

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

NORTHERN UTILITIES, INC. d/b/a/ Unutil
PETITION FOR RATE ADJUSTMENTS

Docket No. DG 13-086

**SETTLEMENT AGREEMENT ON
PERMANENT DELIVERY RATES**

This Settlement Agreement on permanent natural gas distribution rates (“Settlement Agreement”) is entered into this 4th day of March, 2014, by and among Northern Utilities, Inc. d/b/a/ Unutil (“Unutil,” or “the Company”), the Office of the Consumer Advocate (“OCA”), and the Staff of the New Hampshire Public Utilities Commission (“Staff”) (collectively, the “Settling Parties”), and is intended to resolve all outstanding issues in the above-captioned docket, including, but not limited to, permanent distribution rate levels and specific rate design modifications.

1. INTRODUCTION AND PROCEDURAL HISTORY

1.1. On March 15, 2013, Unutil filed with the New Hampshire Public Utilities Commission (“the Commission”) a Notice of Intent to File Rate Schedules in accordance with N.H. Code of Admin. Rule PUC §1604.05. At the time of the filing, the approximate amount of the requested change to revenues was estimated to be \$5.2 million. The Company also proposed a rate mechanism for the annual recovery, beginning in 2014, of the costs associated with certain capital investments and additions to utility plant. The Notice also indicated the Company’s intent to file

rate schedules requesting temporary rates, pursuant to RSA 378:27, for implementation during the pendency of the permanent rate relief request.

- 1.2. On April 15, 2013, pursuant to NH RSAs 378:7, 378:27, 378:28 and 378:29, and N.H. Code of Admin. Rules PUC §1600 *et seq.*, Unitil filed testimony, supporting data and revisions to its Tariff, NHPUC No. 10 - Gas, along with a petition requesting: (1) a permanent annual increase in revenues of approximately \$5.2 million beginning May 15, 2013; (2) implementation of a multi-year alternative rate plan, which included a capital cost recovery mechanism; (3) a number of rate design changes; and (4) a temporary rate increase expected to produce an increase of \$2.5 million in annual revenues commencing with service rendered on July 1, 2013 and until the date a final, non-appealable order establishing permanent rates is issued by the Commission.
- 1.3. By letter dated April 3, 2013, the OCA notified the Commission that it would be participating in this proceeding on behalf of residential ratepayers consistent with RSA 363:28. There were no other interveners in the docket. Comments were filed by Alexander Cohen of Dover, New Hampshire, on May 29, 2013 and May 31, 2013.
- 1.4. On May 6, 2013, the Commission issued Order No. 25,504 suspending the Company's proposed tariff revisions, pursuant to RSA 378:6, I. (a), pending investigation and scheduling a prehearing conference for June 5, 2013.
- 1.5. On June 5, 2013, the prehearing conference was held. Following the prehearing conference the Settling Parties met in a technical session and agreed upon a

Procedural Schedule. Also at the June 5, 2013 technical session, Staff and OCA propounded oral data requests concerning the temporary rate request and Unitil provided responses on June 12, 2013.

1.6. On June 13, 2013, Unitil, on behalf of the Settling Parties, filed a Stipulation and Settlement Regarding Temporary Rates between the Company, OCA and Staff. The settlement included agreement on a total annual temporary revenue increase of \$2,500,000 above the current revenue level. To effectuate that increase, the Settling Parties agreed that a uniform, per therm surcharge of \$0.0421 would be applied to all of the Company's current rate schedules for delivery service rendered on or after July 1, 2013.

1.7. On June 17, 2013, a hearing regarding the Stipulation and Settlement Regarding Temporary Rates was held.

1.8. The Commission issued Order No. 25,529 on June 26, 2013 approving the Stipulation and Settlement Regarding Temporary Rates and authorizing the proposed temporary rate increase.

1.9. The Audit Staff of the Commission conducted an investigation and audit of Unitil concerning test year information provided with the Company's request for a permanent rate increase. The results of the Audit Staff's review and recommendations are included in its Final Audit Report dated October 25, 2013.

1.10. Throughout this docket, Staff and OCA issued several sets of data requests, each comprised of numerous questions, to which the Company responded.

