

Kenneth E. Traum Qualifications

My name is Kenneth E. Traum. I am the Assistant Consumer Advocate for the Office of Consumer Advocate (OCA). My business address is 21 S. Fruit Street, Suite 18, Concord, New Hampshire 03301. I have been affiliated with the OCA for approximately twenty one (21) years.

I received a B.S. in Mathematics from the University of New Hampshire in June, 1971, and an MBA from UNH in June, 1973. Upon graduation, I first worked as an accountant/auditor for a private contractor and then for the New Hampshire State Council on Aging, before going to the New Hampshire Public Utilities Commission (NHPUC) in February, 1976. At the NHPUC I started as an Accountant III, advanced to a PUC Examiner and later become Assistant Finance Director.

In my positions with the NHPUC, I was involved in all aspects of rate cases, assisted others in the preparation of testimony and presented direct testimony, conducted cross examination of witnesses, directed and participated in audits of utilities, and performed other duties as required. While employed at the NHPUC, I was a member of the NARUC Regulatory Studies Program at Michigan State.

In 1984, I left the NHPUC for Bay State Gas Company. With Bay State, I was involved in various aspects of financial analysis for Northern Utilities, Inc., Granite State Gas Transmission, Inc., and Bay State Gas Company, as well as regulatory activities with regard to Maine, New Hampshire, Massachusetts and the FERC.

In early 1986, I returned to New Hampshire to join the EnergyNorth companies, where my areas of responsibility included cash management, regulatory affairs, forecasting and other financial matters. While with EnergyNorth, I was a member of the New England Utility Rate Forum and the New England Gas Association. I also represented the utility, which is the largest natural gas utility in New Hampshire, over a two year period in the generic Commission docket (DE 86-208) which developed a methodology for conducting gas marginal cost studies.

In 1989 I joined the Office of Consumer Advocate with overall responsibility for advising the Consumer Advocate and its Advisory Board on all Financial, Accounting, Economic and Rate Design issues which arise in the course of utility ratemaking or cases concerning determinations of revenue responsibility, competition, mergers, acquisitions and supply/demand issues. I assist the Consumer Advocate and the OCA Advisory Board in formulating policy, and in implementation of that policy. In that role, I have testified before the NHPUC on many occasions. In early 2005, I was promoted to Assistant Consumer Advocate.

I am a member of the NASUCA (National Association of State Utility Consumer Advocates), Committees on Electricity and Gas. I am currently on the Board of Directors for Granite State Independent Living (GSIL) and formerly served as Chair as well as a member on the GSIL's Finance and Audit Committees.

Unitil Energy Systems, Inc.
Docket No. DE 10-055
Technical Session Data Requests

Received: September 30, 2010
Request No. 14

Date of Response: October 14, 2010
Witness: Mark H. Collin

Request

Please provide a list of adjustments to the proposed revenue requirement which the Company has agreed to make as a result of the PUC Audit as well as through discovery in this docket.

Response:

TS-14 Response Attachment 1 contains the list of adjustments to the proposed revenue requirement which the Company has agreed to make as a result of the PUC Audit as well as through discovery in this docket.

Unitil Energy Systems, Inc.
 Docket No. DE 10-055
 Request Tech Session 14, Attachment 1

Unitil Energy Systems
List of Adjustments to the Proposed Revenue Requirement

Description	Amount
Errors, Omissions and Revisions:	
a Inflation Adjustment - change in calculation - see OCA 2-21.	(63,685)
b Adjustment to remove Income Taxes (Federal and State) related to the EE programs.	(74,660)
Audit Report	
Recommended Expense Normalization and Other Adjustments:	
c Account 921, Bank fees	(30,615)
Recalculation of the allocation to other Unitil divisions	
d Account 925, Asset Sale - Legal Settlement	(42,885)
Adjustment to use 3-year average in place of test year amount	
e Account 930.53 - Customer Communication	(4,502)
Northeast Gas Association incorrectly allocated in part to UES	
f December 2008 Ice Storm Legal and Professional Fees	(40,890)
Remove \$40,890 from Test year O&M and add \$40,890 to Ice Storm Deferral	
New Ice Storm Deferral Balance (excluding interest) = \$2,086,945	
Audit Issues	
g Audit Issue #6 - Miscellaneous Rent	1,651
Received one extra month of rental income from NU in test year	
h Audit Issue #8 - Vegetation Control Account #593	(21,504)
Expense accrual in December 2008 did not reverse in 2009; reduce test year O&M	
i Audit Issue #10 - Calypso Invoices	(3,971)
Incorrect allocation percentage used - (\$2,306)	
Website development - remove from O&M; capitalize and amortize - (\$1,665)	
j Audit Issue #11 - Property Taxes	(150,720)
Out of Period adjustment required	
k Audit Issue #12 - Property Taxes Capitalized	24,852
Discontinue capitalization of property taxes on buildings; adjust test year property tax expense	
and adjust Utility Plant for the same amount in the test year	
l Audit Issue #13 - Regulatory Commission Expense - Misc.	(1,549)
Reclass a portion from Base to Flow Through related to EE RGGI payments.	
Total	<u><u>\$ (408,478)</u></u>

State of New Hampshire
Public Utilities Commission

Unitil Energy Systems, Inc. Rate Case
Docket No. DE 10-055
Office of Consumer Advocate Third Set of Information Requests

Data Request OCA 3-20:

Please prepare a graphic illustration of all of the rate increases requested by the Company in its filing, using separate columns for each year in which the Company proposes one or more rate changes.

Response:

Please see NH OCA 3-20 – Attachment 1 for a graphic illustration of the projected rate increases that would result from the Company's multi-year rate proposals included in this filing. These numbers reflect the initial filing proposals and projections, including illustrative calculations provided in the initial filing.

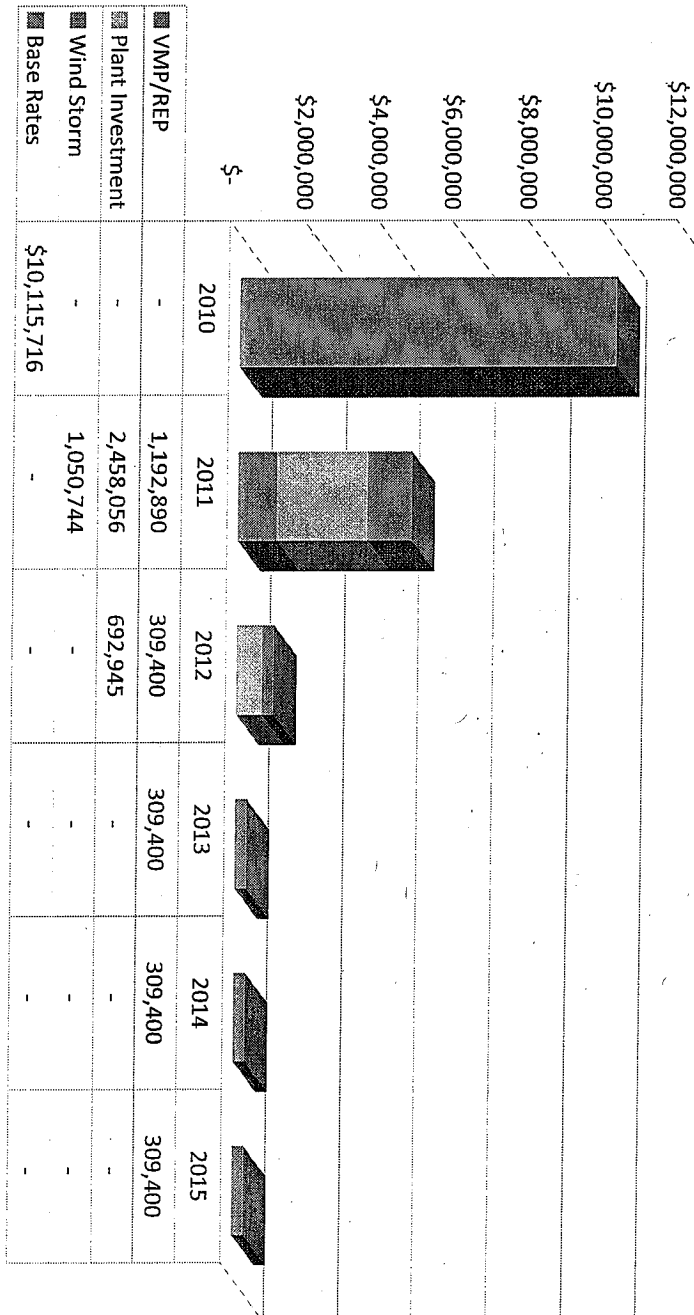
Person Responsible: Mark H. Collin

Date: August 13, 2010

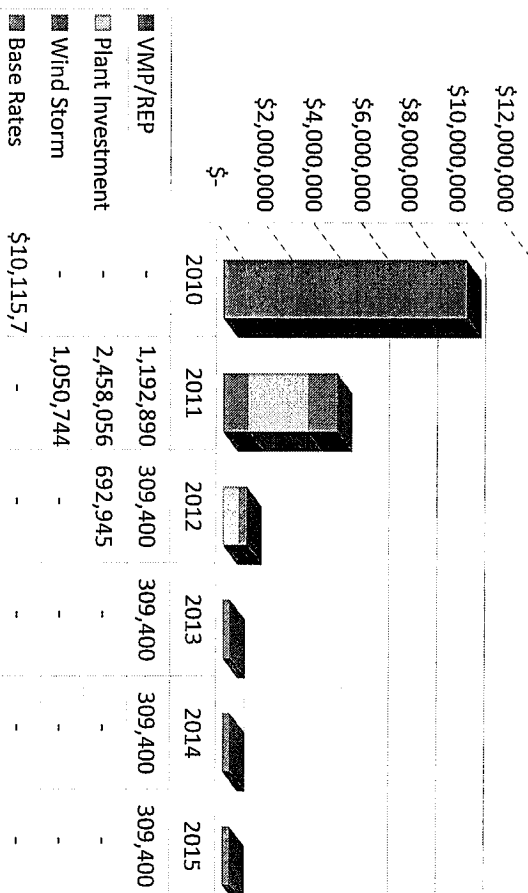
UES Rate Increases

	Base Rates	Wind Storm	Plant Investment	VMP/REP	Total
2010	\$ 10,115,716	-	-	-	\$ 10,115,716
2011	-	1,050,744	2,458,056	1,192,890	\$ 4,701,690
2012	-	-	692,945	309,400	\$ 1,002,345
2013	-	-	-	309,400	\$ 309,400
2014	-	-	-	309,400	\$ 309,400
2015	-	-	-	309,400	\$ 309,400

