

STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION

Unitil Corporation and Northern )  
Utilities, Inc: Joint Petition for )  
Approval of Stock Acquisition )

Docket No. DG 08-048 and  
Docket No. DG 08-079

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into this 15th day of August, 2008, by and among Unitil Corporation ("Unitil") and Northern Utilities, Inc. ("Northern") ("the Joint Petitioners"), the Office of the Consumer Advocate ("OCA"), Mary Polcheis, and the Staff of the New Hampshire Public Utilities Commission (collectively, the "Settling Parties and Staff") with the intent of resolving all issues in the above-captioned proceeding. This Agreement constitutes the recommendation of the Joint Petitioners and the Settling Parties and Staff with respect to the Commission's approval of the acquisition by Unitil of Northern.

ARTICLE I.  
Introduction

1.1 On March 31, 2008, pursuant to R.S.A. 369:8 and 374:33, the Joint Petitioners filed a petition and supporting testimony with the New Hampshire Public Utilities Commission (the "Commission"), seeking approval for Unitil to acquire 100 percent of the common stock of Northern from Bay State Gas Company ("Bay State") (the "Proposed Transaction"). Unitil also proposes to acquire 100 percent of the common stock of Granite State Gas Transmission ("Granite") from NiSource Inc., Bay State's parent. As a result of the acquisitions, Northern and Granite will become wholly-owned subsidiaries of Unitil.

1.2 Northern provides natural gas distribution services to a total of 52,000 customers in 44 New Hampshire and southern Maine communities, stretching from Atkinson, New Hampshire, in the south, to Lewiston-Auburn, Maine, in the north. Unitil is a holding company incorporated in New Hampshire whose principal business is the retail distribution of natural gas and electricity. Unitil owns Unitil Energy Systems, Inc. ("UES"), an electric utility with an operating franchise in the southeastern seacoast and capital city areas of New Hampshire. The service territories of UES and Northern overlap in the New Hampshire towns of Atkinson, East Kingston, Exeter, Greenland, Hampton, Hampton Falls, Kensington, Plaistow, Seabrook and Stratham. Granite owns and operates an interstate pipeline located in Maine, New Hampshire and Massachusetts, but predominantly serves Northern's distribution system in Maine and New Hampshire.

1.3 The Joint Petitioners request that the Commission evaluate the Proposed Transaction under the statutory standards set forth in both RSA 369:8, II(b) and RSA 374:33, and assert that the Proposed Transaction will have no adverse effect on the rates, terms, service or operations of Northern, pursuant to RSA 369:8, and that it is "lawful, proper, and in the public interest," as required by RSA 374:33. The Joint Petitioners jointly waived any rights to a preliminary determination of "no adverse effects" under RSA 369:8, II(b)(1) to allow the Commission to complete its review and approval under both the "no adverse effect" and "no net harm" standards of RSA 369:8, II(b) and RSA 374:33, and issue a final order within 180 days.

1.4 On April 24, 2008, the Commission issued an Order of Notice scheduling a pre-hearing conference which was held on May 14, 2008, followed by a technical session. On May 22,

2008, Staff filed a report of the technical session setting forth the procedural schedule agreed upon by the Joint Petitioners, Staff and the Parties.

1.5 On May 30, 2008, Unitil submitted a Petition for approval of the debt portion of the financing for the Proposed Transaction which was docketed as DG 08-079. On June 3, 2008, the Commission issued its Prehearing Conference Order, in which it adopted the procedural schedule proposed by the Joint Petitioners and Staff. *See* Order No. 24,860. Because the procedural schedule was inconsistent with the deadlines established in RSA 369:8, II(b) for a determination of "no adverse effect," the Joint Petitioners' agreement to the procedural schedule was deemed "a proposed waiver of certain provisions of the statute." *Id.*, p.8.

