

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

Unitil Energy Systems, Inc.
Rate Case
Docket No. DE 10-055

**SETTLEMENT AGREEMENT ON
PERMANENT DISTRIBUTION RATES**

This Settlement Agreement on permanent distribution rates (“Settlement Agreement”) is entered into this 23rd day of February, 2011, by and among Unitil Energy Systems, Inc. (“Unitil” or “Company”), the Staff of the New Hampshire Public Utilities Commission (“Staff”), and the Office of Consumer Advocate (“OCA”) (collectively, the “Settling Parties”), and is intended to resolve all of the issues in Unitil’s rate case, Docket No. DE 10-055. This Settlement Agreement contains the recommendations of the Settling Parties with respect to approval by the New Hampshire Public Utilities Commission (“Commission”) of Unitil’s new permanent distribution rate levels, storm emergency restoration cost recovery and specific rate design modifications.

SECTION 1. INTRODUCTION AND PROCEDURAL HISTORY

1.1 On March 16, 2010, pursuant to N.H. Code of Admin. Rules Puc §1604.05, Unitil filed a Notice of Intent to file rate schedules and petition for an increase in permanent distribution rates. At the time of the filing, the approximate amount of the proposed change to distribution revenues was estimated to be \$7.5 million, a 5.1 percent increase to total revenues or 21.2 percent to distribution revenues. The Notice also indicated Unitil’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 6, 2010, Unitil filed an update to its Notice of Intent to file rate schedules indicating that the approximate amount of the proposed change in distribution revenues will be \$10.0 million, a 6.8 percent increase to total revenues or 28.6 percent to distribution revenues. The increase from Unitil’s initial estimate was primarily due to

amounts related to storm emergency restoration cost recovery and *pro forma* adjustments to test year expenditure levels.

1.3 On April 15, 2010, pursuant to RSA 378:3, RSA 378:28 and N.H. Code Admin. Rules Puc §§1600 *et seq.*, Unital filed testimony, supporting data, and revisions to its Tariff NHPUC No. 3 – Electricity Delivery. The filing requested approval of: (1) a permanent annual increase to its distribution revenues of \$10,115,716, effective May 15, 2010, including recovery of costs that the Company incurred to restore power to its customers as a result of the December 2008 Ice Storm; (2) an initial step adjustment in 2011 of \$3,508,800, on the effective date of permanent rates to reflect additions to rate base as of December 31, 2010, and the costs that the Company incurred to repair and replace portions of its electric system due to damage caused by the February 2010 Wind Storm; (3) a second step adjustment in 2012 of \$692,945 to reflect the addition to rate base in 2012 of two large substation projects located in Kingston and East Kingston, New Hampshire; (4) a multi-year rate plan structured around a proposed Reliability Enhancement Program and an augmented Vegetation Management Program; (5) certain changes to its rate design and select tariff components; and (6) a temporary revenue increase of \$6,740,895, effective as of July 1, 2010, to be recovered on a uniform per kWh basis from all rate classes until completion of the proceeding.

1.4 On April 19, 2010, the OCA notified the Commission that it would be participating in this proceeding on behalf of residential ratepayers consistent with RSA 363:28.

1.5 On April 26, 2010, the Commission issued Order No. 25,093 suspending Tariff No. 3 pursuant to RSA 378:6, I (a) pending investigation and scheduling a prehearing conference for May 7, 2010.

1.6 A prehearing conference was held on May 7, 2010. The parties and Staff met following the prehearing conference and recommended a procedural schedule for the

Commission's consideration. On May 13, 2010, the Commission approved the procedural schedule recommended by the parties and Staff, including a hearing on temporary rates on June 10, 2010.

1.7 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 then current revenue level. Of the increase, \$500,000 was intended to permit Unitil to begin recovering expenses incurred during the December 2008 ice storm, approximately \$2 million of which had been deferred for accounting purposes in Docket No. DE 09-155. An additional \$500,000 of the increase was to permit the Company to begin expanding its existing reliability enhancement and tree trimming programs. On June 5, 2010, Staff filed the Stipulation and Settlement on Temporary Rates signed by Unitil, OCA and Staff, which the Commission heard on June 10, 2010. The Commission issued Order No. 25,124 on June 29, 2010, approving the Settlement on Temporary Rates, effective July 1, 2010.

1.8 The Audit Staff of the Commission conducted an investigation and audit of Unitil concerning test year information supplied with Unitil's request for a permanent rate increase. The audit also reviewed the expenses related to the December 2008 ice storm emergency restoration efforts. Unitil responded to several sets of data requests from the Audit Staff. The results of the Audit Staff's review are included in Final Audit Reports dated September 22, 2010 (test year audit) and May 10, 2010 (ice storm audit). The Audit Staff also conducted an investigation and audit of Unitil concerning the expenses related to the February 2010 Wind Storm emergency restoration efforts, and released its Final Audit Report on this matter on January 18, 2011.