2. REVENUE AND RATE CHANGES

2.1. Annual Revenue Increase. The Settling Parties agree to an annual revenue increase of \$4,573,098, effective May 1, 2014. The schedules supporting this increase and Unitil's overall annual revenue requirement and incorporating the provisions of this Settlement Agreement are attached as **Exhibit 1**. Of this increase, \$4,359,117 will be collected within permanent distribution rates and \$213,981 will be collected within the Cost of Gas Clause ("COGC") as a component of indirect gas costs. With this increase to the COGC, total annual revenue collected related to the Company's indirect gas costs will be \$933,344. The assignment of this revenue to the COGC is illustrated in **Exhibit 2** which is attached to this Settlement Agreement.¹ Except as provided for specifically under this Settlement Agreement, the Settling Parties agree that the Company's next filing of a distribution base rate case shall be based on an historic test year of no earlier than twelve months ending December 31, 2016.

2.2. Cost of Capital and Capital Structure. In determining the annual revenue increase and revenue requirement in Section 2.1, above, the Settling Parties utilized an overall capital structure as set forth below, including a 9.50 percent Return on Equity (ROE):

Component		Weighted
<u>Percentage</u>	<u>Cost</u>	<u>Cost</u>

¹ Annual indirect costs consist of \$420,658 of LP and LNG Production and Storage Capacity and \$512,686 of Dispatching, Acquisition, Administration and General ("Miscellaneous Overhead") expenses. Beginning July 1, 2013, a reconciliation of the difference between these expenses and those previously recorded in the Company's COGC shall be assigned and included in the 2014-2015 Winter and 2015 Summer Period COGC Reconciliations. In subsequent COGCs these expenses will not be separately reconciled.

Common Equity	51.76%	9.50%	4.92%
Preferred Stock Equity	0.0%	0.00%	0.00%
Long-Term Debt	47.56%	7.05%	3.35%
Short-Term Debt	<u>0.69%</u>	<u>2.01%</u>	<u>0.01%</u>
Total	<u>100.00%</u>		<u>8.28%</u>

2.3. Distribution Rates. The Settling Parties agree the Company's annual distribution revenue requirement associated with the revenue increase described in Section 2.1, above, shall be allocated to customer classes as indicated in **Exhibit 3**, which is attached to this Settlement Agreement. This exhibit includes the permanent distribution rates (designated as "Proposed Charges") at pages 4 and 5. As agreed by the Settling Parties, the residential classes' customer charges will be set at \$19.00 per month (low income rate customer charges will then be adjusted in the same manner as the Company's original proposal) and no residential classes' revenue increase percentage shall exceed 150% of the overall average percentage increase or be less than 50% of the overall average percentage increase.

2.4. Step Increases. The Settling Parties agree that in addition to the annual revenue increase in Section 2.1, above, there shall be two future step increases to revenues and rates:

2.4.1. The Step 1 adjustment shall be effective May 1, 2014 to recover the revenue requirement associated with the Company's investments in its Gas Mains Extensions, New Hampshire Main Replacement Program, and Gas Highway

Projects City State (“Eligible Facilities”)² which are additions to and closed to utility plant during calendar year 2013. The costs of these Company investments, \$8,983,772, are detailed in **Exhibit 4** which is attached to this Settlement Agreement. The Step 1 adjustment is calculated as a percentage change to the permanent distribution rates set forth in Section 2.3, above, and is based upon the Eligible Facilities revenue requirement. The Eligible Facilities revenue requirement, \$1,354,863, includes depreciation expenses, property taxes and the pre-tax rate of return and is derived using the method outlined in **Exhibit 4**. To determine the distribution rates effective May 1, 2014 that include this Step 1 adjustment, the permanent distribution rates are multiplied by an equal percentage increase. The rate design and distribution rates including the Step 1 adjustment are provided in **Exhibit 5** which is attached to this Settlement Agreement.

2.4.2. The Step 2 adjustment to the Company’s distribution rates shall be effective May 1, 2015 to recover the Eligible Facilities revenue requirement associated with the Company’s investments in Eligible Facilities which are additions to and closed to utility plant during calendar year 2014, subject to a cost cap on such investments not to exceed \$12 million. The Eligible Facilities revenue

² The Company’s Gas Main Extensions consist of extensions and gas mains, excluding services, costing more than \$30,000 as required to serve customers under the Company’s line extension policy; the New Hampshire Main Replacement Program covers replacement of cast iron and bare steel mains, services and associated facilities; and the Gas Highway Projects City State covers replacement of facilities caused by forced relocations of gas facilities due to City and State roadway and municipal infrastructure project (e.g., sewer separation).

requirement for this Step 2 adjustment will be derived using the method outlined in **Exhibit 4**, except for the following:

2.4.2.1. The ROE applicable to determine the Eligible Facilities revenue requirement shall be dependent on the net change in year-end 2014 meter count over year-end 2013 meter count. The ROE shall be:

9.25 percent if the growth in meter count is less than 4 percent;

9.50 percent if the growth in meter count is between 4 and 5 percent;

or

9.75 percent if the growth in meter count is greater than 5 percent.