1.6 By Secretarial Letter dated July 10, 2008, the procedural schedule approved in Order No. 24,860, as modified from time to time, was applied to DG 08-079. DG 08-048 and DG 08-079 were consolidated for purposes of discovery, testimony and hearing, and all parties to DG 08-048 are deemed to be parties to DG 08-079.

1.7 The Joint Petitioners and Staff conducted technical sessions in June and July, 2008, and the Joint Petitioners responded to numerous data requests issued by Staff, the OCA and other parties, including oral data requests issued at the technical sessions.

1.8 On July 16 and July 21, 2008, the OCA and Staff submitted testimony in which they recommended that the Commission either deny approval of, or impose certain conditions on, the Proposed Transaction.

1.9 Based upon information gathered through discovery and discussions among the Parties, the Joint Petitioners, Staff, the OCA and Mary Polcheis reached agreement on the issues in this proceeding as set forth herein. The Parties agree and recommend that the Commission conclude this proceeding by issuing an order on or before October 1, 2008, which approves, accepts and adopts this Settlement Agreement, including the following provisions:

ARTICLE II.  
Authorizations

2.1 Based upon the commitments included in this Settlement Agreement, the Proposed Transaction involving the acquisition of Northern by Unitil, as more fully described in the Petition and amended herein, will not adversely affect the rates, terms, service or operations of Northern, and is lawful, proper and consistent with the public interest. The Proposed Transaction therefore should be approved by the Commission pursuant to RSA 369:8, II(b) and 374:33, subject to the conditions set forth herein. Except for conditions pursuant to paragraphs 4.2 and 8.3 which shall become effective upon Commission approval of this Settlement Agreement, the conditions shall become effective upon consummation of the Proposed Transaction. In the event that the Proposed Transaction is terminated and not consummated, the conditions set forth herein shall be void and of no further force or effect as of the date that the Petitioners provide notice of such termination to the Commission.

2.2 Subject to section 8.5, the proposed Service Agreement (Exhibit #6 to the Petition) between Northern and Unitil Service Corp., and the Amended and Restated Cash Pooling and Loan Agreement are just and reasonable and do not require further investigation under RSA 366:5 at this time. Unitil commits to filing these final agreements with the Commission within ten days of

execution pursuant to RSA 366:3. Unitil's Tax Sharing Agreement, which, by its terms, requires no amendment to add Northern, is also just and reasonable and requires no further investigation or filing under RSA 366:5 at this time.

2.3 In connection with the Proposed Transaction, but by separate order, Northern is authorized pursuant to RSA 369:1, 369:2 and 369:4, to issue at par, to institutional investors, promissory notes evidencing unsecured long-term debt of up to \$80,000,000. The terms of the Notes will range from 10 to 30 years and are to bear fixed annual all-inclusive interest rates not to exceed 7.5 percent on an aggregate (weighted average) basis, to be determined through a private placement.

2.4 Northern will defer and amortize the Transaction Costs and the Transition Costs resulting from the Proposed Transaction over a ten year period, recognizing that Unitil has agreed to waive any right to seek recovery of such Transaction Costs and Transition Costs in rates. In addition, Unitil will not seek recovery of the Transaction Costs and the Transition Costs resulting from its acquisition of Northern and Granite through the rates of any of its other utility subsidiaries. For purposes of this Settlement, examples of Transaction Costs are investment banking, advisory and legal fees which are incurred by Unitil to achieve the Proposed Transaction. Transition Costs are non-recurring expenditures incurred by Unitil for transition and support services, including expenses incurred under the Transition Service Agreement ("TSA").

ARTICLE III.  
Rate Matters

3.1 Synergy Savings: Unitil commits that, at the time of any change to any of Northern's rate components, any synergy savings resulting from the Proposed Transaction shall flow through to

rate payers and Unitil shall not seek to retain or share such synergy savings resulting from the Proposed Transaction. Unitil commits to treat any synergy savings accruing to its other utility subsidiaries in the same manner.

