

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

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

Docket No. DG 17-070

**SETTLEMENT AGREEMENT ON
PERMANENT DELIVERY RATES**

This Settlement Agreement on permanent natural gas distribution rates (“Settlement Agreement”) is entered into this 6th day of April, 2018, by and among Northern Utilities, Inc. (“Northern” 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 April 25, 2017, Northern 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 that filing, the approximate amount of the requested change to revenues was estimated to be \$5.0 million or 7 percent of total revenue, based on a proforma 2016 Test Year, and a rate plan consisting of base rate step adjustments beginning in 2018, associated with gas distribution plant additions. 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 June 5, 2017, pursuant to NH RSAs 378:7, 378:27, 378:28 and 378:29, and N.H. Code of Admin. Rules PUC §1600 *et seq.*, Northern filed testimony, supporting data and revisions to its Tariff, NHPUC No. 12 - Gas, along with a petition requesting: (1) an annual increase in revenues of \$4,728,445 million beginning July 5, 2017; (2) implementation of a multi-year rate plan, which included a capital cost recovery mechanism consisting of three rate increases on July 1, 2018, 2019 and 2020. Each of the three annual rate increases was projected to add approximately \$2,000,000 to Northern's distribution revenues, and the Company proposed a cumulative cap of \$7,100,000, subject to earnings sharing limitations and adjustments for exogenous events; (3) a return on equity of 10.3 percent; (4) a number of rate design changes; and (4) a temporary rate increase expected to produce an increase of \$1,996,875 million in annual revenues commencing with service rendered on August 1, 2017 and until the date a final, non-appealable order establishing permanent rates is issued by the Commission.
- 1.3. By letter dated April 26, 2017, 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.
- 1.4. On June 15, 2017, the Commission issued Order No. 26,024 suspending the Company's proposed tariff revisions, pursuant to RSA 378:6, I. (a), pending

investigation, and scheduling a prehearing conference for July 6, 2017, and a hearing on temporary rates for July 24, 2017.

- 1.5. On June 23, 2017, Staff propounded oral data requests concerning the temporary rate request and Northern provided responses on June 29, 2017.
- 1.6. On July 6, 2017, the prehearing conference was held. Following the prehearing conference the Settling Parties met in a technical session and agreed upon a Procedural Schedule. The Commission approved the proposed Procedural Schedule by Secretarial Letter on July 11, 2017.
- 1.7. On July 14, 2017, Northern, 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 \$1,600,000 above the current revenue level. To effectuate that increase, the Settling Parties agreed that a uniform, per therm surcharge of \$0.0229 would be applied to all of the Company's current rate schedules for delivery service rendered on or after August 1, 2017.
- 1.8. On July 24, 2017, a hearing regarding the Stipulation and Settlement Regarding Temporary Rates was held before the Commission.
- 1.9. The Commission issued Order No. 26,043 on July 31, 2017 approving the Stipulation and Settlement Regarding Temporary Rates and authorizing the proposed temporary rate increase.
- 1.10. The Audit Staff of the Commission conducted an investigation and audit of Northern 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 November 1, 2017.

1.11. The Parties met in Technical Sessions to review the Company's filing in September and December, 2017.

1.12. On December 20, 2017, Staff filed testimony and supporting data addressing the Company's proposed annual revenue requirements and deficiency and presented recommendations for depreciation, ratemaking adjustments, the Company's proposed rate plan and other issues. The Staff proposed a \$1,280,870 increase in the revenue requirement, including a recommended return on equity of 8.55%.

1.13. On December 20, 2017, the OCA filed testimony and supporting data recommending a return on equity of 8.25 percent for the Company, and, with respect to rate design, that the Company's residential fixed monthly customer charges be reduced and the residential tail block rates should be increased more than the initial block rates.

1.14. Throughout this docket, Staff and the OCA issued several sets of data requests to the Company, including Technical Session requests, each comprised of numerous questions. The Company, in turn, issued data requests to the Staff and OCA. Timely responses were provided to all data requests.

1.15. On February 14 through 16, the Parties engaged in settlement negotiations, which resulted in this Settlement Agreement.