See **Exhibit 4** for illustrative examples calculating the 2014 Eligible Facilities revenue requirements based on: the Company's estimated 2014 budget plant additions (\$9.4 million) with a 9.50 percent ROE; and 2014 plant additions if at the \$12 million cost cap with a 9.75 percent ROE.

To determine distribution rates for effect May 1, 2015 that include this Step 2 adjustment, the Step 1 distribution rates in **Exhibit 4** will be multiplied by an equal percentage increase. The rate design and distribution rates including the Step 2 adjustment are illustrated in **Exhibit 5**. For this illustration, Step 2 distribution rates are based on the cost cap of \$12 million in annual capital expenditures and an ROE of 9.75%. The Company shall file its proposed Step 2 adjustment to distribution rates on or before the last day of February, 2015.

2.5. Exogenous Events. The Settling Parties agree that, during the term of this Settlement Agreement, Unitil will be allowed to adjust its then-existing distribution

rates upward or downward, as determined by the Commission, due to Exogenous Events, as defined below.

2.5.1. For any of the Exogenous Events defined as a State Initiated Cost Change, Federally Initiated Cost Change, Externally Imposed Accounting Rule Change, or Force Majeure during the term of this Settlement Agreement, the Company will be allowed to adjust distribution rates upward or downward (to the extent that the revenue impact of such event is not otherwise captured through another rate mechanism that has been approved by the Commission) if the total distribution revenue impact (positive or negative) of all such events exceeds \$200,000 (Exogenous Events Rate Adjustment Threshold) in any calendar year beginning with 2014.

2.5.1.1. “State Initiated Cost Change” shall mean any externally imposed changes to state or local law or regulatory mandates or changes to other precedents governing income, revenue, sales, franchise, or property or any new or amended regional, state or locally imposed fees or regulatory assessments (but excluding the effects of routine annual changes in municipal, county and state property tax rates and revaluations), which impose new obligations, duties or undertakings, or remove existing obligations, duties or undertakings, and which individually decrease or increase Unitil’s distribution costs, revenue, or revenue requirement.

2.5.1.2. “Federally Initiated Cost Change” shall mean any externally imposed changes to the federal tax rates, laws, regulations, or precedents governing

income, revenue, or sales taxes or any changes in federally imposed fees, which impose new obligations, duties or undertakings, or remove existing obligations, duties or undertakings, and which individually decrease or increase Unitil's distribution costs, revenue, or revenue requirement.

2.5.1.3. "Externally Imposed Accounting Rule Change" shall be deemed to have occurred if the Financial Accounting Standards Board or the Securities and Exchange Commission adopts a rule that requires utilities to use a new accounting rule that is not being utilized by Unitil as of January 1, 2014.

2.5.1.4. "Force Majeure" shall be deemed to mean Acts of God (including fire, flood, earthquake, storm, hurricane or other natural disaster), war, invasion, act of foreign enemies, hostilities (regardless of whether war is declared), civil war, rebellion, revolution, insurrection, military or usurped power or confiscation, terrorist activities, nationalization, government sanction, blockage, embargo, labor dispute, strike, lockout or interruption or failure of electricity or telephone service, the impact of which is of a nature similar to the other Force Majeure events listed herein.

2.5.2. No later than the last day of February of each year, the Company shall file with the Commission, Staff and OCA a Certification of Exogenous Events for the prior calendar year. If, in the prior calendar year, the Company incurs any changes in distribution costs, revenue, or revenue requirement in excess of the Exogenous Events Rate Adjustment Threshold in connection with any

Exogenous Event as defined in Paragraph 2.5.1, the Company shall provide specific and sufficient detail supporting each change and the Exogenous Event(s) associated with each change for the Commission. Staff and OCA can assess the proposed Exogenous Event rate adjustment. If no Exogenous Events causing changes in excess of the Exogenous Events Rate Adjustment Threshold occurred during the prior calendar year, the Company shall certify that fact in its annual Certification of Exogenous Events.

On or before March 31 of each year, Staff and the OCA may make a filing requesting an Exogenous Event rate decrease or contesting an Exogenous Event rate increase proposed by the Company.