1.9 On November 4, 2010, Unitil filed the supplemental testimony of Mark H. Collin along with a petition requesting permission from the Commission to amend its petition to include in its 2011 step adjustment an estimated increase to its 2011 pension and post-retirement benefits other than pensions (PBOP) costs of \$557,346. Unitil's supplemental filing increased the total 2011 step adjustment to \$4,066,146.

1.10 On November 5, 2010, the pre-filed written testimony of Staff witnesses Steven E. Mullen, Assistant Director - Electric Division; George R. McCluskey, Utility Analyst; James J. Cunningham, Jr., Utility Analyst; James Brennan, Smart Grid Analyst; Dr. John W. Wilson of J.W. Wilson & Associates, Inc.; and Michael D. Cannata, Jr. of The Accion Group was filed. On the same date, testimony was also filed by OCA witness Kenneth E. Traum, Assistant Consumer Advocate. Discovery was conducted on the Staff and OCA testimony.

1.11 The Staff and OCA issued numerous discovery requests to which Unitil responded. The Settling Parties met in technical sessions in July, September, and December. Settlement discussions between the Settling Parties took place on multiple dates during December 2010 and January 2011, which ultimately led to this Settlement Agreement. No other person participated in the settlement discussions.

SECTION 2. DISTRIBUTION RATE CHANGES

2.1 This Settlement Agreement provides for a series of changes to Unitil's permanent distribution revenues. The first such change will occur on May 1, 2011. It will include a permanent increase in Unitil's distribution rates related to a distribution revenue deficiency, along with a Step Adjustment for additional cost recovery commencing as of that date. That rate change will be followed by three additional annual Step Adjustments on May 1, 2012, May 1, 2013, and May 1, 2014. Except as provided for specifically under this Settlement Agreement, there will be no other permanent distribution rate level changes for the five-year period (the term of this Settlement Agreement) that begins May 1, 2011 through April 30, 2016.

2.2 While the Settling Parties were unable to agree on every individual component included in the overall distribution revenue level, they were able to agree on an overall distribution revenue level and rate design. Specifically, the Settling Parties have agreed that Unitil's distribution revenues be increased by \$4,991,314 on May 1, 2011 and are projected to change in future years through Step Adjustments as more fully described herein by the following amounts:

<u>Date</u>	<u>Annual Projected Step Adjustments</u>
May 1, 2012	\$1,509,376
May 1, 2013	\$1,865,624
May 1, 2014	\$1,430,828

These annual rate changes are described in more detail in Paragraphs 2.3, 2.4, 2.5 and 2.6 below and on Attachment 1.

2.3 The May 1, 2011 distribution revenue increase is net of the Temporary Rates in effect since July 1, 2010, as authorized by the Commission in Order No. 25,124 dated June 29, 2010, in this docket. This rate change will also provide for a Step Adjustment for changes in Plant in Service for the period January 1, 2010, through December 31, 2010, plus an adjustment for the Vegetation Management Program, plus other agreed upon adjustments to Unitil's rates as more fully described in footnote 1 below, and in Sections 3 and 6 herein. The May 1, 2011 rate change shall also include the Recoupment of the difference between temporary and permanent rates, consistent with RSA 378:29, and shall include the recovery of Unitil's prudently incurred Rate Case Expense. Unitil shall file by March 31, 2011, its proposed Rate Case Expense recovery, which shall be subject to review and approval by the Commission. The amount of Rate Case Expense approved for recovery included in the May 1, 2011 Step Adjustment shall be removed from distribution revenues in the May 1, 2012 step adjustment. A calculation of this increase is shown below:

	<u>Amount \$</u>
Permanent revenue deficiency	\$6,611,437
Temporary Rates	(5,158,845)
Subtotal	1,452,592
Plus: Step Adjustment ¹	2,328,228
Recoupment	1,210,494
Rate Case Expense	<i>(to be determined)</i>
Subtotal	<u>3,538,722</u>
Net revenue increase, May 1, 2011	<hr style="width: 100%; border: 0.5px solid black;"/> <u>\$4,991,314</u>

This represents an increase of 3.3 percent of total revenues or 12.3 percent of distribution revenues.

2.4 The projected May 1, 2012 distribution revenue increase of \$1,509,376 is net of the Recoupment and Rate Case Expense recovery, which will end on April 30, 2012, plus a Step Adjustment for 75 percent of changes in non-REP Net Plant in Service for the period January 1, 2011, through December 31, 2011, plus an adjustment for the Reliability Enhancement Program (REP) and the Vegetation Management Program (VMP). A calculation of this projected revenue increase is shown below:

¹ \$2,019,355 for net plant in service additions in 2010, \$1,250,000 for VMP, \$320,088 for 2011 pension / PBOP, (\$500,000) to move ice storm to a surcharge, (\$161,446) to remove cash working capital associated with Contract Release Payments, (\$315,861) to move cash working capital associated with Other Flow-Through Operating Expenses to the External Delivery Charge (“EDC”) mechanism, and (\$283,907) to move Non-Distribution Portion of PUC Assessment to the EDC mechanism.