3.2 Rate Stabilization: The earliest Unitil may file for a change in Northern's New Hampshire Division's base rates is November 1, 2010, with temporary rates effective no earlier than May 1, 2011 (the "Stay-Out Period"), except as follows:

- a. Prior to the end of the Stay-Out Period, if one or more large general service customers taking service under rate schedules T-42, T-52, G-42, G-52 and/or any special contracts notify Northern of plans to reduce the taking of firm service requirements from Northern prior to 2011 such that the aggregate reduction would result in an 8% or greater decrease below the level of Northern's total New Hampshire 2007 distribution revenues (individually or in the aggregate), the Stay-Out Period will terminate; or
- b. If prior to the end of the Stay-Out Period the rates of Granite are to become subject to state jurisdiction, the Stay-Out Period will terminate and Unitil may file for a change in Northern's New Hampshire Division base rates with new rates effective with the transfer of jurisdiction.

3.3 Integration Costs: Unitil will be allowed to request recovery of, in a future Northern base rate proceeding, its prudently incurred Integration Costs for capitalized project expenditures to build or upgrade systems and facilities required for Unitil to independently operate Northern. Integration Costs are the necessary capital expenditures incurred by Unitil to meet Northern's post-

closing service obligations to customers, and which: 1) upgrade, replace or supplement existing utility plant, equipment and systems and their associated costs; or 2) enhance and/or extend the useful life of existing plant, equipment and systems. Integration Costs will be depreciated over the average service life, plus three years. A more extensive description and current estimate of the integration costs are included in Attachment A.

3.4 Purchase Acquisition Adjustment: Pursuant to the terms of the Proposed Transaction, there is expected to be a recorded acquisition adjustment (i.e., difference between the purchase price and net book value of the equity acquired). In its Petition, Unitil estimated a negative acquisition adjustment of approximately \$21.4 million. Any acquisition adjustment (positive or negative) shall be accounted for below the line over a ten year period.

3.5 Accumulated Deferred Income Tax: In regard to Unitil's Section 338(h)(10) election in accounting for the acquisition of the common stock of Northern, Unitil commits to hold Northern's customers harmless for the elimination of the historical Accumulated Deferred Income Tax ("ADIT") liabilities resulting from such election by maintaining pro-forma accounting for regulatory purposes to continue to provide ratepayers with the ratemaking benefit of Northern's ADIT balances existing prior to the Proposed Transaction, until such time as Northern's actual ADIT, related to the historical Utility Plant assets acquired, equals or exceeds the level that Northern's pro-forma ADIT would have been absent the Proposed Transaction. The ADIT balances related to capital additions after the closing date are not affected by the Section 338(h)(10) election and the treatment of these balances will not change for accounting and ratemaking purposes.

3.6 Cost of Capital: Unitil commits that in future regulatory proceedings it shall impute Northern's existing cost of debt until Northern's existing debt instruments would have expired. Unitil also commits to not seek the recovery of any "equity issuance" costs related to raising equity for the acquisitions.

3.7 Unitil agrees to continue accounting for Environmental Remediation Costs in the jurisdiction where they occur, and agrees to continue to use the current cost recovery mechanism for such prudently incurred costs.

ARTICLE IV.  
Additional Customer Provisions

4.1 Low-Income and Energy Efficiency Programs: Unitil agrees that Northern will continue the low income discount program and low income energy efficiency program (the "Programs") currently offered to customers in Northern's New Hampshire division. Subsequent to the closing of the Proposed Transaction, Unitil agrees to continue to evaluate the Programs in consultation with the Commission Staff and other interested parties for possible improvements and expansion. Unitil also agrees to include New Hampshire Legal Assistance and its low income clients in meetings with Commission Staff and the OCA to review the status of the Programs.

4.2 Customer Communications: Unitil commits to develop customer communications for announcing the Proposed Transaction and related transition efforts with the goal of making the transition as transparent as possible for Northern's customers. Northern shall provide the Staff, the OCA and other interested Parties with advance copies of bill inserts and other customer communications.