UES Projected Rate Increases



UES Projected Rate Increases



UES Projected Rate Increases (\$ and %)

	Adjusted Distribution Revenue	Adjusted Total Revenue	% Incr. Distribution Revenue	% Incr. Total Revenue
2009 Revenue Base	\$ 34,250,334	\$ 144,425,288		
2010	10,115,716	44,366,050	22.80%	6.55%
2011	4,701,690	49,067,740	9.58%	2.95%
2012	1,002,345	50,070,085	2.00%	0.63%
2013	309,400	50,379,485	0.61%	0.19%
2014	309,400	50,688,885	0.61%	0.19%
2015	309,400	50,998,285	0.61%	0.19%

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

EnergyNorth Natural Gas, Inc. d/b/a National Grid NH
Docket DG 10-017

Direct Testimony
of
Dr. John W. Wilson

October 22, 2010

J.W. Wilson & Associates, Inc.
Economic Counsel
1601 North Kent Street • Rosslyn Plaza C • Suite 1104 Arlington, VA 22209

objectives of consumer protection and incentives for adequate service and capital attraction. The empirical evidence and calculations that I have provided define an ROE zone of reasonableness within a range from about 8 percent to 9.5 percent for comparable gas utilities. Within this zone of reasonableness, and assuming that revenue decoupling is not adopted, I use 9.0percent for ENNG, together with the previously established capital structure of 50% equity and 50% debt (adjusted to include short term debt at an interest cost of 1.95%), to calculate a recommended return on rate base.

Q. WHAT IS THE RETURN ON RATE BASE THAT RESULTS FROM THIS ROE ALLOWANCE AND CAPITAL STRUCTURE?

A. Based on my recommended 9.0% ROE allowance, together with a proposed capital structure comprised of 50% equity and 50% debt (including short term debt at an interest cost of 1.95%), the Company's overall allowed return on its gas utility rate base would be 7.586 percent.

	<u>Ratio</u>	<u>Cost</u>	<u>Allowed Return</u>
Long Term Debt	42.73%	6.89	2.944%
Short Term Debt	7.27%	1.95%	0.142
Common Equity	50.00%	9.0%	4.500%
Overall Return			7.586%

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

State of New Hampshire
Public Utilities Commission

Unitil Energy Systems, Inc. Rate Case
Docket No. DE 10-055
Office of Consumer Advocate Third Set of Information Requests

Data Request OCA 3-4:

Please refer to Schedule RevReq-5 (Bates p. 0102), Rate Base, 12 Months Ended December 31, 2009. Please revise that schedule so that column (7), Adjustments to Reflect Rate Base at December 31, 2009, only includes non-revenue producing asset additions in 2009.

Response:

Please see NH OCA 3-4, Attachment 1. Schedule RevReq-5 has been revised so that the adjustment in column (7), line 1, Utility Plant in Service, only reflects non-revenue producing asset additions as of the end of the Test Year. In addition, the adjustments to the Reserve for Depreciation in column (7), line 2, and to Deferred Income Taxes, in column (7), 12 and 13, have been pro-rated by a factor of approximately 53%, reflecting the percentage of the revised adjustment for non-revenue Utility Plant in Service compared to the adjustment to Utility Plant in Service shown in column (7), line 1 of the Company's Schedule RevReq-5 (Bate p. 102) as originally filed ($\$2,961,345 / \$5,626,445 = 53\%$). All other Rate Base Additions and Deductions have been shown at the Test Year 5 Quarter Average Balance, as appropriate.

Lastly, these calculations reflect the correction of an error in Column 8, line 13 and, correspondingly, Column 7, line 13, of Schedule RevReq-5 (Bates p. 0102) as originally filed. The amount shown on Column 8, line 13 of Schedule RevReq-5 is shown with the wrong sign (correct from $(\$237,593)$ to $\$237,593$) and, correspondingly, the correct adjustment in Column 7, line 13 is $(\$2,844,679)$. This correction will increase Pro forma Rate Base at December 31, 2009 by $\$475,186$ to $\$130,839,286$. The Company will make this correction to its revenue requirement calculation at an appropriate time during the course of this proceeding.

Person Responsible: Mark H. Collin

Date: August 13, 2010

Unitil Energy Systems, Inc.
 Docket No. DE 10-055
 NH OCA 3-4 - Attachment 1
 Schedule RevReq-5
 OCA 3-4 Scenario

UNITIL ENERGY SYSTEMS, INC.
 RATE BASE
 12 MONTHS ENDED DECEMBER 31, 2009

LINE NO.	(1) DESCRIPTION	(2) REFERENCE	(3) TEST YEAR (1) AVERAGE	(4) 5 QUARTER AVERAGE	(5) ADJUSTMENTS DECEMBER 31, 2009	(6) PROFORMA 5 QUARTER AVERAGE	(7) ADJUSTMENTS TO REFLECT NON-REVENUE RATE BASE AT DECEMBER 31, 2009	(8) PROFORMA RATE BASE AT DECEMBER 31, 2009
1	UTILITY PLANT IN SERVICE (3)	Schedule RevReq-5-1	\$ 193,871,360	\$193,218,909	\$	\$ 193,218,909	\$ 2,961,345	\$ 196,180,254
2	LESS: RESERVE FOR DEPRECIATION & AMORTIZATION	Schedule RevReq-5-1	62,698,072	62,648,141		62,648,141	1,353,598	64,001,739
3	NET UTILITY PLANT		131,173,289	130,570,768	0	130,570,768	1,607,747	132,178,515
4	ADD: M&S INVENTORIES	Schedule RevReq-5-1	1,083,152	1,174,969		1,174,969		1,174,969
5	CASH WORKING CAPITAL (2)	Schedule RevReq-5-3	5,054,259	5,054,259	\$ 293,830	5,348,089		5,348,089
6	PREPAYMENTS	Schedule RevReq-5-1	9,397,234	9,188,754		9,188,754		9,188,754
7	SFAS 109 NET REGULATORY ASSET	Schedule RevReq-5-1	2,221,139	2,221,139		2,221,139		2,221,139
8	ISO DEPOSIT	Schedule RevReq-5-1	2,668,324	2,656,159		2,656,159		2,656,159
9	SUB-TOTAL		20,404,108	20,295,280	293,830	20,589,110		20,589,110
12	LESS: NET DEFERRED INCOME TAXES	Schedule RevReq-5-1	21,488,255	22,724,078		22,724,078	(764,631)	21,959,447
13	PLUS: DEFERRED INCOME TAXES DEBIT	Schedule RevReq-5-1	2,064,805	3,082,272		3,082,272	(1,497,229)	1,585,043
14	LESS: CUSTOMERS DEPOSITS	Per Books	1,822,232	1,852,738		1,852,738		1,852,738
15	LESS: CUSTOMER ADVANCES	Schedule RevReq-5-1	652,962	655,392		655,392		655,392
16	RATE BASE		\$ 129,678,752	\$ 128,716,112	\$ 293,830	\$ 129,009,942	\$ 875,149	\$ 129,885,091
17	NET OPERATING INCOME APPLICABLE TO RATE BASE		\$ 8,257,638	\$ 8,257,638	\$	\$ 5,495,262	\$	\$ 5,495,262
18	RATE OF RETURN		6.37%	6.42%		4.26%		4.23%

Notes:
 (1) Two Point Average
 (2) Computed Working Capital
 (3) Adjusted for non-revenue producing plant only

STATE OF NEW HAMPSHIRE

Inter-Department Communication

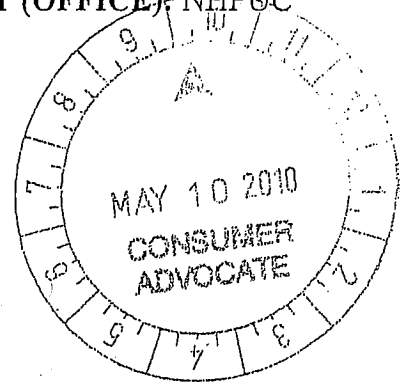
DATE: 5/10/2010

AT (OFFICE): NHPUC

FROM: Stuart Hodgdon, Chief Auditor
James Schuler, Examiner

SUBJECT: Unitil Energy Systems, Inc.
December, 2008 Snow and Ice Storm Costs
Final Audit Report

TO: Tom Frantz, Director Electric Division
Steve Mullen, Assistant Director



INTRODUCTION

On December 11 and 12, 2008, parts of New Hampshire (NH) and Massachusetts (MA) experienced a devastating Ice Storm that caused significant damage to the Unitil Energy Systems, Inc. (UES or the Company) electric system. Following the Ice Storm, two consecutive snow storms dropped a total of 24 inches of snow in already hard-hit areas, hampering the Company's restoration efforts.