	Amount \$
Step Adjustment:	
75 percent of change to Non-REP Net Plant in Service	\$1,160,469
REP Capital Spending	309,400
REP Expense	300,000
VMP Spending	<u>950,000</u>
Subtotal	<u>\$2,719,869</u>
Less: Recoupment	(1,210,494)
Less: Rate Case Expense	<u>(to be determined)</u>
Net revenue adjustment, May 1, 2012	<u><u>\$1,509,376</u></u>

This represents an increase of 1.0 percent to total revenues or 3.3 percent to distribution revenues.

2.5 The projected May 1, 2013 distribution revenue increase of \$1,865,624 is a combination of a Step Adjustment of \$1,556,224 attributable to 75 percent of changes to Non-REP Net Plant in Service for the period January 1, 2012, through December 31, 2012, plus a Step Adjustment of \$309,400 attributable to the REP. This represents an increase of 1.2 percent to total revenues or 4.0 percent to distribution revenues.

2.6 The projected May 1, 2014 distribution revenue increase of \$1,430,828 is a combination of a Step Adjustment \$1,121,428 attributable to 75 percent of changes to Non-REP Net Plant in service for the period January 1, 2013, through December 31, 2013, plus a Step Adjustment of \$309,400 attributable to the REP. This represents an increase of 0.9 percent to total revenues or 2.9 percent to distribution revenues.

2.7 Throughout the duration of this Settlement Agreement, Unifil agrees to use the depreciation accrual rates as included in the testimony of Staff witness James J. Cunningham, Jr. and as included as Attachment 6.

SECTION 3. SUPPLY RATE CHANGES

3.1 In conjunction with the Step Adjustment that will occur on May 1, 2011, Unifil will reduce its distribution base revenues by: i) \$161,446 to remove the cash working capital associated with Contract Release Payments, ii) \$315,861 to remove the cash working capital associated with Other Flow-Through Operating Expenses, and iii) \$283,907 to remove the Non-Distribution Portion of the annual PUC Assessment from operating expenses included in distribution revenues.

3.2 **Contract Release Payments.** In the calculation of the cash working capital component of rate base, \$9,280,377 was included for Contract Release Payments. Unifil's Contract Release Payments are costs paid to Unifil Power Corp. related to certain long-term power contracts that are recovered through Unifil's Stranded Cost Charge. In 2011, these Contract Release Payments will terminate. Thus, in the May 1, 2011 step adjustment, Unifil will remove from distribution revenues \$161,446, the cash working capital associated with these Contract Release Payments.

3.3 **Other Flow-Through Operating Expenses.** In the calculation of the cash working capital component of rate base, \$18,156,559 was included for Other Flow-Through Operating Expenses. In the May 1, 2011 Step Adjustment, Unifil will remove from distribution revenues \$315,861, the cash working capital associated with Other Flow-Through Operating Expenses. Instead, effective May 1, 2011, Unifil will recover cash working capital associated with Other Flow-Through Operating Expenses in its External Delivery Charge ("EDC"). For the months May, June, and July 2011, the amount of cash working capital included in the EDC associated with Other Flow-Through Operating Expenses shall be \$26,321.75 per month (\$315,861/12). Effective August 1, 2011, the cash working capital in the EDC will be calculated monthly by multiplying the product of

actual monthly Other Flow-Through Operating Expenses and 45 for the number of days lag, divided by 365 days (i.e., the working capital requirement) by Unutil's tax adjusted cost of capital. Unutil's cost of capital is 8.39 percent, as provided in Section 4. These changes will be reflected in Unutil's June 2011 EDC filing for rates effective August 1, 2011.

3.4 Non-Distribution Portion of PUC Assessment. In the May 1, 2011 Step Adjustment, Unutil will remove from distribution revenues \$283,907, the Non-Distribution Portion of the annual PUC Assessment. Instead, effective May 1, 2011, the recovery of the Non-Distribution Portion of the annual PUC Assessment will occur in Unutil's EDC. For the months May, June, and July 2011, the Non-Distribution Portion of the annual PUC Assessment included in the EDC shall be \$23,658.92 per month (\$283,907/12). Effective August 1, 2011, the actual Non-Distribution Portion of the annual PUC Assessment shall be included in the EDC. The Non-Distribution Portion of the annual PUC Assessment shall be determined based on the proportion of non-distribution revenues (EDC revenue plus Default Service revenue), to total revenues in the prior year. These changes will be reflected in Unutil's June 2011 EDC filing for rates effective August 1, 2011.

SECTION 4. COST OF CAPITAL AND CAPITAL STRUCTURE

4.1 In determining the annual changes to distribution rate levels, the Settling Parties utilized an overall capital structure as set forth below, including a 9.67 percent return on equity:

	<u>Component</u>	<u>Cost</u>	<u>Weighted</u>
	<u>Percentage</u>	<u>Cost</u>	<u>Cost</u>
Common Equity	45.45%	9.67%	4.39%
Preferred Stock Equity	0.16%	6.00%	0.01%
Long-Term Debt	51.53%	7.60%	3.92%
Short-Term Debt	2.86%	2.50%	0.07%
	100.00%		8.39%
Total	100.00%		8.39%

4.2 Except as otherwise specified herein, return on any deferred assets or liabilities arising during the term of this agreement will be calculated utilizing the weighted cost of capital specified above.