ARTICLE V.  
Service Quality

5.1 Unitil agrees that Northern will adhere to the following new service quality metrics which include automatic penalty provisions similar to the provisions established by the Commission in Order Number 24,075 in Docket DG 01-182. In this regard, the Parties and Staff agree that Northern shall be subject to an automatic penalty of \$5,000 per month for failing to meet any one of the performance goals listed in the section below in any given month. Multiple failures to meet performance goals within any given month shall not constitute multiple finable violations and Northern's maximum monthly penalty exposure shall be \$5,000. Under no circumstances shall Northern's annual maximum penalties for performance with respect to all service quality categories exceed \$60,000.

- a. Telephone Service Factor (non-emergency): After the transition of customer service to Unitil, 80 percent of calls on an annual basis to the billing, service or credit queues will be answered within 20 seconds. The calls included in this calculation will be those that are not resolved by the Interactive Voice Response ("IVR"). Performance shall be reported monthly; however, performance will be subject to penalties only if the cumulative performance in any given 12 month period falls short of the target. During the first twelve months after the transition of the customer service functions to Unitil, the calculation of a rolling twelve month average Telephone Service Factor ("TSF") will be based on a simple average of the twelve monthly TSF values. For the months prior to the transition of the customer service functions to Unitil, the calculation will utilize the measure calculated by Northern under the prior standard, e.g. 80% of calls answered within 30 seconds.
- b. Telephone Service Factor (emergency): 90 percent of the emergency calls on a monthly basis will be answered within 20 seconds. Performance shall be reported monthly and will be subject to penalties if the performance in a month falls short of the target.

5.2 Unitil agrees that Northern will continue to adhere to the following service quality metrics which include automatic penalty provisions:

- a. No more than 2 percent of all calls, measured quarterly, to call center or any other service center with responsibility for responding to customer calls, shall encounter a busy signal or other busy indication.
- b. In any given month, 95 percent of all mutually agreed upon appointments for service shall be met on the day scheduled. Customer initiated postponements shall not be included in this measurement.
- c. 95 percent of complaints referred to the Company by the Commission Staff will be resolved to the satisfaction of the Commission Staff within 2 weeks.

5.3 Unitil agrees that Northern will continue to report its performance relative to the following reporting-only service quality measurements:

- a. Monthly average speed of answer for its billing, credit and service lines;
- b. Monthly number of calls abandoned;
- c. Monthly average time to abandon;

and the following new measurement:

- d. Percentage of calls that abandon.

5.4 Unitil agrees that Northern's goal is to achieve a call abandon percentage in section 5.3(d) above that does not exceed 3.0%. This standard shall not be subject to an automatic penalty at this time.

#### ARTICLE VI. Gas Safety and Reliability

6.1 Continuity of Distribution Systems: Unless Northern obtains the consent of the Commission otherwise, Northern will continue to own, operate, and maintain the distribution system to the upstream of the customer's piping connection to the meter outlet. All meters shall be located at the customer's structure, unless impractical.

6.2 O&M Reporting: Northern shall provide the Total Number of hours spent on Operation and Maintenance activities each year in annual reporting of the calendar year. Reports shall be due by February 1 of each year to the Safety Division. Unitil agrees to work collaboratively with Staff to develop reporting formats based on available information within six months of the closing of the Proposed Transaction to include information such as type of activity, number of employees per activity, and hours per activity.

6.3 Primary Valve Determinations and Notifications: An adequate quantity of Critical/Primary Valves for the distribution system shall be maintained by Northern such that it is reasonably likely in most instances that customer restoration time will not exceed 12 hours duration and isolated areas are limited to no more than 500 customers. Northern will notify the Safety Division within 60 days of any planned significant change in program if the quantity of Critical/Primary Valves decreases by more than 5% during an annual program review.

6.4 Bare Steel Replacement Program: Beginning in calendar year 2009, Unitil agrees to implement and complete a Bare Steel Replacement Program ("BSRP") for Northern within nine years.