UES has three operating divisions; UES-Seacoast and UES-Capital, both located in NH, and a combination electric and gas utility operating affiliate, Fitchburg Gas and Electric Light Company (FG&E), located in MA. The NH PUC Audit Staff (Audit) reviewed financial records, storm cost entries made in 2008 to account #106.01, Capitalized Portion of Storm as well as actual storm charges posted in 2009, pertaining to UES-Seacoast and UES-Capital.

The 2008 entry debited UES Capital account #106.01; Capitalized Portion of Storm for \$391,095 and for UES Seacoast, \$2,378,160 was posted. The offset was to an accrual account. This entry is a "Reversing Entry" which means it reversed in January 2009.

Per PUC Order #25,042, dated 11/9/09, approval was given to record \$1,941,947 as a regulatory asset pursuant to FAS No. 71.

that shows the Company used an interest rate of 8.70% per month. Per the Company, this rate was the overall rate of return listed in UES' Docket DE 05-178, Order No. 24,677. The Estimated Carrying Charges on Storm Costs schedule shows the months' beginning month and end of month balance. Audit's review of the way UES calculated the average monthly balance was quite different than that which was reported by Public Service New Hampshire (PSNH) in their filing of Storm costs. PSNH reduced the amount of deferred costs on which it calculated carrying charges for: amounts capitalized to plant, insurance proceeds and deferred taxes. UES' calculation as submitted did not include these reductions and resulted in a higher amount of carrying charges than if the PSNH method were used. **Audit Issue #3.**

UES reported carrying charges totaling \$252,518 through 12/31/09.

Other deferred costs were reported as \$366,658. The Summary of All Charges and Estimates as of 12/31/09 reported this amount to be all Seacoast. **Audit Issue #4.**

UES provided Audit with a schedule showing AFUDC charges from January 2009 through September 2009 totaling \$31,781. These charges were posted separately and correctly not included as Ice Storm costs.

Audit however, questioned the Company as to why the Summary of All Charges and Estimates as of 12/31/09 includes carrying charges calculated monthly on all costs and then there are additional charges made for AFUDC. **Audit Issue #5**

FAIRPOINT BILLINGS

UES has a cost sharing agreement with FairPoint Communications (FairPoint). UES stated that FairPoint was billed and paid \$109,456 for their share of tree trimming concerning the Ice Storm. Audit noted that this amount was a reduction to Contractor invoices & Other. However, as of 12/31/09 the sum of \$6,242 in tree trimming had yet to be billed to FairPoint, \$6,625 for pole placements was billed, but not paid and there is approximately \$50,858 for pole placements that shall be billed as soon as verifications and exchange of information is completed.

The FairPoint unbilled amounts listed above and the unpaid billing of \$6,242 are included by UES in its total project cost for which carrying costs are charged due to the FairPoint bankruptcy filing.

Audit also noted that the Summary of All Charges and Estimates as of 12/31/09 for UES Capital includes a credit for receipt of \$12,973 from Kearsarge Telephone for cost sharing.

DE 10-055 UES Rate Case
 Testimony of Traum
 Attachment KET 6

NHPUC Storm Audit
 Audit Issue #4
 Attachment 1

**12/11 Storm
 Summary of All Charges and Estimates
 as of 12/31/09**

Total Costs	Capital	Seacoast	Total
Payroll	134,983	329,269	464,252
M&S	20,559	126,230	146,788
Transportation	27,168	62,684	89,851
Contractor Invoices & Other	288,339	2,161,257	2,449,596
USC Time & Expenses	34,283	168,567	202,850
Transformers	34,902	82,782	117,684
Total excluding overheads	540,233	2,930,789	3,471,021
Overheads applied to Capital	38,640	74,762	113,402
Total	578,873	3,005,551	3,584,423
Capitalized Costs	540,191	1,102,286	1,642,476
Total Deferred Costs	38,682	1,903,265	1,941,947
Deferred Entries			
6/09 JE 865	38,682	1,903,265	1,941,947
9/09 JE 865			-
Deferred Costs from Construction	38,682	1,903,265	1,941,947
Other Deferred Costs (Audit Issue #4)		366,658	366,658
Total Deferred Costs	38,682	2,269,923	2,308,605
Total Capitalized / Deferred / Carrying Charges	\$ 578,873	\$ 3,372,209	\$ 3,951,081
Less: USC OT Adjustment (Audit Issue #1)	(761)	(3,715)	(4,476)
Less: USC Adjustment (Audit Issue #1)	(24,367)	(118,967)	(143,334)
Less: Original Carry Charge (Audit Issue #3)	(42,928)	(209,590)	(252,518)
Plus: Adjusted Carry Charge (Audit Issue #3)	14,204	69,347	83,551
Less: Other Deferred Costs (Audit Issue #4)	-	(366,658)	(366,658)
Other Deferred Costs (Audit Issue #4)	62,332	304,326	366,658
Total Adjusted Capitalized / Deferred / Carrying Charges	\$ 587,352	\$ 3,046,952	\$ 3,634,304

State of New Hampshire
Public Utilities Commission

Unitil Energy Systems, Inc. Rate Case
Docket No. DE 10-055
Office of Consumer Advocate First Set of Information Requests

Data Request OCA 1-5:

Page 11 of the NHPUC Final Audit Report addresses Fairpoint Billings.

- a. Please explain if and why the \$2,410,011 of deferred ice storm costs shown on Schedule RevReq-3-9 includes the \$6,242 in tree trimming which the Audit Report indicated "had yet to be billed to Fairpoint" and the \$6,625 for pole placements billed "but not paid".
- b. The report states: "there is approximately \$50,858 for pole placements that shall be billed as soon as verifications and exchange of information is completed." Please explain if the \$50,858 is entirely excluded from test year rate base as well as the \$2,410,011 of deferred ice storm costs shown on Schedule RevReq-3-9.
- c. Please explain why "The FairPoint unbilled amounts ...and the unpaid billing of \$6,242 are included by UES in its total project cost for which carrying costs are charged due to the FairPoint bankruptcy filing." Has the Company filed a claim in bankruptcy for these amounts? If so, what is the status of the Company's claim?

Response:

- a. The amount of \$6,242 for tree trimming is currently included in the deferred ice storm costs. UES will process a billing to FairPoint and will then write off this billed amount as uncollectible, and remove the amount from the storm deferral total.

The \$6,625 in costs that have been billed to FairPoint was not included in the total cost of the December 2008 Ice Storm.

- b. The amount of \$50,858 has not been billed to FairPoint as of this date and is included in rate base and the capitalized storm costs. This amount is not included in the \$2,410,011 of deferred ice storm costs shown on Schedule RevReq-3-9.

State of New Hampshire
Public Utilities Commission

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

Office of Consumer Advocate First Set of Information Requests

- c. Per response to a. above the amount billed to FairPoint of \$6,625 for the pole placements was reduced from the total cost of the storm, and no carrying costs were charged on this amount. The unbilled amount of \$6,242 for tree trimming will be billed to FairPoint and reduced from the deferred storm costs and the calculation of carrying costs. The \$50,858 related to joint pole ownership is included in test year rate base, not the deferred storm costs, and no carrying costs have been accrued on this amount. The Company has filed a claim for costs in the bankruptcy proceedings for FairPoint. Currently the claim is still pending.

Person Responsible: Mark H. Collin

Date: 5/21/10

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: September 22, 2010
AT (OFFICE): NHPUC

FROM: The NH Public Utilities Commission Audit Staff

SUBJECT: Unitil Energy Systems, Inc.
Rate Filing DE 10-055
Final Audit Report

TO: Tom Frantz, Director, Electric Division
Steve Mullen, Assistant Director

INTRODUCTION

Unitil Corporation (Unitil) is a public utility holding company. Unitil Corporation's principal business is the retail distribution of electricity and natural gas throughout its service territories in the states of New Hampshire, Massachusetts and Maine. Unitil Corporation is the parent company of three distribution utilities. Unitil Energy Systems, Inc., (Unitil Energy, UES) which provides electric service in the southeastern seacoast and state capital regions of New Hampshire, Fitchburg Gas and Electric Light Company (FG&E), which provides both electric and natural gas service in the greater Fitchburg area of north central Massachusetts; and, Northern Utilities, Inc. (Northern Utilities, NU) which provides natural gas service in southeastern New Hampshire and portions of southern and central Maine. In addition, Unitil Corporation is the parent company of Granite State Gas Transmission, Inc., (Granite, GSG) an interstate natural gas pipeline company in New Hampshire and Maine.

Unitil Service Corp., (USC) a subsidiary of Unitil Corporation provides a wide variety of shared business functions to its utility affiliates on an "at-cost" basis.