4.3 During the term of this Settlement Agreement, Unitil will maintain a capital structure that is similar, in terms of debt and equity component percentages, to the capital structure in Section 4.1.²

SECTION 5. EARNINGS SHARING AGREEMENT

5.1 During the term of this Settlement Agreement, an earnings sharing agreement including the use of an average return on equity (ROE) collar will be in effect. The ROE collar will limit Unitil's ability to propose changes to its permanent distribution rate level, and will result in the sharing of earnings if Unitil's earned ROE for distribution for the five reporting calendar years of 2011, 2012, 2013, 2014 or 2015 is greater than ten percent. The annual earnings sharing calculation will be due within 60 days after the end of each year and will be subject to review by Staff and the OCA. The Settling Parties will meet to discuss any issues that may arise during their review of Unitil's annual earnings sharing report. A Settling Party may seek relief from the Commission if, after the review,

² The capital structure in Section 4.1 excludes short-term debt associated with flow through mechanisms (i.e., working capital associated with DS and EDC) and long-term debt associated with the December 2008 ice storm and the February 2010 wind storm.

it disputes Unitil's report on the annual earnings sharing calculation, including the calculation of the earned ROE for distribution.³

5.1.1 The initial period for the annual earnings sharing calculations described in Paragraph 5.1 is the calendar year ending December 31, 2011. Thereafter, the annual earning sharing calculation shall be performed for the reporting calendar years of 2012, 2013, 2014 and 2015. Unitil shall use the F-1 Form (filed quarterly with the Commission) as the basis for its calculation of the earned ROE for distribution.

5.1.2 Unless Unitil's earned ROE for distribution is less than seven percent for a reporting calendar year, Unitil shall not propose a change to its permanent distribution rates for effect prior to May 1, 2016, except as otherwise provided for under Section 5.1.3, Section 11, or under RSA 374-G.

5.1.3 If Unitil's earned ROE for distribution is greater than ten percent for a reporting calendar year, then revenues equaling 75 percent of such difference will then be recognized by Unitil as a deferred liability and an associated deferred asset, and refunded to customers over the 12-month period beginning on May 1 following the reporting calendar year (including May 1, 2016). The refund will be applied proportionally to all customer classes based on distribution revenue, using current distribution rates and test year billing determinants similar to the Step Adjustments described in Section 9.3, below. The refund shall be made through demand or energy usage charges, as applicable, for all rate classes, except for outdoor lighting, where the decrease shall be applied on an equal

³ During the term of this Agreement the calculation of Unitil's earned ROE for distribution will utilize, in terms of debt and equity component percentages, the capital structure set forth in Section 4.1.

percentage basis to all luminaire charges. There will be no change in the customer charge.

5.2 All calculations made under this Section 5 will exclude the Recoupment (pursuant to RSA 378:29).

SECTION 6. STEP ADJUSTMENTS AND REPORTING REQUIREMENTS

6.1 The rate changes specified under this Settlement Agreement reflect four distinct Step Adjustments and associated distribution revenue changes as shown in the table below.

	Step Date			
	5/1/11	5/1/12	5/1/13	5/1/14
75% of Non-REP Net Plant	2,019,355 ⁽¹⁾	1,160,469	1,556,224	1,121,428
REP Capital Spending ⁽²⁾	-	309,400	309,400	309,400
REP Expense ⁽²⁾	-	300,000	-	-
VMP Spending	1,250,000	950,000	-	-
2011 Pension / PBOP Cost Recovery ⁽³⁾	320,088	-	-	-
Move Ice Storm Recovery to Surcharge	(500,000)	-	-	-
Remove Cash Working Capital (Contract Release Payments) ⁽⁴⁾	(161,446)	-	-	-
Move Cash Working Capital (Other FT Operating Expenses) to EDC ⁽⁵⁾	(315,861)	-	-	-
Move Non-Distribution Portion of PUC Assessment to EDC	(283,907)	-	-	-
Subtotal	2,328,228	2,719,869	1,865,624	1,430,828
Recoupment	1,210,494	(1,210,494)	-	-
Rate Case Expense	TBD	TBD	-	-
Total Step Adjustment	3,538,722	1,509,376	1,865,624	1,430,828

(1) Net plant step adjustment includes all change in net plant (75% factor not applied).

(2) From UES's response to OCA 3-2 Attachment 1, Schedule MHC-12.

(3) Reflects increase in 2011 (compared to 2010 pro forma) net Pension and PBOP expense with 5.35% discount rate.