6.5 Marking of Underground Facilities: Unitil agrees that as soon as practicable, and by the end of the transition period, Northern will use in-house personnel for the marking of underground facilities. If in the future Northern changes the policy of in-house locating, Northern shall inform the Safety Division no later than six months before implementing a change. Northern shall have the burden of showing that any proposed changes will not result in a performance degradation to service quality, safety or reliability.

6.6 Emergency Response Standards: Northern shall meet the following Emergency

Response Times Standards for leak and odor calls received from non-Unitil personnel:

Normal hours	30 minutes	82%
After hours	30 minutes	80%
Weekends and Holidays	30 minutes	76%
Normal hours	45 minutes	90%
After hours	45 minutes	86%
Weekends and Holidays	45 minutes	84%
Normal hours	60 minutes	97%
After hours	60 minutes	95%
Weekends and Holidays	60 minutes	94%

Northern will work with Staff to develop within six months a monthly report format that would provide information regarding emergency response time, such as:

- A) Call Initiation Date
- B) Call Completion Date
- C) Call Type (Reflecting Cause for Call, e.g. Odor Inside at Meter, Odor outside, 3<sup>rd</sup> party Damage, etc.)
- D) Job Code or Work Order #
- E) Classification (Normal Hours, After Hours, Weekends & Holidays)
- F) Category (30 minutes, 45 minutes, 60 minutes )
- G) Dispatch Call Receive Time
- H) Time of Dispatch
- I) Time Held in Dispatch [H-G]
- J) Emergency Responder Receive Time
- K) On Scene Time
- L) Travel Time of Emergency Responder [K-J]
- M) Completion Time
- N) Total Job Time [M-K]
- O) Response Time [I+L]
- P) Dispatcher Name or Employee #
- Q) Emergency Technician Responding or Employee #
- R) Address of Location (including street #, Street, Town)

6.7 Inspection Notifications: Northern shall continue its present practice of

notification to the Safety Division of all anticipated construction projects for the following week that involve gas line additions, repairs, modifications and maintenance.

6.8 Inspection Oversight: Northern shall continue its current practice of inspecting contractor crews with in-house personnel not to exceed 1:4 span of control.

6.9 Post Transaction Service to the Atkinson/Plaistow/Salem Area: Until such time as Unitil fully integrates its service to the Atkinson/Plaistow/Salem area after the closing of the Proposed Transaction, Bay State will continue to service the area from its Lawrence facilities pursuant to the Transition Services Agreement. Unitil's integration plan for this area will address staffing, shifts, and emergency response procedures to ensure no degradation in response time, and the establishment of a satellite facility for onsite storage of emergency materials, excavation equipment, and other materials as deemed necessary.

6.10 Nothing in the provisions of this Settlement Agreement shall be deemed to limit the Commission's authority to require Northern to provide information regarding the provision of safe, adequate and reliable service or to require actions or to penalize Northern, as necessary, for service that is found, after appropriate proceedings, to be inadequate. The Parties and Staff further agree that the metrics set by Articles V and VI of this Settlement Agreement do not define Northern's service-related obligations in totality, and that the Commission may initiate service-related proceedings and impose additional standards or requirements pursuant to the Commission's obligation to ensure safe, adequate and reliable service.

#### ARTICLE VII.

##### Granite State Gas Transmission Provisions

7.1 Granite Study: Unitil commits to conduct and complete a comprehensive collaborative study of the structure and operations of Granite and Northern, in coordination with the Parties and Staff, within one year of the closing of the Proposed Transaction, as more fully

described in Attachment B. The purpose of such study will be to assess whether the customers of Northern and Granite would be better served by integrating Granite and Northern and/or otherwise reorganizing them and their operations. Upon completion of the study, Unitil will work with affected parties in Maine and New Hampshire to solicit feedback, respond to questions and incorporate other views in preparing a final report to be filed with the Maine Public Utilities Commission ("MPUC") and this Commission.