Unitil Corporation's other subsidiaries are Unitil Power Corp., Unitil Resources, Inc. and Unitil Realty Corp. Unitil Power Corp. has divested substantially all of its long-term power supply contracts and is currently winding up its business operations. Unitil Resources, Inc. is a wholly-owned non-regulated subsidiary with two additional subsidiaries: Usource, Inc. and Usource, L.L.C. (collectively Usource), which provides electric and natural gas energy brokering and advisory services to large commercial and industrial customers in the northeastern United States. Unitil Realty Corp. owns the corporate office building in Hampton, New Hampshire.

Acct 10-20-10-00-923-04-00 Dewey & Leboef LLP \$ 12,815
\$ 84,890

Refer to page 32. Credit adjustments are recommended, and the total amount should be moved to the December 2008 Ice Storm Deferred Account, which will cause amortization expense to increase.

Company Comments at Exit Audit Meeting September 20, 2010, pertaining to above Audit Recommended Adjustments

Account 921, Bank Fees

At the Exit Audit Meeting UES stated that they agree with the credit Adjustment of \$30,615.

Account 923, Asset Sale-Legal Settlement

UES indicated that the \$18,334 in legal fees were incurred in the normal course of business and should not be adjusted from the rate filing. Per discussion the sum of \$13,624 was spent on the Asset Sale-Legal Settlement. UES stated that there may be more legal expenses in the future pertaining to this asset sale.

The PUC Audit Staff's review of legal fees posted to account #10-20-08-00-923-00-01 and #10-20-50-00-923-00-00 in the amounts of \$24,702 and \$28,508 were found to be high for the test year. Audit recommends a three year average normalization be considered. For account #10-20-08-00-923-00-01 year 2007 was \$2,500; year 2008 was \$500 and year 2009 was \$24,702. For account #10-20-50-00-923-00-00 year 2007 expenses were \$500; year 2008 was \$7,500 and year 2009 was \$28,508.

Account 925, Asset Sale-Legal Settlement

UES agrees with the Audit Staff's recommendation to use the three year average of \$71,115. UES stated that \$62,186 was paid to the site trust as part of the legal settlement.

Account 930.2

UES agrees with the recommended credit adjustment of \$4,502.

Account 923, Ice Storm Costs

UES believes this amount (\$84,890) should be reduced by a \$44,000 credit that was posted to this account in January 2009, resulting in a net test year amount of \$40,890 that should be moved to the deferral account for the December 2008 Ice Storm.

PUC Audit reviewed the general ledger account and did note the above described UES January credit accrual. Audit now agrees with UES that the sum of \$40,890 should be moved to the deferral for the 2008 Ice Storm.

Audit Issue #12

Property Taxes Capitalized

Background

UES reflects two Property Tax expense accounts with credit balances. The amounts represent a percentage of property taxes capitalized.

Issue

UES books a percentage of all building expenses to construction and property taxes are one of these expenses. The percentages are based on square footage of each building and the uses of the building such as general area, stock area, and vehicle garage area. However, FERC authorizes “taxes on physical property (including land) **during the period of construction** and other taxes properly includable in construction costs **before the facilities become available for service**”. (emphasis added)

Recommendation

UES cannot include the ongoing property tax expenses of existing facilities in fixed plant cost. Rather, the Company must comply with FERC and include only that property tax expense, incurred during the period of construction in the cost of the plant. When the facility under construction becomes available for service, the property tax is expensed, not capitalized.

As a result, the property tax expense is understated by \$24,852 and the clearing accounts to which the offset posted, account 184, are overstated. The final plant in service accounts which includes this expense total are unknown.

Company Comment

The Company believes it was properly interpreting FERC guidance; however, the Company agrees with the Audit Staff’s recommendation and will no longer capitalize property taxes related to existing buildings and the Company’s rate filing will be adjusted accordingly.

Audit Comment

Audit concurs with the stated action outlined in the Company Comment, and reminds the Company of the plain language of the FERC.

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

PUC Staff Information Requests – Set 3

Received: July 1, 2010
Request No. Staff 3-100

Date of Response: July 15, 2010
Witness: Mark H. Collin

Request:

Reference Collin testimony, Schedule MHC-3. Please provide a break-out of the depreciation component and the amortization component of line 20 "Depreciation and Amortization" for the years 2006 through 2010.

Response:

Please see line number 3 of Staff 3-100; 3-101; 3-102 Attachment 1. This provides the depreciation and amortization components of line 20 of Schedule MHC-3.

Unitil Energy Systems, Inc.
Docket No. DE 10-055
Staff 3-100; 3-101; 3-102 Attachment 1

Line No.	Description	Reference	2006	2007	2008	2009
1	Depreciation Expense		\$ 4,950,144	\$ 6,281,372	\$ 6,700,488	\$ 7,152,867
2	Amortization Expense		905,900	867,499	859,159	866,571
3	Depreciation and Amortization	MHC-3 Line 20	5,856,044	7,148,871	7,559,647	8,019,438
4	Items Excluded from MHC-3 Line 20 Depreciation & Amortization (2009):					
5	REG ASSET AMORT PENSION (10-20-51-00-4070407)		50,083	50,082	50,082	50,082
6	FASB 87-PENSION REG ASSET AMORTIZATION (10-20-51-00-4070405)		76,846	76,846	76,846	76,846
7	FASB 87-PENSION REG ASSET AMORTIZATION (10-20-61-00-4070405)		93,923	93,923	93,923	93,923
8	REG ASSET AMORT PENSION (10-20-61-00-4070407)		61,212	61,212	61,212	61,212
9	Sub Total - Pension Amortization	Incl in MHC-3 Line 9	282,064	282,063	282,063	282,064
10	RATE RECOVERY -REG ASSET AMORT PBOP (10-20-51-00-4070408)		22,404	22,404	22,404	22,404
11	SFAS106-PBOP REG ASSET AMORTIZATION (10-20-61-00-4070403)		34,228	34,228	34,228	34,228
12	RATE RECOVERY REG ASSET AMORT PBOP (10-20-61-00-4070408)		27,382	27,382	27,382	27,382
13	SFAS106-PBOP REG ASSET AMORTIZATION (10-20-51-00-4070403)		28,005	28,005	28,005	28,005
14	Sub Total - Post Retirement Medical Amortization	Incl in MHC-3 Line 10	112,019	112,019	112,019	112,018
15	AMORTIZATION OF RATE CASE COSTS (10-29-10-40-4070304)		32,373	573,407	-	-
16	(Flow-Through Item, Excl from MHC-3)					
17	Total	=a+b+c+d	6,282,500	8,116,360	7,953,729	8,413,520
18	Depreciation Expense - Test Year Excl Proforma Adjustments	RevReq-2 line 15	4,950,144	6,281,372	6,700,488	7,152,867
19	Amortization Expense - Test Year Excl Proforma Adjustments	RevReq-2 line 16	1,332,356	1,834,988	1,253,241	1,260,653
20	Total Depreciation and Amortization - per RevReq-2		6,282,500	8,116,360	7,953,729	8,413,520

Unitil Energy Systems, Inc.
Docket No. DE 10-055
Technical Session Data Requests

Received: September 30, 2010
Request No. 2

Date of Response: October 14, 2010
Witness: Mark H. Collin

Request

Please refer to UES's response to Staff 3-100, Attachment, line 2. Compare the amortization expense from 2009 (*i.e.*, \$866,571) with the amortization expense for 2010, excluding items that the Company proposes to recover through a step adjustment.

Response:

Below is the list comparing the 2009 Amortization Expense with the eight months actual and four months forecast 2010 Amortization Expense.

	<u>2009</u>	<u>2010</u>
AMORT OTHER	112,929	110,446
AMORTIZATION OF OTHER SOFTWARE	185,643	155,742
MERGER COST AMORTIZATION	19,779	19,779
AMORT EXP-FAS 109 REG ASSET-FED	401,280	401,280
AMORT EXP-FAS 109 REG LIABILITY- FED	(109,812)	(109,812)
AMORT EXP-FAS 109 REG GROSS-UP-FED	(106,728)	(106,728)
AMORT EXP-FAS 109 REG ASSET-STATE	367,536	367,536
AMORT EXP-FAS 109 REG LIABILITY-STATE	(4,056)	(4,056)
Subtotal	<u>866,571</u>	<u>834,187</u>
AMORTIZATION - 2008 ICE STORM	-	<u>250,000</u>
Total	866,571	1,084,187

The 2010 estimate above includes the amount of \$250,000 for amortization of the 2008 Ice Storm costs for the period July-December 2010. This reflects half of the amount authorized by the Commission in Order No. 25,124 for recovery in temporary rates.

UNITIL ENERGY SYSTEMS, INC.

DIRECT TESTIMONY OF
ROBYN A. TAFOYA

New Hampshire Public Utilities Commission
Docket No. DE 05-__

0065

1 in DE 01-247.² This component of depreciation expense is therefore
2 unchanged in the proforma test year cost of service from previously
3 authorized amounts.

4
5 **D. AMORTIZATION EXPENSE**

6
7 **Q. Please explain the adjustment to Amortization Expense.**

8 **A.** The Amortization Adjustment is shown on Schedule RevReq-3-16, and results
9 in an increase to amortization expense of \$11,083. This adjustment
10 normalizes annual amortization expense for items that began during the test
11 year and items that ended during the test year. In addition, the amortization of
12 costs associated with the merger of CECco and E&H to form UES is excluded
13 from test year amortization expense.