(4) Calculated by removing \$9,280,377 contract release payments multiplied by 45/365 days multiplied by 8.39% rate of return multiplied by tax factor of 1.6814.

(5) Calculated by removing \$18,156,559 of other flow-through operating expenses multiplied by 45/365 days multiplied by 8.39% rate of return multiplied by tax factor of 1.6814.

The three forecasted Step Adjustments in 2012, 2013 and 2014 are based on Unitil's forecasted increases to Non-REP Net Plant in Service of \$6,430,668, \$9,016,336 and \$5,929,492 for the years 2011, 2012 and 2013, respectively, as described in Paragraph 6.3, below. Non-REP Net Plant in Service amounts used to calculate these Step Adjustments shall be provided in sufficient detail to allow for meaningful review. The Settling Parties will work cooperatively to develop a mutually agreeable reporting format.

6.2 By the last day of February of the years 2012, 2013 and 2014, Unitil will file financial documentation showing the actual changes to Net Plant in Service for the

immediately preceding calendar year, as well as the Net Plant in Service as of December 31 for each year. The information filed by Unitil will be subject to review by the Staff and the OCA. Changes to Net Plant in Service reported annually by Unitil will exclude capital additions made under the REP. In its annual filings, Unitil will explain any material variations between actual increases to Net Plant in Service and the forecasted increases described in Section 6.1.

6.3 Unitil shall calculate the actual change to Non-REP Net Plant in Service for the Step Adjustments as follows:

6.3.1 For the 2012 Step Adjustment, Unitil will subtract the Non-REP Net Plant in Service as of December 31, 2010 from the Non-REP Net Plant in Service as of December 31, 2011.

6.3.2 For the 2013 Step Adjustment, Unitil will subtract the Non-REP Net Plant in Service as of December 31, 2011, from the Non-REP Net Plant in Service as of December 31, 2012.

6.3.3 For the 2014 Step Adjustment, Unitil will subtract the Non-REP Net Plant in Service as of December 31, 2012, from the Non-REP Net Plant in Service as of December 31, 2013.

6.4 The Step Adjustment revenue requirement will be calculated in accordance to the method provided in Attachment 1. This method calculates the revenue requirement attributable to 75 percent of the change in Non-REP Net Plant in Service as calculated in Section 6.3. The forecasted results in Attachment 1 are for indicative purposes, and the actual revenue requirement will be based on actual changes in Non-REP Net Plant in Service as calculated in Section 6.3, subject to the cap in Section 6.5, below.

6.5 The revenue requirement for each of the 2012, 2013 and 2014 Non-REP Net Plant in Service calculations shall be subject to: 1) an annual maximum change in 75 percent of non-REP net distribution utility plant in service of \$8 million, and 2) a

cumulative change in 75 percent of non-REP net distribution utility plant in service of \$20 million.

6.6 The amount of the step adjustments are subject to approval by the Commission, following the filing required by 6.2. If the Staff or the OCA are not in agreement with Unutil's calculations or any input to the calculations, they may request that the Commission hold a hearing to determine whether the Step Adjustment should take effect as scheduled, as calculated by Unutil.

SECTION 7. RELIABILITY ENHANCEMENT PROGRAM AND VEGETATION MANAGEMENT PROGRAM

7.1 The Settling Parties agree that Unutil should implement a Reliability Enhancement Program (REP). Beginning in calendar year 2011, Unutil plans to spend \$1,750,000 annually in REP capital expenditures during the term of this Settlement Agreement. Unutil will also increase its annual REP operation and maintenance expense by \$300,000 effective May 1, 2012.

7.2 The Step Adjustments more fully described in Section 2 and 6 herein, include a \$300,000 step on May 1, 2012, to recover the increased REP operation and maintenance expense. Also, each of the Step Adjustments on May 1 in the years 2012, 2013 and 2014 include \$309,400 to recover the revenue requirements attributable to REP capital expenditures of \$1,750,000 in the immediately preceding calendar year. The actual revenue requirements will be based on actual REP capital expenditures and will be subject to a cap of \$2,000,000 on REP capital spending in any calendar year.

7.3 The Settling Parties agree that Unutil will implement an augmented Vegetation Management Program (VMP). The VMP shall be based upon the recommended program provided in the report of Unutil's consultant Environmental Consultants Inc. ("ECI"),⁴ modified to incorporate a 5-year multi-phase and 5-year single phase trim cycle with 8-

⁴ The Settling Parties agree that a copy of the ECI report, originally provided in response to data request Staff 1-29 (Confidential), shall be introduced into the record as a Confidential Exhibit, accompanied by a public redacted version, during the hearing before the Commission on this Settlement Agreement.

foot side and 15-foot top trim zones. In addition, the VMP will be conducted in a manner that addresses fast growing species, and will provide that deadwood will be removed above the primary, and that deadwood outside the trim zone will be removed if service could be impacted. The VMP shall also comply with the requirements of NESC Rule 218.B regarding overhanging vegetation at railroad and limited access highway crossings.