7.2 Granite Rates: Prior to the close of this Proposed Transaction, Northern shall execute, and the OCA and the Staff shall support, a firm transportation contract between Northern and Granite for the period November 1, 2008 through October 31, 2010 for 100,000 Dth of capacity at Granite's current recourse rate of \$1.6666/ Dth, which will effectively freeze the rates paid by Northern to Granite for firm transportation for a two year period, except that if prior to the end of the contract the rates of Granite become subject to state jurisdiction, the rates under the contract may be terminated. If the Proposed Transaction fails to close, the special firm transportation agreement will be for 100,000 Dth of capacity at the recourse rate of \$1.6666/Dth and will terminate on October 31, 2009.

7.3 Commission Assessment: Unitil agrees that beginning with the Commission's fiscal year starting July 1, 2009 Granite shall be subject to the Commission's annual assessment pursuant to RSA 363-A. The Parties and Staff hereby jointly recommend that the Commission close Docket No. DR 91-210, a proceeding in which the applicability to Granite of the Commission's annual assessment was at issue.

ARTICLE VIII.

Reporting

8.1 Unitil will provide timely access to Unitil's books and records as required by applicable statutes and regulations.

8.2 Unitil will provide timely access to affiliate books and records as required by applicable statutes and regulations.

8.3 Unitil will file, with the Commission, Staff and the OCA, an initial report on the status of the Transition Plan on or before September 15, 2008, and will file updates on a monthly basis thereafter with the Staff and the OCA. The Transition Plan reports will include: a) an update on the status of the Business Integration Plan; and b) an update on the status of the Transition Services Agreement, including information on the costs incurred and the expected cost of the completion for the Transition Plan.

8.4 Prior to closing on the terms of proposed debt financing, Unitil commits to updating the Commission and the Parties on the status of Unitil's financing efforts and notifying the Commission and the Parties in the event there are any subsequent changes in the terms, conditions and interest rates for the private placement of debt.

8.5 Unitil commits to submitting its intercompany allocation factors and the derivation of those factors to Staff and OCA for their review as soon as they are available after the consummation of the Proposed Transaction. Sufficient detail shall be provided to support the different allocators to be applied to different types of costs.

ARTICLE IX.  
General Provisions

9.1 The Parties agree and recommend, based upon the information provided by the Joint Petitioners in this proceeding and the commitments contained in this Settlement Agreement, that the Commission find that the Proposed Transaction: a) is lawful, proper and in the public interest; b) will not adversely affect the rates, terms, operations or service of Northern; and c) should be approved by the Commission pursuant to R.S.A. 369:8, II and 374:33.

9.2 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 Joint Petitioners, Staff or the OCA 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.

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

9.4 The Joint Petitioners, 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 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.

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

9.6 The Joint Petitioners, 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 to admit all pre-filed testimony without challenge does not constitute agreement by any of the Joint Petitioners, Staff or the 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 Joint Petitioners', Staff's or the Parties' agreement to such resolution for purposes of any future proceedings.

9.7 The rights conferred and obligations imposed on any 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.

9.8 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.

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

**ARTICLE X.**  
**Conclusion**

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

UNITIL CORPORATION

By: 

Mark H. Collin  
Senior Vice President, Chief financial Officer and  
Treasurer

NORTHERN UTILITIES, INC.

By: \_\_\_\_\_

Stephen H. Bryant  
President

STAFF OF THE NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION

By: Edward J. Damon  
Edward Damon  
Staff Counsel

OFFICE OF THE CONSUMER ADVOCATE

By: \_\_\_\_\_  
Meredith A. Hatfield  
Consumer Advocate

MARY POLCHEIS  
By her Attorneys, New Hampshire Legal Assistance

By: \_\_\_\_\_

OFFICE OF CONSUMER ADVOCATE

By:  \_\_\_\_\_  
Meredith A. Hatfield  
Consumer Advocate

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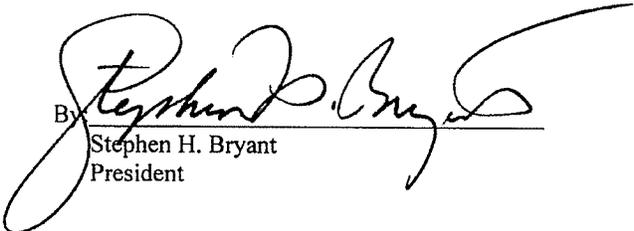
ARTICLE X.  
Conclusion