14
15 **E. TAXES OTHER THAN INCOME TAXES**

16
17 **1. Property Taxes**

18

² Docket No. DE 01-247, Phase II Settlement Agreement for Restructuring the Unitil Companies, p. 16 at 317-321, "...the test year depreciation expense of \$5,038,718 consists of two components: depreciation expense on the test year 2001 Utility Plant as of December 31, 2001 of \$4,465,756 and amortization of the depreciation reserve indicated imbalance (deficiency of \$2,864,805) over five (5) years at a rate of \$572,961 per annum." [emphasis added]

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 08-048

UNITIL CORPORATION AND NORTHERN UTILITIES, INC.

Joint Petition for Approval of Stock Acquisition

Order Approving Settlement Agreement

ORDER NO. 24,906

October 10, 2008

APPEARANCES: Scott J. Mueller, Esq., of Dewey & LeBoeuf LLP, and Gary Epler, Esq., for Unitil Corporation; Douglas L. Patch, Esq., of Orr & Reno, P.A., and Mark Kempic, Assistant General Counsel of NiSource Corporate Services Company, for Northern Utilities, Inc.; Shawn J. Sullivan, Esq., of Cook, Kenison, Bedard & Sullivan, P.A., for United Steel Workers of America Local 12012-6; Alan Linder, Esq., of New Hampshire Legal Assistance, for Mary Polcheis; Meredith A. Hatfield, Esq., of the Office of Consumer Advocate, on behalf of residential utility ratepayers; and Edward N. Damon, Esq. for the Staff of the Public Utilities Commission.

I. PROCEDURAL HISTORY

On March 31, 2008, Unitil Corporation (Unitil) and Northern Utilities, Inc. (Northern) (also referred to as the Joint Petitioners) filed a joint petition for approval, pursuant to RSA 374:33 and RSA 369:8, II (b), of Unitil's acquisition of Northern by means of Unitil's purchase of all the common stock of Northern.

Unitil's principal business is the retail distribution of electricity through its subsidiary, Unitil Energy Systems, Inc. (UES), in the seacoast and capital regions of New Hampshire and electricity and natural gas through its subsidiary, Fitchburg Gas and Electric Light Company (Fitchburg), in the greater Fitchburg area of Massachusetts. Together, Unitil's two distribution utilities serve about 100,000 customers in Massachusetts and New Hampshire.

other affiliated companies from the allocation of centralized overhead and fixed costs over an expanded group of companies under common ownership. Cost savings are not guaranteed but under section 3.1 of the settlement agreement any and all cost savings will be flowed through to ratepayers of Northern and UES at the time of any change to their rate components.

Unitil will incur costs to achieve the cost savings, such as transaction, transition and integration costs. Under section 2.4 of the settlement agreement, transaction and transition costs are not recoverable from ratepayers. OCA and Staff originally argued against recovery of any integration costs. Under section 3.3, prudently incurred integration costs for capitalized project expenditures to build or upgrade systems, facilities and equipment required for Unitil to independently operate Northern, estimated to cost approximately \$3.2 million (not including the replacement of 37 information tools), are recoverable in a future Northern base rate proceeding. However, integration costs, which will be incurred in connection with capital assets having relatively short 3 to 5 year service lives, will be depreciated over a period 3 years longer than would normally be the case, thus reducing Northern's revenue requirement related to these assets. In addition, although the settlement agreement acknowledges that the proposed transaction may accelerate the expenditure of equipment upgrade costs, it also notes that Northern would incur a normal amount of equipment depreciation and lease costs anyway, and these costs charged by NiSource will simply be replaced with costs charged directly to depreciation at Northern. Under the circumstances of this case and considering the settlement agreement as a whole, we conclude that section 3.3 is acceptable.

The OCA was satisfied of the adequacy of Unitil's commitment in its initial filing to maintain and improve Northern's low income energy assistance and energy efficiency programs. Section 4.1 of the settlement agreement memorializes Unitil's commitment which received the

State of New Hampshire
Public Utilities Commission

Unitil Energy Systems, Inc. Rate Case
Docket No. DE 10-055
Office of Consumer Advocate Third Set of Information Requests

Data Request OCA 3-3:

ScheduleRevReq-3-9 (Bates p. 0089) calculates recovery of the 2008 Ice Storm over 10 years based upon a sum-of-the-years' digits methodology. Please revise that schedule using a 10-year, straight-line amortization methodology.

Response:

See OCA 3-3 Attachment 1. The amount of Deferred Costs at 6/30/10 has been adjusted from \$2,410,011 to \$2,043,881 to reflect the agreed-upon adjustments per the "December, 2008 Snow and Ice Storm Costs Final Audit Report". These adjustments include:

- 1) a reduction of \$4,476 related to the additional storm compensation received by two Grade 19 employees (Audit Issue #1);
- 2) a reduction of \$143,334 related to straight-time compensation of USC employees recorded in the storm deferral account (Audit Issue #1);
- 3) a reduction of carrying charges of \$168,967 (through December 31, 2009) and \$49,353 (January through June 2010) to conform to the carrying charge calculation methodology as that reported by PSNH (Audit Issues #3 and #5).

The amortization schedule is presented using a 10-year, straight-line amortization methodology.

Person Responsible: Mark H. Collin

Date: August 13, 2010

OCA 3-3 Attachment 1
 Schedule RevReq 3-9
 Using 10-yr S-L Amortization

UNITIL ENERGY SYSTEMS, INC.
 STORM DAMAGE RECOVERY ADJUSTMENT
 12 MONTHS ENDED DECEMBER 31, 2009

To reflect ten year straight-line rate recovery of deferred storm costs in connection with December 2008 Ice Storm

Deferred Costs for 2008 Ice Storm @ 6/30/10	\$ 2,043,881
Total Storm Damage Costs to be recovered	<u>\$ 2,043,881</u>

Proforma Adjustment to Expense	<u>\$ 306,359</u>
--------------------------------	-------------------

Recovery Using Straight-line Methodology

Year	Annual Percentage	Annual Amortization	End of Year Balance	Average Balance	Def. Taxes (@ 40.53%)	Balance to Calculate Return	Return at 8.83%	Total Annual Expense
1	10.00%	\$ 204,388	\$ 1,839,493	\$ 1,941,687	\$ (786,869)	\$ 1,154,818	\$ 101,970	\$ 306,359
2	10.00%	204,388	1,635,105	1,737,299	(704,040)	1,033,259	91,237	295,625
3	10.00%	204,388	1,430,717	1,532,911	(621,212)	911,699	80,503	284,891
4	10.00%	204,388	1,226,329	1,328,523	(538,384)	790,139	69,769	274,157
5	10.00%	204,388	1,021,941	1,124,135	(455,556)	668,579	59,036	263,424
6	10.00%	204,388	817,552	919,747	(372,727)	547,019	48,302	252,690
7	10.00%	204,388	613,164	715,358	(289,899)	425,459	37,568	241,956
8	10.00%	204,388	408,776	510,970	(207,071)	303,900	26,834	231,222
9	10.00%	204,388	204,388	306,582	(124,242)	182,340	16,101	220,489
10	10.00%	204,388	-	102,194	(41,414)	60,780	5,367	209,755
		<u>\$ 2,043,881</u>					<u>\$ 536,687</u>	<u>\$ 2,580,568</u>

Unitil Energy Systems, Inc.
Docket No. DE 10-055
Technical Session Data Requests

Received: September 30, 2010
Request No. 16

Date of Response: October 14, 2010
Witness: Mark H. Collin

Request

Reference Audit Report, page 6. Please provide documentation supporting the 12% equity return that is included in the total rent for the Liberty Lane property. Please also provide the supporting calculation for the total amount of equity return included in the test year rent.

Response:

The lease for the Liberty Lane property is structured such that it the landlord (Unitil Realty Corp.) receives in rent its actual cost of owning and operating the premises. Unitil Corporation's Form U-1 filing with the U.S. Securities and Exchange Commission ("SEC") on May 1, 1997, approving this affiliate transaction, states that "Unitil Service is obligated to pay rent payments covering the cost of principal and interest to Unitil Realty, return on equity and certain other expenses such as property taxes, insurance, utilities, repairs, maintenance, leasehold improvements and alterations." The 12% return on equity was initially specified in the calculation of the lease between Unitil Realty and Unitil Service and is not changed during the term of the long-term lease.

Please see TS-16 Attachment 1 for the supporting calculation of the total amount of equity return included in the test year rent.

Unitil Realty Corp

Calculations for Equity Return included in the 2009 Hampton Rent Bill:

		<u>Total Proprietary Capital</u>	<u>Equity Return</u>	
DEC	2008	\$ 2,927,593		Total Proprietary Capital
		95%		Hampton Portion
		<u>\$ 2,781,213</u>	12.00%	

			<u>Net Income</u>	<u>Income Taxes</u>	<u>Equity Return</u>
			(a)	(b)	c = a+b
JAN	2009	\$ 2,809,025	\$ 27,812	\$ 16,687	\$ 44,499
FEB	2009	\$ 2,837,116	28,090	16,854	44,944
MAR	2009	\$ 2,865,487	28,371	17,023	45,394
APR	2009	\$ 2,894,142	28,655	17,193	45,848
MAY	2009	\$ 2,923,083	28,941	17,365	46,306
JUN	2009	\$ 2,952,314	29,231	17,538	46,769
JUL	2009	\$ 2,981,837	29,523	17,714	47,237
AUG	2009	\$ 3,011,656	29,818	17,891	47,709
SEP	2009	\$ 3,041,772	30,117	18,070	48,186
OCT	2009	\$ 3,072,190	30,418	18,251	48,668
NOV	2009	\$ 3,102,912	30,722	18,433	49,155
DEC	2009	\$ 3,133,941	31,029	18,617	49,647
TOTAL			<u>\$ 352,727</u>	<u>\$ 211,636</u>	<u>\$ 564,364</u>

Unitil Energy Systems, Inc.

