u>40,501,650</u>
Operating Expenses:						
Purchased Power	181,279			181,279		181,279
Transmission	199,457			199,457		199,457
Distribution	3,583,841	500,000	2	4,083,841		4,083,841
Customer Accounting	2,840,332			2,840,332		2,840,332
Customer Service	3,118			3,118		3,118
Administrative & General	6,927,875			6,927,875		6,927,875
Operation and Maintenance Expenses	<u>13,735,902</u>	<u>500,000</u>		<u>14,235,902</u>	<u>0</u>	<u>14,235,902</u>
Depreciation	7,152,867			7,152,867		7,152,867
Amortization	1,260,653			1,260,653		1,260,653
Taxes Other than Income	3,593,825			3,593,825		3,593,825
Federal Income Tax	(1,230,219)	(42,500)		(1,272,719)	1,449,367	176,648
State Income Tax	469,547	(155,550)		313,997	396,002	709,999
Deferred Federal and State Income Taxes	<u>2,041,496</u>			<u>2,041,496</u>		<u>2,041,496</u>
Total Operating Expenses	<u>27,024,071</u>	<u>301,950</u>		<u>27,326,021</u>	<u>1,845,368</u>	<u>29,171,389</u>
Net Operating Income	8,318,734	(301,950)		8,016,784	3,313,476	11,330,260
Less: Interest on Customers' Deposits	<u>61,097</u>			<u>61,097</u>		<u>61,097</u>
Net Operating Income	<u>8,257,637</u>	<u>(301,950)</u>		<u>7,955,687</u>	<u>3,313,476</u>	11,269,163
				Less: 2008 Ice Storm Cost Recovery		<u>(500,000)</u>
				Operating Income Required (Sched. 1)		<u>10,769,163</u>

Unitil Energy Systems, Inc.  
DE 10-055  
Temporary Rates  
Income Statement Adjustments

**PROFORMA ADJUSTMENTS TO REVENUES:**

Adj#

O&M EXPENSES - DISTRIBUTION

2 Increase tree trimming expenses 500,000

Total Adjustments to Distribution Expenses

**500,000**

Unitil Energy Systems, Inc.  
DE 10-055  
Proforma Adjustments to Income Taxes  
(\$000s)

Adj #

INCOME TAXES

To reflect the income tax effect of proforma adjustments to revenue and expenses:

Total proforma adjustments to Distribution Revenue	0	Schedule 3A
Total proforma adjustments to Other Operating Revenue	0	Schedule 3A
Total proforma adjustments to Transmission expenses	0	Schedule 3A
Total proforma adjustments to Distribution expenses	500,000	Schedule 3A
Total proforma adjustments to Customer Accounting expenses	0	Schedule 3A
Total proforma adjustments to Customer Service expenses	0	Schedule 3A
Total proforma adjustments to Administrative & General Expenses	0	Schedule 3A
Total proforma adjustments to Depreciation expenses	0	Schedule 3A
Total proforma adjustments to Amortization expenses	0	Schedule 3A
Total proforma adjustments to Return on Customers' Deposits	500,000	Schedule 3A
Decrease in Income Subject to New Hampshire Business Profits Tax	500,000	
New Hampshire Business Profits Tax @ 8.5%	<u>(42,500)</u>	
Decrease to New Hampshire Business Profits Tax		(42,500)
Amount Subject to Federal Income Tax	457,500	
Federal Income Tax @ 34%	(155,550)	
Decrease to Federal Income Tax		<u>(155,550)</u>
Total Adjustments to Current Income Taxes (to Schedule 3)		<u><u>(198,050)</u></u>

# **ATTACHMENT 2**



**Unitil Energy Systems, Inc.**

Proposed Temporary Rate

Temporary Rate Increase	\$5,158,845
Test Year kWh Sales	1,177,553,561
Temporary Rate \$/kWh	\$0.00438
\$ Impact on a 600 kWh residential bill	\$2.63