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

UNITIL CORPORATION

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Mark H. Collin  
Senior Vice President, Chief financial Officer and  
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NORTHERN UTILITIES, INC.

By:   
Stephen H. Bryant  
President

### Integration Costs

As discussed in Staff 1-34, integration costs relate to expenditures to build or upgrade systems and facilities required for Unitil to independently operate Northern. Integration expenditures represent expenditures associated with utility plant, equipment and information systems that are incurred by the Company to meet its obligation to customers after the acquisition is completed. These types of costs 1) are necessary capital expenditures for the Company to meet its utility service obligations to customers (e.g. used and useful, in-service); 2) replace or supplement existing utility plant, equipment and systems and their associated costs; and 3) enhance and/or extend the life of existing utility plant, equipment and systems for the benefit of customers.

Although Unitil is acquiring all of the assets, personnel and operations facilities of Northern; Unitil is not acquiring any of the personnel, facilities and systems of NiSource, and Bay State, which provide centralized administration, customer support and operations management services to Northern. A current list of the approximately 20 Integration Projects associated with the acquisition of Northern is attached hereto as **Attachment A, page 2 of 2** and represent a projected capital expenditure of approximately \$3.2 million. Also there are approximately 37 information systems tools that NiSource currently employs to support Northern and which will be replaced by Unitil during the integration process. These information systems support tools are necessary to support Northern's Customers and Operations.

Northern currently compensates NiSource (and its affiliates), through the monthly charges for Centralized Services, for the use of these system tools through charges for equipment depreciation, lease costs and overheads. The system tools which Unitil will replace as part of the acquisition and integration process are generally classified as Computer Equipment/[misc. Intangible Plant] with relatively short depreciable useful lives of 3 to 5 years. During a Utility's normal course of business, these types of technology tools, infrastructure and platforms are routinely and systematically purchased, replaced and/or upgraded on an almost annual basis as part of a cycle to maintain the systems necessary to support customers / customer needs with current technologies, to provide systems that meet all required safety requirements and to ensure the technologies meet the needs of the companies evolving business environment.

The proposed transaction by Unitil may accelerate the expenditure of these equipment upgrade costs which would normally be spent and depreciated over 5 years and repeated in normal cycles of replacement and upgrade. In the pre- and post-acquisition period, and in any future "test year" period; Northern would pay a normal amount of equipment depreciation and lease costs for these Computer Equipment costs. The Transaction simply replaces these costs from NiSource with costs charged directly to depreciation at Northern. Recovery of these types of depreciation costs have usually be included in test year cost of service rate recovery as normal, used and useful equipment expenditure costs. The costs included in the capital authorizations are usual and customary costs that are allowed a return in rate base.