Docket No. DE 10-055

Technical Session Data Requests

Received: September 30, 2010

Date of Response: October 14, 2010

Request No. 17

Witness: Mark H. Collin

Request

Pages 31 and 38 of the Audit Report dated September 22, 2010 (Audit Report) refer to Account 923, Asset Sale – Legal Settlement. Please confirm that the three-year normalization would result in a reduction to the proposed revenue requirement in the amount of \$31,807.

Response:

The Company confirms that the sum of the three-year average of accounts 10-20-08-00-923-00-01 and 10-20-50-00-923-00-00 is \$31,807 less than the sum of the test year (2009) amounts for the same accounts.

The Company believes that the higher amounts expended in 2009 compared to prior years are an accurate representation of the level of spending that the Company expects to incur in the future and is in a range of reasonableness for rate setting purposes.

State of New Hampshire
Public Utilities Commission

Unitil Energy Systems, Inc. Rate Case
Docket No. DE 10-055
Office of Consumer Advocate Third Set of Information Requests

Data Request OCA 3-21:

In UES's prior base rate case, DE 05-178, one issue raised by the OCA in its testimony related to the inclusion in the proposed revenue requirement of costs associated with the use of company vehicles for community service. See, e.g., DE 05-178, UES Distribution Rate Case, Prefiled Testimony of Kenneth E. Traum, Assistant Consumer Advocate, dated June 9, 2006, p. 3, and Attachment 12 (UES Response to Request No. Tech 1-13). Are there costs associated with the use of company vehicles for community service included in the proposed revenue requirement in this docket? If so, please quantify these costs.

Response:

Please see the table below for the estimated amount of costs associated with the use of company vehicles for community service included in the proposed revenue requirement in this docket.

	Hours	Cost/hour	Total Estimated Cost
Man hours	132	\$33.01	\$ 4,357.32
Truck hours	67	\$20.02	1,341.22
Materials			
Total Community Service			<u>\$ 5,698.54</u>

Person Responsible: Mark H. Collin

Date: August 13, 2010

State of New Hampshire
Public Utilities Commission

Unitil Energy Systems, Inc. Rate Case
Docket No. DE 10-055
Office of Consumer Advocate Third Set of Information Requests

Data Request OCA 3-14:

The Company's response to OCA 2-24 indicates that \$421,546 (\$13,543 plus \$408,003) related to incentive compensation is included in the proposed revenue requirement. Please quantify the portion of this total amount that is related to the Company's return on equity.

Response:

The portion of the total amount of incentive compensation included in the proposed revenue requirement that is related to the Company's return on equity is \$69,360.

Person Responsible: Mark H. Collin

Date: August 13, 2010

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 09-035

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Petition for Permanent Rate Increase

Order Approving Settlement Agreement on Permanent Rates

ORDER NO. 25,123

June 28, 2010

APPEARANCES: Gerald M. Eaton, Esq., for Public Service Company of New Hampshire, Douglas Patch, Esq., of Orr & Reno, P.A. on behalf of the City of Manchester Department of Public Works; Meredith Hatfield, Esq., of the Office of Consumer Advocate, on behalf of residential utility ratepayers; and Matthew J. Fossum, Esq. and Edward N. Damon, Esq. for the Staff of the Public Utilities Commission.

I. PROCEDURAL HISTORY

This docket involves a request by Public Service Company of New Hampshire (PSNH or Company) to raise its distribution rates. After obtaining waivers of certain filing requirements, PSNH filed a request for temporary distribution rates pursuant to RSA 378:27 on April 17, 2009. PSNH sought an increase in annual distribution revenues of \$36,400,000, or about 14 percent, to become effective as temporary rates on July 1, 2009. On April 21, 2009, the Office of Consumer Advocate (OCA) notified the Commission that it would participate in the docket on behalf of residential ratepayers consistent with RSA 363:28. On April 30, 2009, the Commission issued an order of notice setting a pre-hearing conference and technical session for May 13, 2009, and a hearing on temporary rates for June 16, 2009. On May 11, 2009, Unitil Energy Systems, Inc. (Unitil) petitioned to intervene, subject to certain voluntary limitations, which the Commission granted on June 17, 2009.

G. "Miscellaneous" Settlement Provisions

The settlement contains various other provisions, designated by the Settling Parties as miscellaneous. First, the Company is to recover all costs of the programs funded by the System Benefits Charge through the budgets for those programs, and not through distribution rates. SA § 14.1.

Additionally, the settlement agreement states that the rate base in this proceeding includes the PSNH Energy Park solar photovoltaic installation, and that the revenue requirements have been reduced to reflect the value of the energy and Renewable Energy Certificates from that installation. SA § 14.2. The settlement agreement notes that Settling Parties were unable to agree on whether PSNH was required to have sought and obtained Commission approval of the installation, or whether the investment in it was prudent. SA § 14.2. The settlement agreement allows for issues relating to the installation to be raised in the future and provides that to the extent costs associated with this project are disallowed by the Commission, PSNH may retain the value of the energy and Renewable Energy Certificates (RECs) produced by the project. SA § 14.2.

Concerning future dealings, the settlement agreement provides that PSNH shall file both marginal and embedded cost-of-service studies in its next distribution rate case. SA § 14.3. Also, PSNH is required to file an annual report of executive compensation in a format similar to that set out in an order of the Connecticut Department of Public Utility Control. SA § 14.4.

III. POSITIONS OF THE PARTIES AND STAFF

During the hearing in this matter, the Settling Parties offered testimony jointly through two panels of witnesses. The first panel consisted of Steven Mullen, Assistant Director of the Commission's Electric Division; Kenneth Traum, Assistant Consumer Advocate; Robert

The settlement agreement also calls for PSNH to make annual filings of its executive compensation in a form similar to that outlined in an order of the Connecticut Department of Public Utility Control. As described by the OCA, that report will include compensation information of all officers of the utility at the Vice President level and above, the top five officers of the utility's parent, and any directors of the utility's parent if the utility pays a portion of their compensation. Tr. at 54-55. The report will show both the total annual compensation and the amount of the compensation allocated to the utility. Tr. at 55. The settlement agreement does not state when PSNH is to begin filing the report, nor the term that the report will cover. To rectify this oversight, we hereby order that the report on executive compensation shall be filed annually on or before August 1 each year for the preceding fiscal year ended June 30 and that the first such report shall be filed on or before August 1, 2010.

As to the provision relating to the solar installation at PSNH's corporate offices in Manchester, the settlement agreement notes that the revenue requirements for PSNH were reduced to reflect the value of the energy and RECs produced by the installation, but that the Settling Parties were unable to agree on whether PSNH was required to seek and obtain Commission approval of this investment prior to its installation, or the issue of whether the investment in this project was prudent. At this time we render no opinion on the subject. We note that although the settlement agreement permits the issue to be raised in the future, the settlement agreement provides that the revenue requirements have already been reduced to reflect the value of the energy and RECs derived from the project, and that if any of the costs associated with the project are disallowed, the value of the energy and RECs would be restored to the Company. Given the existing shift in value and the potential shift back of that value

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

Public Service Company of New Hampshire
Distribution Service Rate Case
Docket No. DE 09-035

**SETTLEMENT AGREEMENT ON
PERMANENT DISTRIBUTION SERVICE RATES**

This Settlement Agreement On Permanent Distribution Service Rates ("Settlement Agreement") is entered into this 30th day of April, 2010, by and among Public Service Company of New Hampshire ("PSNH"), 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 PSNH's Distribution Service rate case, Docket No. DE 09-035. This Settlement Agreement contains the recommendations of the Settling Parties with respect to the New Hampshire Public Utilities Commission's approval of PSNH's permanent distribution service rate levels and specific rate design modifications.

SECTION 1. INTRODUCTION AND PROCEDURAL HISTORY

1.1 On April 17, 2009, PSNH filed a petition and testimony supporting a request for temporary rates pursuant to RSA 378:27. The petition requested an order approving an increase in annual distribution revenues of \$36.4 million, to become effective as temporary rates on July 1, 2009. The original Order of Notice was subsequently reissued and published calling for a prehearing conference on June 10, 2009 and a hearing on temporary rates on July 13, 2009. At the prehearing conference on June 10, Unitil Energy Systems, Inc.'s petition for intervention was granted, subject to its request for only a limited level of participation. OCA was made a statutory party. Discovery requests were answered by PSNH, and the Settling Parties met in technical sessions on the temporary rate request on May 13 and June 10, 2009. Settlement conferences on the temporary rate request were held at the Commission's headquarters on June 25, 2009 and July 2, 2009, which resulted in PSNH and Staff reaching agreement on temporary rate issues. At the hearing on July 13, 2009, a Stipulation and Settlement Agreement Regarding Temporary Rates was presented asking for Commission approval of a temporary annual rate increase of \$25,611,000, calculated by adjusting all of PSNH's current distribution rates and charges by a uniform percentage, as computed in the temporary rate Stipulation and Settlement Agreement. The OCA did not oppose the settlement. On July 31, 2009, the Commission issued Order No. 24,997 approving the Stipulation and Settlement on Temporary Rates. PSNH's annual Delivery Service rates were adjusted on a temporary basis effective August 1, 2009, by \$25,611,000, including the commencement of recovery of \$6,000,000 per year attributable to the December 2008 ice storm.