Any adjustments to revenue requirements for Exogenous Events:

- (1) shall be subject to approval, following notice and hearing, by the Commission;
 - (2) shall be implemented for usage on and after May 1 of that year; and
 - (3) shall be allocated among the Company's rate classes on a proportional basis based on total distribution revenue by class in effect at the time of the adjustment across all rate elements. Any such filings are limited to one per calendar year, provided that any costs incurred or saved due to such Exogenous Events may be deferred for consolidation in the single filing.
- Any Exogenous Event adjustment made pursuant to this Settlement Agreement will remain in rates only through the effective date of the new rates determined in the Commission's next distribution rate proceeding.

2.6. Earnings Sharing. For calendar years 2014, 2015 and 2016, the Settling Parties agree the Company will be allowed to retain all earnings up to and including a return on equity (“ROE”) of 10 percent. Earnings in excess of a ROE of 10 percent and up to an including 11 percent will be shared equally, 50/50, between firm tariffed customers (this excludes special contract customers) and the Company. Earnings in excess of a ROE of 11 percent shall be returned to firm tariffed customers. The methodology for determining earnings shall be calculated in accordance with the manner in which earnings are calculated in the Company’s annual F-1 filing. Any earnings to be shared with firm tariffed customers will be credited over the twelve month period beginning May 1 and through a uniform per therm usage credit (the “ES”) based on weather normalized sales volume during the most recently completed calendar year in which excess earnings occurred. Unitil will file its proposed ES with the Commission on or before the last day of February, for review and approval by the Commission. The ES will be effective for twelve months and will not be reconciled.

2.7. Recoupment of Revenue Difference. The Settling Parties agree that recoupment of the revenue difference between temporary and permanent rates, consistent with RSA 378:29, shall be recovered from all firm tariffed customers over a twelve month period beginning May 1, 2014. The reconciliation of the revenue difference between temporary and permanent rates shall be an equal per therm rate, in accordance with the provisions of Unitil’s Local Delivery Adjustment Clause (“LDAC”) tariff. The Reconciliation of Permanent Changes in Delivery Rates (the

“RPC”) for effect on May 1, 2014 is derived and designated in **Exhibit 6** which is attached to this Settlement Agreement. The RPC is calculated based on the difference between temporary rates and permanent rates. The calculation incorporates actual billing data from July 2013 through December 2013 and estimated billing data for January 2014 through April 2014. On or before July 31, 2015, Unitil shall file with the Commission, for its review and approval, a reconciliation of the RPC. The reconciliation shall include the final calculation of the actual difference between temporary rates and permanent rates being collected through the RPC and a recommendation for treatment of any under- or over-recovered balances that remain at the end of the twelve month period.

2.8. Rate Case Expenses. The Settling Parties agree that Unitil’s prudently incurred rate case expenses, as approved by the Commission, be recovered from all firm tariffed customers over a twelve month period beginning May 1, 2014 through a uniform charge per therm rate, in accordance with the provisions of Unitil’s revised LDAC tariff at Page 53. The Rate Case Expenses charge (the “RCE”) for effect on May 1, 2014 is derived and designated in **Exhibit 7** which is attached to this Settlement Agreement. The RCE reflects actual rate case expenses incurred through December 2013 and estimated rate case expenses through the conclusion of the proceeding.³

³ The “February 14, 2014 FINAL Audit Report of the NHPUC Examiner” states the audit reviewed the contracts, verified the hourly rates charged, the description of the work performed, the Company’s confidential evaluation notes that were used to determine the winning bid, which included the hourly rate analysis, the RFP Pricing Summary and the RFP Evaluation. The report’s SUMMARY states the audit reviewed professional fees and miscellaneous expense support for the Company’s rate case totaling \$276,021 without exception. The total requested expense recovery of \$288,009 includes three invoices totaling \$11,988 which remain outstanding as of the date of this report. The Audit reviewed the rate case filing for compliance with the Puc 1900 rules. There were no exceptions noted.

On or before July 31, 2015, Unitil shall file with the Commission for its review and approval, a reconciliation of the RCE, including the final actual amount of rate case expenses and a recommendation for treatment of any under- or over-recovered balances that remain at the end of the twelve month period.

2.9. Customer Bill Impacts. The bill impacts on customers resulting from this Settlement Agreement are illustrated in **Exhibit 8** which is attached to this Settlement Agreement.