1. REVENUE AND RATE CHANGES

2.1. Annual Revenue Increase. The Settling Parties agree to an annual revenue increase of \$2,602,918 and an offsetting annual revenue decrease of \$1,664,189 to reflect the effect of the federal Tax Cuts and Jobs Act of 2017 (“TCJA”) for a net annual revenue increase of \$938,730, effective May 1, 2018. 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, \$815,513 will be collected within permanent distribution rates and \$123,217 will be collected within the Cost of Gas Clause (“COGC”) as a component of indirect gas costs.¹

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 <u>Percentage</u>	<u>Cost</u>	Weighted <u>Cost</u>
Common Equity	51.70%	9.50%	4.91%
<u>Long-Term Debt</u>	<u>48.30%</u>	5.55%	<u>2.68%</u>
Total	<u>100.00%</u>		<u>7.59%</u>

The cost of long-term debt above incorporates the issuance of long term debt by Northern approved by the Commission in docket DG 17-019.

¹ Existing annual revenue collected in the COGC is \$933,344 of which \$420,658 is for production and storage capacity (PS) and \$512,686 is for overhead (MISC). With this Settlement, the annual revenue collected in the COGC is \$1,056,561 with \$476,106 for PS and \$580,455 for MISC.

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 2**, which is attached to this Settlement Agreement. This exhibit includes the permanent distribution rates (designated as "Permanent Rates"), at page 9 of 10. As agreed by the Settling Parties, the residential classes' fixed monthly customer charges will not change and no classes' revenue increase percentage shall exceed 125% of the overall average percentage increase. The Residential share of the base rate and step increases (described below) will be allocated first to the R5 and R10 tail blocks up until those tail blocks are equal to the first block, and then will be allocated to both blocks equally. Class revenue increase percentages resulting from Permanent Rates are shown at pages 3 and 6 of **Exhibit 2**.

2.4. Step Increases. The Settling Parties agree that in addition to the annual revenue increase in Section 2.1, above, there shall be one step increase to revenues and rates effective May 1, 2018, with an option to the Company for a second step increase effective May 1, 2019. If the Company chooses the option to implement the second step increase pursuant to section 2.4.2 below, then 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, 2020. If the Company chooses to not implement the second step increase, this Settlement Agreement places no restriction upon when it may file its next distribution base rate case.

2.4.1. The Step 1 adjustment shall be effective May 1, 2018 to recover the revenue requirement associated with the Company's investments in its Gas Mains Extensions, New Hampshire Main Replacement Program, Rochester Reinforcement, Gas Highway Projects City State and Farm Tap Replacements ("Eligible Facilities")² which are additions to and closed to utility plant during calendar year 2017. The revenue requirement associated with these Company investments, \$2,337,446, is detailed in **Exhibit 3** which is attached to this Settlement Agreement. The Step 1 adjustment incorporates the effect of the TCJA and reflects a pre-tax rate of return of 9.43%. 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 includes depreciation expenses, property taxes and the pre-tax rate of return and is derived using the method outlined in **Exhibit 3**. To determine the distribution rates effective May 1, 2018 that include this Step 1 adjustment, the Permanent Rates are multiplied by an equal percentage increase except that, for the residential customer classes, the entire revenue adjustment to each class will be directed to increase usage charges, not customer charges. The rate design and distribution rates including

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; 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); the Rochester Reinforcement Project includes reinforcement of the Distribution Hi-Line located in Dover as well as mains and regulator station reinforcements required in Rochester; and Farm Tap Replacements refers to direct-buried regulators to serve rural residential and commercial customers that were installed prior to Unital's acquisition of Northern.

the Step 1 adjustment are provided in **Exhibit 2**, at page 10 of 10 (designated as Base Rates May 2018 with Step Adjustment).