7.4 The revenue requirement for the permanent rates effective May 1, 2011, includes \$200,000 of augmented VMP spending above the test year amount. The Step Adjustment effective May 1, 2011, provides for an additional increase of \$1,250,000 to the revenue requirement, for annual VMP spending. The step adjustment effective May 1, 2012, provides for a further increase of \$950,000 to the revenue requirement, for annual VMP spending. By comparison, 2009 Test Year Distribution Trimming Expense was \$735,739, which will be augmented by the new REP and VMP programs.

7.5 On or before the last day of February of each year following approval of the Settlement Agreement, Unitil will provide an annual report to the Commission, Staff and OCA showing actual REP and VMP activities and costs for the previous calendar year and its planned activities and costs for the current calendar year. Actual and planned REP and VMP costs shown in the report will be reconciled along with the revenue requirements associated with the actual and planned capital additions and expenses. Reconciliations will be subject to Commission approval.

7.6 The Settling Parties agree to the following engineering and operations matters:

7.6.1 The Company will complete the following fuse and re-closer studies and reviews:

- Complete fuse coordination studies on UES distribution circuits where they are out of date to ensure that fuses are coordinated and of the proper size.
- Complete a review of unfused laterals on UES distribution circuits.

- Complete a review of locations on UES distribution circuits where re-closers could be applied in an economic manner to improve reliability.
- The above studies and reviews shall be completed by the Company's 2012 REP filing.

Fuse and recloser changes/additions shall be charged to the REP. The fuse and recloser studies shall be funded by Unitil as part of the Company's ordinary operations and maintenance expenses.

7.6.2. System Review

The Staff will engage the services of a consultant to conduct a review of the Company's engineering and operations practices and procedures as they pertain to system reliability and operational efficiency improvement, in the following areas:

- engineering practices, procedures, and standards;
- maintenance practices, procedures, and standards;
- the load forecasting process used for system planning;
- planning criteria;
- inspection and corrective maintenance process and practices;
- identification of potential alternatives for the deferral of the second Kingston transformer;
- NESC conformance with regard to inspections and vegetation management (and safety issues if found in the course of the review), transformer ratings; and
- tracking and reporting of reliability metrics.

The study will be conducted as an informal dialogue exchange between the Company, the consultant and Staff. Minimal field work is expected and will only be necessary to verify that agreed upon practices, procedures, and standards are being adhered to. The consultant's portion of the study shall be funded by Unitil in an amount not to exceed \$50,000, unless otherwise agreed to by the Parties, and shall be recoverable by the Company through the REP. The Parties anticipate

that the study will take approximately 6 weeks of effort to complete. Following completion of the study, the Staff will submit a report to the Commission. Unitil may submit comments or a response to the report, as it deems appropriate.

SECTION 8. STORM RESERVE ACCRUAL AND RECOVERY OF CERTAIN OTHER STORM RESTORATION COSTS

8.1 The rate levels resulting from the distribution revenue changes specified in Section 2 include \$400,000 annually for the Major Storm Cost Reserve, which will be used to recover costs associated with responding to and recovering from qualifying major storms. Qualifying major storms shall include severe weather events causing 16 concurrent troubles (interruption events occurring on either primary or secondary lines) and 15 percent of customers interrupted, or 22 concurrent troubles, in either the Capital or Seacoast regions of Unitil, as well as costs associated with planning and preparation activities in advance of severe weather if a qualifying major storm is likely occur. Planning and preparation activities will include pre-staging of crews, standby arrangements with external contractors, incremental compensation of employees, and other costs that may be incurred to prepare for a qualifying major storm. A qualifying major storm will be considered likely to occur if the Power Disruption Index (“PDI”)⁵ from the Company’s professional weather forecaster reaches a PDI level of 2⁶ or greater with a “high” (greater than 60 percent) level of confidence.

8.2 The parties recognize that certain weather events may result in extraordinary expenditures to prepare for, or recover from, storms or natural disasters that do not meet the defined criteria for a qualifying major storm. The Company may petition the

⁵ PDI levels are indices developed by Unitil’s weather forecast provider - WSI Corporation of North Andover, MA. A PDI level is a qualified indicator of both the possibility and severity of a particular weather event that results in the potential for customer outages.

⁶ A PDI level of 2 is defined by weather conditions meeting any combination of the following criteria – strong storms where isolated yet severe pockets are possible with moderate to severe lightning; icing between 3/8 to 3/4 inch accretion; less than 6 inches of heavy wet snow; soil moisture greater than 6 g/kg; sustained winds of 30 to 40 mph with many wind gusts between 40 to 50 mph, and with a few in excess of 50 mph.

Commission to recover the extraordinary costs of such events from the Major Storm Cost Reserve and has the burden to demonstrate the reasonableness of its expenditures.