1.2 On May 29, 2009, pursuant to N.H. Code of Admin. Rules Puc §1604.05, PSNH filed a Notice of Intent to File Rate Schedules and Petition for Permanent Delivery Rates.

DE 09-035 PSNH Distribution Rate Case
Settlement Agreement

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

SECTION 13. TERM

13.1 This Settlement Agreement shall become effective upon Commission approval for the implementation of new permanent distribution rates on July 1, 2010 and terminate on June 30, 2015, unless terminated sooner under the provisions of Section 4 herein or by mutual agreement of the Settling Parties and approval by the Commission.

SECTION 14. MISCELLANEOUS PROVISIONS

14.1 PSNH shall account for and recover the costs associated with programs funded by the System Benefits Charge (SBC) (i.e., low-income electric assistance program, CORE energy efficiency programs) through the budgets related to these respective programs. Costs related to the SBC-funded programs shall not be recovered through distribution rates.

14.2 The rate base proposed in this proceeding includes the PSNH Energy Park solar photovoltaic installation in Manchester. The revenue requirements under this Settlement Agreement have been reduced to reflect the value of the energy and Renewable Energy Certificates produced by the solar array. The Settling Parties were unable to agree on the issue of whether PSNH was required to seek and obtain Commission approval of this investment prior to installation, or the issue of whether the investment in this project was prudent. Parties may raise these issues in the future. In the event that the costs associated with this project are disallowed by the Commission, PSNH may retain the value of the energy and Renewable Energy Certificates produced by the project.

14.3 PSNH will file both an embedded cost of service study and a marginal cost of service study with the filing of its next distribution rate case.

14.4 PSNH will annually file a report on executive compensation in the same format and with the same type of information as required in Connecticut for that state's regulated utilities. *See* CT DPUC Order in Docket 08-01-16, Petition of Richard Blumenthal, Attorney General for the State of Connecticut, for Standardized Disclosure of Utility Executive and Officers Compensation, dated December 3, 2008.

State of New Hampshire
Public Utilities Commission

Unitil Energy Systems, Inc. Rate Case
Docket No. DE 10-055
Office of Consumer Advocate Second Set of Information Requests

Data Request OCA 2-8:

On p. 28 (Bates p. 30), at lines 15 – 21, of his testimony, Mr. Collin explains the postage expense adjustment. What percentage of the Company's customers received their bills through the mail in 2006, 2007, 2008, 2009, and to date in 2010?

Response:

The percentage of the Company's customers who received their bill through the mail in 2008 and 2009 was 97% and to date in 2010 is 96%. Information for 2006 and 2007 is not available.

Person Responsible: Mark H. Collin

Date: July 20, 2010

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

PUC Staff Information Requests – Set 3

Received: July 1, 2010
Request No. Staff 3-53

Date of Response: July 15, 2010
Witness: Thomas P. Meissner, Jr.

Request:

Reference Meissner testimony, page 21 (Bates 0193), lines 7-8. Please describe in detail UES' long term commitment to reliability for the next five years and the subsequent five years.

Response:

The Company benchmarks itself against its New England peers annually and establishes a corporate goal for reliability each year as part of the strategic planning and capital planning process. This goal does not tend to change dramatically from year to year, and is intended to be indicative of a long term trend or objective. This has been the Company's practice for many years, and will continue to be the practice over the next 5 to 10 years. Please refer to Staff 3-55 for reliability goals for the years 2005 through 2009.

At the strategic level, the Company attempts to balance reliability of service with cost, rates, customer satisfaction and other factors in establishing appropriate benchmarks. The objective is to establish a benchmark for reliability that is appropriate relative to regional peers and which is aligned with customer expectations for service and the cost of that service.

State of New Hampshire
Public Utilities Commission

Unitil Energy Systems, Inc. Rate Case
Docket No. DE 10-055
Office of Consumer Advocate Second Set of Information Requests

Data Request OCA 2-38:

Page 350 of the Company's 2009 FERC Form 1, Regulatory Commission Expenses, includes the New Hampshire Public Utility Tax Assessment of \$414,778 for 2009. What portion of that assessment was, or will be, recovered through the Energy Service or any other non-Distribution sector rate? Had the Assessment been recovered proportionately based upon company revenues what amount of the \$414,779 would have been recovered from the Distribution sector, as well as each of the Company's other non-distribution sector rates?

Response:

None of the assessment is recovered through the Energy Service or any other non-distribution sector rate. Had the assessment been recovered proportionately based on Company revenues, \$130,872 would have been recovered from the Local Delivery sector, \$235,027 from the Energy sector, and \$48,879 from the External Delivery (Transmission) sector. For purposes of this response, Stranded Costs and System Benefits revenue are included in the Local Delivery sector revenues. This calculation was based on 2009 revenue.

Person Responsible: Mark H. Collin

Date: July 20, 2010

State of New Hampshire
Public Utilities Commission

Unitil Energy Systems, Inc. Rate Case
Docket No. DE 10-055
Office of Consumer Advocate Second Set of Information Requests

Data Request OCA 2-21:

Schedule RevReq-3-6 (Bates p. 85) details the Company's proposed Inflation Adjustment. The normalizing adjustments at lines 3 and 4 (i.e., Payroll and Postage) are based on total pro-formed costs. Please explain why the same approach was not used to determine the normalizing adjustments at lines 5 through 9 (i.e., Medical & Dental, Pension, PBOB, 401k, Property and Liability Insurance? Please calculate the total Inflation Adjustment using total pro-formed costs for lines 5 through 9.

Response:

Upon review, it has been determined the Inflation Adjustment, shown on Schedule RevReq 3-6, was incorrectly performed.

NH OCA 2-21 – Attachment 1 reflects the revised Inflation Adjustment. As shown, the corrected Inflation Adjustment begins with the Proforma Total O&M Expenses, which includes all post test year adjustments. From this amount, all of the items for which normalizing adjustments are proposed in the filing, as well as, expenses not subject to inflation, are removed to determine the residual O&M subject to an inflation adjustment. The effect of this revision is to reduce the Increase in Other O&M Expense For Inflation by \$63,685, or from \$156,648 to \$92,963. The Company will revise its cost of service to recognize this correction and any other changes and adjustments, including associated tax impacts, that may be required at an appropriate time during the course of this proceeding.

Person Responsible: Mark H. Collin

Date: July 20, 2010

UNITIL ENERGY SYSTEMS, INC.
INFLATION ADJUSTMENT - REVISED
12 MONTHS ENDED DECEMBER 31, 2009

Schedule RevReq-3-6 (Revised)
Page 1 of 2

LINE NO.	(1) DESCRIPTION	(2) REFERENCE	(3) AMOUNT
1	TEST YEAR TOTAL O&M EXPENSES, EXCLUDING PURCHASED POWER		\$ 15,768,847
2	LESS NORMALIZING ADJUSTMENT ITEMS:		
3	PAYROLL	Schedule RevReq-3-1	5,272,901
4	POSTAGE	Schedule RevReq-3-2	331,863
5	MEDICAL & DENTAL INSURANCE	Schedule RevReq-3-3	742,527
6	PENSION	Schedule RevReq-3-3	1,198,068
7	PBOP	Schedule RevReq-3-3	715,529
8	401 K	Schedule RevReq-3-4	185,972
9	PROPERTY & LIABILITY INSURANCE	Schedule RevReq-3-5	242,106
10	SETTLEMENT EXPENSE REDUCTION	Schedule RevReq-3-7	(282,064)
11	TREE TRIMMING	Schedule RevReq-3-8	1,666,510
12	STORM DAMAGE RECOVERY	Schedule RevReq-3-9	553,243
13	STORM DAMAGE RESERVE	Schedule RevReq-3-10	650,000
			11,276,655
14	LESS UNITIL SERVICE CORP CHARGES NOT SUBJECT TO INFLATION:		
15	AMORTIZATIONS		22,667
16	FIXED LEASES		392,187
			414,854
17	RESIDUAL O&M EXPENSES		4,077,338
18	INFLATION RATE		2.28%
19	INCREASE IN OTHER O&M EXPENSE FOR INFLATION		\$ 92,963

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 05-178

In the Matter of:
Unitil Energy Systems, Inc.
Petition for Rate Increase

Direct Testimony

of

Steven E. Mullen
Utility Analyst III

June 9, 2006

1 mismatch between rate base and revenues by failing to make any adjustment to annualize
2 its revenues to recognize additional revenue from those new customers who began taking
3 service during the year and for whom any related capital additions would be fully
4 reflected in year-end rate base.