2.4.2.If implemented, the Step 2 adjustment to the Company's distribution rates shall be effective May 1, 2019 to recover the Eligible Facilities revenue requirement associated with the Company's investments in Eligible Facilities (excluding Farm Taps for Step 2 only) which are additions to and closed to utility plant during calendar year 2018, subject to a revenue requirement cap on such investments not to exceed \$2,215,273. The Eligible Facilities revenue requirement for this Step 2 adjustment will be derived using the method outlined in **Exhibit 3**. To determine distribution rates for effect May 1, 2019 that include this Step 2 adjustment, the (Step 1) Base Rates effective May 1, 2018 in **Exhibit 2** will be multiplied by an equal percentage increase. The rate design and distribution rates including the Step 2 adjustment are illustrated in **Exhibit 4**. For this illustration, Step 2 base distribution rates are based on the cap of \$2,215,273. The Company shall file its proposed Step 2 adjustment to distribution rates on or before the last day of February, 2019.

2.5. 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, 2018. The reconciliation of the revenue difference between temporary and permanent rates shall be an equal per therm rate, in accordance with the provisions of Northern's Local Delivery Adjustment Clause

(“LDAC”) tariff. The Reconciliation of Permanent Changes in Delivery Rates (the “RPC”) for effect on May 1, 2018 is derived based on the difference between temporary rates and permanent rates.³ On or before June 30, 2019, 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.

The increase in revenue to be collected in the COGC resulting from this Settlement Agreement, \$123,217, as discussed in Section 2.1, above, will be annualized beginning August 1, 2017 and recouped within the Annual Reconciliation of the COGC as a revenue deficiency.

2.6. 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, 2018 through a uniform charge per therm rate, in accordance with the provisions of Unitil’s revised LDAC tariff at Page 44. The Rate Case Expenses charge (the “RCE”) for effect on May 1, 2018 is derived and designated in **Exhibit 5** which is attached to this Settlement Agreement. The RCE reflects actual rate case expense invoices received by the

³ Due to the TCJA which became effective January 1, 2018, for recoupment purposes only, permanent rates for the period August 1, 2017 through December 31, 2017 will be based on higher 2017 federal and state income tax rates in effect for 2017 which results in a revenue requirement of \$2,602,918. (See page 9 of Exhibit 2, designated as “Permanent Rates Aug17-Dec17 for Recoupment”.) Permanent rates for the period January 1, 2018 through April 30, 2018 will be based on lower 2018 federal and state income taxes in effect for 2018 which results in a revenue requirement of \$938,730. (See page 9 of Exhibit 2, designated as “Permanent Rates”.)

Company through February 2018 and estimated rate case expenses through the conclusion of the proceeding. On or before June 30, 2019, 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.

2.7. Customer Bill Impacts. The bill impacts on customers resulting from this Settlement Agreement are illustrated in **Exhibit 6** which is attached to this Settlement Agreement.

3. OTHER PROVISIONS

3.1. Other Tariff Issues. Attached as **Exhibit 7** are individual tariff pages incorporating the Settlement Agreement. **Exhibit 7** includes tariff pages filed by the Company in this proceeding and not revised by the Settlement Agreement. The Settling Parties agree these tariff pages shall become effective May 1, 2018.

3.2. Depreciation. The Parties agree that the Company will reflect updated whole-life rates for book depreciation purposes as reflected in **Exhibit 8**. The Parties agree that there will no amortization of the reserve variance.

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 or future proceedings.
- 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 Until'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 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.

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

By: _____
Paul B. Dexter, Staff Attorney

OFFICE OF CONSUMER ADVOCATE

By: _____
Donald M. Kreis, Consumer Advocate

NORTHERN UTILITIES, INC. d/b/a Unitil

A handwritten signature in black ink, appearing to read "Gary Epler", is written over a horizontal line.

By: _____
Gary Epler, Chief Regulatory Counsel,
Unitil Service Corp., Attorney for Northern Utilities, Inc. d/b/a Unitil

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OFFICE OF THE CONSUMER ADVOCATE

By:  _____
~~Donald M. Kreis, Consumer Advocate~~
D. Maurice

NORTHERN UTILITIES, INC. d/b/a Unitil

By: _____
Gary Epler, Chief Regulatory Counsel,
Unitil Service Corp., Attorney for Northern Utilities, Inc. d/b/a Unitil