8.3 The Settling Parties agree that the Major Storm Cost Reserve shall be effective for the recovery of costs associated with qualifying major storms occurring on or after July 1, 2010, which was the effective date of temporary rates. The Settling Parties also agree that the major storm events of September 3-4, 2010 (“Hurricane Earl”) and December 26, 2010 (December 2010 Snow Event) qualify as events for which the reasonably incurred costs may be charged to the Major Storm Cost Reserve. The Settling Parties have not agreed to the amount of cost recovery for these two events, and the Company acknowledges that it has the burden to demonstrate the reasonableness of its expenditures.

8.4 The May 1, 2011 Step Adjustment removes \$500,000 of December 2008 ice storm emergency restoration cost recovery from permanent rates. Instead, the recovery of the December 2008 ice storm and February 2010 wind storm costs will occur in a Storm Recovery Adjustment Factor (“SRAF”) surcharge. The \$7,651,723 combined cost, inclusive of carrying charges, of the December 2008 ice storm and the February 2010 wind storm will be recovered on a levelized basis of \$1,132,686 over a period of eight years as shown in Attachment 2. Any unamortized balance will accrue carrying charges at an annual rate of 4.52 percent (equaling Unitil’s cost of debt of 7.60 percent, net of deferred taxes). Based on test year unit sales, the Storm Recovery Adjustment Factor surcharge will be set at \$0.00096 per kWh until all storm costs have been fully recovered. Unitil may petition to change the SRAF should significant over- or under-recoveries occur, or are expected to occur. Any adjustment to the SRAF shall be in accordance with a notice filed with the Commission setting forth the amount of the proposed change. The notice shall specify the effective date of such change, which shall not be earlier than forty-five days after the filing of such notice, or such other date as the Commission may authorize. Unitil shall reconcile revenue billed through the SRAF and the amount subject to recovery, and shall file the results of its recovery with the NHPUC

no later than 60 days after the conclusion of the recovery period. The disposition of any remaining balance will be subject to Commission review and approval.

SECTION 9. RATE DESIGN

9.1 The rate design recommended by the Settling Parties approximates the marginal costs to serve as calculated by the Company and Staff and shown in Attachment 3.

Although not all Settling Parties agree as to the use of this methodology for the purpose of allocating class revenue requirements, they agree to and recommend the approval of the class revenue targets shown at Attachment 3, page 1, line 14 for purposes of this Settlement Agreement.

Accordingly, the Settling Parties hereby resolve rate design issues in this case as follows:

9.2 Permanent Revenues Deficiency. The Settling Parties agree that the revenue requirement for the residential rate class, Rate D, shall be capped at 115 percent of the Company's overall average increase. The remainder of the permanent revenue deficiency shall be allocated to the commercial and industrial rate classes based on class marginal costs, up to their capped revenue target.

9.2.1 The increase for residential Rate D shall be applied on an equal percentage basis between the existing customer charge and total energy charges.

9.2.2 The customer charge for G2, G2 – kWh meter, G2 – Quick Recovery Water Heating and/or Space Heating shall be increased by approximately 50 percent to \$16.50, \$12.50, and \$5.60, respectively while the customer charges for G1 secondary and G1 primary shall be reduced by 20 percent to \$87.09 and \$51.61, respectively. The remaining revenue requirement shall be collected from demand or energy charges as applicable.

9.3 Step Adjustments. The Settling Parties agree that the revenue requirement increase for the residential rate class, Rate D, shall be set at 115 percent of the

Company's overall average increase. The revenue requirement increase for all other rate classes shall be based on an equal percentage increase.

9.3.1 The increases shall be collected through customer, demand or energy charges as applicable for all rate classes, except a) for the residential class where there will be no changes to the customer charge, and b) for outdoor lighting, where the increase shall applied on an equal percentage basis to all luminaire charges.

9.3.2 The resulting class revenue requirement targets and final distribution rates for effect May 1, 2011, including the permanent rate increase and May 1, 2011 step adjustment, are presented in Attachment 4. The step adjustment will be recalculated to include the Rate Case Expense, once determined and approved.

9.3.3 Future Step Adjustments shall be calculated using current distribution rates and test year billing determinants in the same manner as shown on Attachment 4.

9.3.4 Bill impacts based on average use for each class are summarized for permanent rates and step adjustments in Attachment 5. Bill impacts at various usage levels are provided in Attachments 5(a) through 5(e).

SECTION 10. OTHER TARIFF CHANGES

10.1 The Settling Parties recommend that the Commission approve Unitil's proposed midnight outdoor lighting service option.

10.2 The Settling Parties recommend that the Commission approve Unitil's proposed metal halide lighting service option. The metal halide lighting rate calculations are provided at the end of Attachment 3.

SECTION 11. EXOGENOUS EVENTS

11.1 During the term of this Settlement Agreement, Unitil will be allowed to adjust distribution rates upward or downward resulting from Exogenous Events, as defined below.

11.2 For any of the events defined as a State Initiated Cost Change, Federally Initiated Cost Change, Regulatory Cost Reassignment, or Externally Imposed Accounting Rule Change, during the term of this Settlement Agreement, Unitil 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 2011.