**Northern & Granite Integration  
Proposed Project Authorizations List  
August 1, 2008 - ESTIMATED**

Authorization	Function / Dept.	NORTHERN	FERC Account / #	Standard Depreciable Life	Stipulated Depreciable Life
<b>CUSTOMER SERVICE PROJECTS:</b>					
Billing Conversion - Customer Information Systems (CIS)	Customer Operations	\$ 930,000	303	10	13
Interfacing - Customer Information Systems (CIS) / Web-based Customer Systems, Metering, Ledgers & Reporting.	Customer Operations	544,000	303	5	8
Measurement - MV90 xi Network Server & Communications Equipment	Metering	147,000	303	5	8
G - Intake (Operations & Business Development)	Business Services	71,400	303	5	8
Telecom Upgrade	Tele-Communications	189,000	397	10	10
<b>Sub - Total:</b>		<b>\$ 1,881,400</b>			
<b>GAS OPERATIONS &amp; ENGINEERING PROJECTS:</b>					
Operation Data Integration (ODI)	Utility Plant Accounting	150,675	303	5	8
Compliance Management System (CMS)	Gas Operations	145,300	303	5	8
Mobile Terminals	Gas Operations	111,750	303	5	8
Gas Procedures Manuals	Gas Operations	81,600	398	10	10
Gas Scada System	Engineering	142,000	303	5	8
Integrity Management Analysis System	Engineering	65,000	303	5	8
Gas Dispatch Phone & Central Radio Systems	Gas Operations	41,000	397	10	10
Equipment & Tools	Gas Operations	31,000	394	12	12
Facility Enhancements & Signage	Gas Operations	99,500	390	40	40
GIS	Engineering	150,000	303	5	8
<b>Sub - Total:</b>		<b>\$ 1,017,825</b>			
<b>FINANCE, ACCOUNTING &amp; OTHER PROJECTS:</b>					
Flexi Ledger / Accounts Payable / Projects / Purchasing	Accounting	143,700	303	5	8
Energy Contracts / Energy Measurement & Controls	Energy Procurement	94,000	303	5	8
Other Miscellaneous Projects	various	87,500	various	10	10
<b>Sub - Total:</b>		<b>\$ 325,200</b>			
<b>GRAND TOTAL:</b>		<b>\$ 3,224,425</b>			

**Granite State Gas Transmission Inc.**

1. Unitil agrees to collaboratively conduct a study of issues regarding the potential integration and/or other reorganization of Granite State Gas Transmission, Inc. ("Granite") and Northern, and to share all technical analyses, system models, economic evaluations, legal opinions, and findings produced by the study with stakeholders in New Hampshire and Maine, including the New Hampshire Commission Staff and the Office of the Consumer Advocate.
2. Unitil agrees to undertake this collaborative study immediately upon closing of the transaction, to pursue the study expeditiously, and to complete a preliminary report within one year of closing. The report will address, as a minimum, the following areas of inquiry:
  - **Network Planning** – system impacts, construction requirements, reliability implications, and costs associated with reducing the operating pressure, changing the MAOP, and/or splitting the pipeline at state borders, if necessary to change the pipeline status from transmission to distribution.
  - **IMP Costs** – capital expenditures and ongoing maintenance costs associated with Pipeline Integrity Management that would be avoided if the pipeline were de-rated.
  - **Operational Impacts** – operational impacts and costs (if applicable) associated with reducing the operating pressure, changing the MAOP, and/or splitting the pipeline at state borders if applicable.
  - **Supply Contracts** – costs, impacts and/or loss of flexibility in contracting for supply, managing supply for both states, and/or managing the exchange agreement with Bay State.
  - **Marketers/Suppliers** – affect on customers, marketers and suppliers if the pipeline is integrated into Northern, and whether such integration will affect the availability of the pipeline for wholesale deliveries.
  - **Legal/ Regulatory** – exemptions or determinations available to seek a jurisdictional change (Hinshaw exemption, a service area determination, etc.), decertification of the pipeline under PHMSA, and other regulations or precedent as applicable.
3. Upon issuance of the preliminary report, Unitil will work with all parties to solicit feedback and answer questions, and will incorporate comments into a final report as appropriate.
4. Should this study lead to a conclusion that de-rating the pipeline and filing for an exemption from PHMSA regulation and FERC jurisdiction, or some other result, is the most effective long term solution for Northern's and Granite's customers, given due consideration to factors including planning, costs, operations, management of supply, access for third party suppliers, reliability, safety, and the public interest, Unitil agrees to propose an appropriate plan to the New Hampshire and Maine Public Utilities Commissions.