3. OTHER PROVISIONS

- 3.1. Farm Taps. The Settling Parties agree Farm Taps will be replaced on an ‘as needed’ basis due to physical deterioration, or else in accordance with the identification and prioritization of risks in the Company’s Distribution Integrity Management Plan.
- 3.2. Customer Service Metrics. The Settling Parties agree the service quality metrics established by the Commission in Order Number 24,075 in Docket DG 01-182 and modified by the Commission in Order Number 24,906 in Docket DG 08-048 shall be further modified as follows. Beginning May 1, 2014, the Settling Parties agree the consumer complaints metric which measures how often complaint cases referred by the Commission Staff to the Company are resolved within a 2 week period will be modified to measure how often complaint cases referred by the Commission Staff to the Company are resolved within a 30 day period. The Settling Parties further agree the busy signal indication metric which measures how often in each quarter customer calls to the Company’s call center, or any other service center with the responsibility for answering customer calls, encounter a busy signal or other

busy indication will be eliminated from the service quality metrics. A complete list of the service quality metrics are shown in **Exhibit 9** which is attached to this Settlement Agreement.

3.3. Line Extension Policy. The Settling Parties agree the Company will amend its Line Extension Policy and Tariff Page 16 to provide that it will install, at no charge to the customer, up to 100 feet of service pipe, under normal conditions as determined by the Company, from a gas main to service residential customers. The amended Tariff Page 17 is included within **Exhibit 10** which is attached to this Settlement Agreement.

3.4. Other Tariff Issues. Attached as **Exhibit 10** are individual tariff pages incorporating the Settlement Agreement. Also, **Exhibit 10** includes tariff pages filed by the Company in this proceeding and not revised by the Settlement Agreement because they reflect housekeeping issues only. The Settling Parties agree these tariff pages shall become effective May 1, 2014.

3.5. Cost of Service Studies. The Settling Parties agree that before the Company begins preparation of one or more new cost of service studies for a future rate case, it will meet with Commission Staff and the OCA to discuss whether new cost of service studies are necessary, and if necessary, the format and requirements of the studies to be filed.

4. GENERAL PROVISIONS

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

does not accept this Settlement Agreement in its entirety, without change or condition, or if the Commission makes any findings that go beyond the scope of this Settlement Agreement, and any of the Settling Parties is unable to agree with the changes, conditions or findings, this Settlement 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.

4.2. Under this Settlement Agreement, the Settling Parties agree to this joint submission to the Commission, which represents a compromise and liquidation of all issues in this proceeding.

4.3. The Settling Parties agree that the Commission's acceptance of this Settlement Agreement does not constitute continuing approval of, or precedent for, any particular issue in this proceeding. Acceptance of this Settlement Agreement by the Commission shall not be deemed to constrain 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.

4.4. This Settlement Agreement shall not be deemed an admission by any of the Settling Parties that any allegation or contention in this proceeding by any other party, other than those specifically agreed to herein, is true and valid. This Settlement Agreement shall not be construed to represent any concession by any Settling Party hereto regarding positions taken with respect to Unifil's permanent rate request in this docket, nor shall this Settlement Agreement be deemed to foreclose any Settling Party in the future from taking any position in any subsequent proceedings. The

revenue requirement amounts associated with each of the rate adjustments detailed herein are liquidated amounts that reflect a resolution of all the issues in this proceeding.

4.5. The Settling Parties agree that all pre-filed testimony and supporting documentation should be admitted as full exhibits for the purpose of consideration of this Settlement Agreement, and be given whatever weight the Commission deems appropriate. Consent by the Settling Parties to admit all pre-filed testimony without challenge does not constitute agreement by any of the Settling Parties 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 Settlement Agreement does not indicate the Settling Parties' agreement to such resolution for purposes of any future proceedings.

4.6. The rights conferred and the obligations imposed on the Settling Parties by this Settlement Agreement shall be binding on or inure to the benefit of any successors in interest or assignees as if such successor or assignee was itself a signatory party. The Settling Parties agree to cooperate in advocating that this Settlement Agreement be approved by the Commission in its entirety and without modification.

4.7. 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

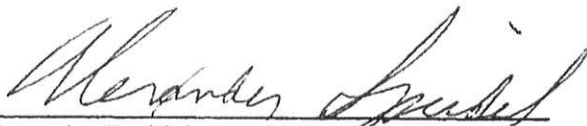
offers of settlement shall be without prejudice to the position of any party presenting such offer.

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

5. CONCLUSION

5.1. The Parties affirm that the proposed Settlement Agreement will result in just and reasonable rates and should be approved.

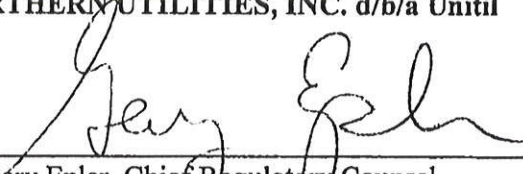
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