11.2.1 “State Initiated Cost Change” shall mean any externally imposed changes in state or local law or regulatory mandates or changes in other precedents governing income, revenue, sales, franchise, or property or any new or amended regional, state or locally imposed fees (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.

11.2.2 “Federally Initiated Cost Change” shall mean any externally imposed changes in 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.

11.2.3 Regulatory Cost Reassignment: The distribution revenue changes described in Section 2 are based on the separation of costs among generation, transmission, and distribution functions of Unitil in place on the date of this Settlement Agreement. “Regulatory Cost Reassignment” shall mean the reassignment of costs and/or revenues now included in the generation, transmission, or distribution functions to or away from the distribution function by the Commission, FERC, NEPOOL, the ISO or any other official agency having authority over such matters.

11.2.4 “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, 2011.

11.3 Excessive Inflation: If the average rate of inflation for calendar years 2012, 2013 or 2014, measured by annual changes in the “Gross Domestic Product Implicit Price Deflator,” exceeds 4 percent, Unitil will be allowed, pursuant to the procedure described in Section 11.4 below, to increase its distribution revenues effective May 1, 2013, May 1, 2014 and May 1, 2015, respectively. The amount of increase to distribution revenue shall be equal to the amount by which such average inflation rate exceeds 4 percent multiplied by actual O&M expense in calendar year 2012, 2013 and 2014, respectively, excluding O&M expenses under Unitil’s REP.

11.4 No later than the last day of February of each year during the term of this Settlement Agreement, Unitil shall file with the Commission, Staff and OCA a Certification of Exogenous Events for the prior calendar year. If, in the prior calendar year, Unitil 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 11.2, Unitil shall provide specific and sufficient detail supporting each change and the Exogenous Event(s) associated with each

change for the Commission, Staff and OCA to 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, Unitil shall certify that fact in its annual Certification of Exogenous Events. On or before March 31 of each year during the term of this Settlement Agreement, the Staff and the OCA may make a filing requesting an Exogenous Event rate decrease or contesting an Exogenous Event rate increase proposed by Unitil. Any adjustments to Unitil's revenue requirement for Exogenous Events: (1) shall be subject to review and approval as deemed necessary by the Commission; (2) shall be implemented for usage on or after May 1 of that year; and (3) shall be allocated to rate classes on a per kWh basis; and (4) shall be made through demand or energy charges, as applicable, for all rate classes, except for outdoor lighting, where the adjustment shall be applied on an equal percentage basis to all luminaire charges. There will be no change in the customer charge. Any such filings are limited to one per calendar year, provided that any costs incurred or saved due to such Exogenous Events shall be deferred for consolidation in the single filing.

11.5 Unitil will not seek a rate increase pursuant to Section 11 if the period of time covered by the Section 11 adjustment overlaps with a period of time for which Unitil is required to return overearnings to customers pursuant to Section 5.1.3.

11.6 Any Exogenous Event adjustment made during the term of this Settlement Agreement will remain in rates only until the effective date of the new rates determined in the Company's first distribution rate proceeding following the end of the term of this Settlement Agreement.

SECTION 12. TERM

12.1 This Settlement Agreement shall become effective upon Commission approval for the implementation of new permanent distribution rates on May 1, 2011, and terminate

on May 1, 2016,⁷ unless terminated sooner under the provisions of Section 5 herein or by mutual agreement of the Settling Parties, and approved by the Commission.

SECTION 13. GENERAL PROVISIONS

13.1 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.

13.2 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.

13.3 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 other than those specified herein. 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.

13.4 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

⁷ Assuming that this Settlement Agreement remains in effect for the full term (i.e., until May 1, 2016), then, pursuant to the Earnings Sharing calculations in Section 5.1.3, if a deferred liability and an associated deferred asset have been recognized by Unitil for the reporting calendar year of 2015, the refund to customers contemplated by that section shall occur over the 12 month period beginning May 1, 2016.

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.

13.5 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.

13.6 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.

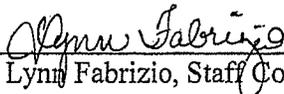
13.7 This Settlement Agreement is the product of confidential settlement negotiations. The content of these negotiations, including any documents prepared during such negotiations for the purpose of reaching a settlement, shall be privileged and all offers of settlement shall be without prejudice to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

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

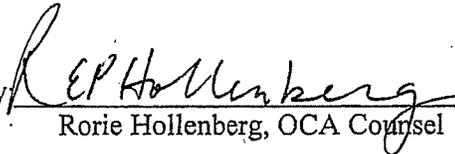
SECTION 14. CONCLUSION

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

**STAFF OF THE NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

By: 
Lynn Fabrizio, Staff Counsel

OFFICE OF CONSUMER ADVOCATE

By: 
Rorie Hollenberg, OCA Counsel

UNITIL ENERGY SYSTEMS, INC.

By: _____
Mark H. Collin, Chief Financial Officer, Unitil Corporation

SECTION 14. CONCLUSION

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**STAFF OF THE NEW HAMPSHIRE
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