5 **Q. What is your recommendation regarding UES' requested inflation adjustment**
6 **applied to "Other" or "Residual" O&M accounts?**

7 **A.** I recommend that the Commission deny UES' request. To begin with, a utility
8 should not be allowed to substitute what amounts to an assumed and estimated
9 adjustment for the Commission's traditional known and measurable adjustment
10 standard. UES has no way of knowing if the inflation rate that it calculates using
11 a blend of historical and forecasted inflation rates will apply in the future, or that
12 it will apply to all cost categories proposed for inclusion in the adjustment. To
13 begin with, UES has failed to make a persuasive case of attrition that is
14 appropriately remedied by the proposed adjustment. Further, the word "residual"
15 is revealing in that it makes clear that the expenses to which the proposed
16 inflation adjustment would apply are simply those O&M expenses for which a
17 known and measurable adjustment has not been proposed.¹¹ This was confirmed
18 by UES in its response to Staff 1-22.¹² As for Mr. Yardley's above-referenced
19 comments pertaining to "Other O&M Expenses," he further states,

20 The Commission has not allowed any proforma adjustments to this
21 category of expenses, essentially freezing them at the level as of the end of
22 the test year or June 30, 2005 in this rate case.¹³
23

24 What Mr. Yardley refers to as a "category of expenses" is not a category at all; it is

¹¹ UES did remove amortizations and fixed leases from the calculation of the adjustment as expenses not subject to inflation.

¹² Attachment SEM-2.7, UES response to Staff 1-22.

¹³ Yardley testimony, page 47 at 14-16.

1 merely a grouping of residual expenses for which no known and measurable adjustment
2 was proposed. As Mr. Yardley testified, this so-called "category" of expenses

3 ...includes such items as fuel for UES' fleet of utility vehicles,
4 professional fees such as actuarial, audit and legal services, office
5 supplies, telecommunications expenses, natural gas for heating, cleaning
6 and building maintenance, snow removal and other contractor services.¹⁴
7

8 The annual changes in many of those listed expenses can be influenced by factors other
9 than inflation. Continuing on page 47 of his testimony, Mr. Yardley further states that

10 While it may be difficult to project specific adjustments using a
11 methodology that is comparable to adjustments made to other expense
12 categories, it is reasonable to *assume* that *many* of these expenses will be
13 subject to inflationary pressures. For this reason, many commissions
14 consider an inflation adjustment to this expense category (often referred to
15 as 'Residual O&M') as being consistent with the 'known and measurable'
16 standard typically applied to proforma adjustments.¹⁵ (emphasis added)
17

18 As shown by the highlighted words above, Mr. Yardley acknowledges that what UES is
19 trying to pass off as a known and measurable adjustment is merely an *assumption* that
20 may apply to *many*, but not all, of the expenses in this so-called category of expenses. I
21 clearly do not share Mr. Yardley's opinion.

22 **Q. Do you have further comments on the proposed inflation adjustment?**

23 A. Yes. As the adjustment is calculated based on what is termed the "residual"
24 O&M expenses, there is no defined group of accounts to which the proposed
25 adjustment would apply. A particular expense account for which a known and
26 measurable adjustment was proposed in the current proceeding may not have a
27 known and measurable adjustment in a future proceeding and, therefore, could
28 end up being one of the leftover expenses lumped in with other residual expenses.
29 Likewise, an expense account that is included in the "residual" grouping in one
30 proceeding may, in fact, have a proposed known and measurable adjustment in a



October 29, 2010

BY OVERNIGHT MAIL AND E-MAIL

Lynn Fabrizio, Staff Attorney
New Hampshire Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, NH 03301-2429

**RE: Responses to Staff 1st Set Data Requests
Supplement Response to Staff 1-31
Docket No. DE 10-055**

Dear Attorney Fabrizio:

On behalf of Unitil Energy Systems, Inc. ("UES"), enclosed is the Company's supplemental response to the New Hampshire Public Utilities Commission Staff's data request Staff 1-31 in the above-referenced docket.

Please do not hesitate to contact me or Attorney Geiger if you have any question concerning this response. Thank you for your attention to this matter.

Sincerely,

/s/ Gary Epler

Gary Epler
Attorney for Unitil Energy Systems, Inc.

Enclosure

cc: Meredith Hatfield, Consumer Advocate
Susan Geiger, Orr & Reno

Gary Epler
Chief Regulatory Counsel
6 Liberty Lane West
Hampton, NH 03842-1720
Phone: 603-773-6440
Fax: 603-773-6640
Email: epler@unitil.com

State of New Hampshire
Public Utilities Commission

Unitil Energy Systems, Inc.
Docket No. DE 10-055
PUC Staff Information Requests – Set 1
Received May 14, 2010

Data Request Staff 1-31:

Reference Meissner testimony, pages 223-227. Please provide copies of any UES and/or PSNH/NU studies detailing the system improvements being undertaken and the resulting need to rebuild and expand the Kingston and East Kingston substations.

Supplemental Response:

Please refer to Staff 1-31 Supplement Attachment 1 for an update to the proposed schedule for the Kingston Substation addition.

The schedule for this project had previously been identified in the 2009 PSNH/UES Joint Planning Recommendation Report provided as Staff 1-31 Attachment 2.

Person Responsible: Thomas P. Meissner Jr.

Date: October 29, 2010



October 25, 2010

Thelma Brown
Public Service Company of New Hampshire
PO BOX 330
Manchester, NH 03105-0330

RE: Kingston Substation Project

Thelma:

This letter is a follow-up to my phone message. Unitil is requesting to delay the Kingston substation project to an in service date of June 1, 2013. There are three reasons for this change in schedule:

1. Unitil recently completed an updated 2011-2020 load forecast which indicates that the loads that are driving the Kingston project are not forecast to occur until 2013.
2. Our recent meeting between Unitil, PSNH and NU on October 4 at your office suggests there is still disagreement between the parties on the overall design requirements of this substation. It is apparent that these issues will not be resolved in the timeframe needed to accomplish in service date of June 1, 2012.
3. As was discussed at the meeting, the project is already behind the original schedule. This further supports the conclusion that an in service date of June 1, 2012 is unlikely.

The joint planning process between Unitil and PSNH identified that the Kingston project was the most cost effective project. However, since completing the joint planning study, cost estimates have increased from the original assumptions and are now significantly higher than was previously estimated. We would like to continue to work with PSNH and NU to determine if we can address some of the disagreements in the design and reduce the estimated cost of the Kingston project.

I will be in contact soon to discuss the disagreement in the Kingston design. Please let me know if you have any questions or concerns.

Thank you,

Kevin E. Sprague
Director of Engineering

Corporate Office

6 Liberty Lane West
Hampton, NH 03842-1720

Phone: 603-772-0775
Fax: 603-773-6605

Email: corp@unitil.com

Cc: T.Meissner (Unitil), S.Johnson (PSNH)

State of New Hampshire
Public Utilities Commission

Unitil Energy Systems, Inc. Rate Case
Docket No. DE 10-055
Office of Consumer Advocate Third Set of Information Requests

Data Request OCA 3-18:

Data request OCA 2-52 asked: "What alternatives to the proposed Kingston substation investment did the Company consider (e.g., distributed generation), to avoid having to spend the \$2,446,960 on the substation?" The response discussed DER alternatives but no other alternatives (e.g., interruptible rates or other targeted peak load reduction actions). Please explain all other alternatives evaluated by the Company to delay the need for the Kingston substation investment.

Response:

The Company has not evaluated interruptible rates, targeted peak load reduction actions, or other customer demand response programs as a means to delay the Kingston substation investment.

Person Responsible: Thomas P. Meissner, Jr.

Date: August 13, 2010

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

PUC Staff Information Requests – Set 3

Received: July 1, 2010
Request No. Staff 3-17

Date of Response: July 15, 2010
Witness: Mark H. Collin

Request:

Reference Collin testimony, Schedule MHC-11, page 1 (Bates 0067). Please supply the 2009 property tax rates for the towns of East Kingston and Kingston. If different than the 1.62 percent used in MHC-11, please explain why actual rates were not used.

Response:

The 2009 property tax rate for the Town of E. Kingston was \$20.38 per thousand and the Town of Kingston was \$18.62 per thousand. If the actual rates were used the 1.62 percent would have been 1.98 percent. A composite rate (total property taxes to 2009 gross plant) was used to illustrate the Step mechanism proposed by the Company. If the company proposal is adopted the actual property tax rate will be used to compute the actual property tax amount to be included in the Step Adjustment proposed in Schedule MHC-11.

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

PUC Staff Information Requests – Set 3

Received: July 1, 2010
Request No. Staff 3-18

Date of Response: July 15, 2010
Witness: Mark H. Collin

Request:

Reference Collin testimony, Schedule MHC-11, page 1 (Bates 0067). Please supply the depreciation rate(s) used for the equipment in the Guinea Road 345/34.5 kV substation, the 115/34.5 kV Kingston substation, and the 115/34.5 kV Chester substation. If different than the 4.06 percent used in this schedule, please explain why the 4.06 percent value was used.

Response:

The current depreciation rate(s) used for distribution substation equipment is 2.77 percent. The proposed depreciation rate(s) is 2.91 percent as provided in Schedule RevReq-3-12. Due to the fact that these projects are not wholly distribution station equipment projects, but include other distribution plant as well, the proposed composite depreciation rate of 4.06 percent was used for illustrative purposes on Schedule MHC-11. The depreciation rates that would be used for the step adjustment will be based on the actual depreciation rates in effect applied to the equipment that is actually installed.

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

PUC Staff Information Requests – Set 3

Received: July 1, 2010
Request No. Staff 3-27

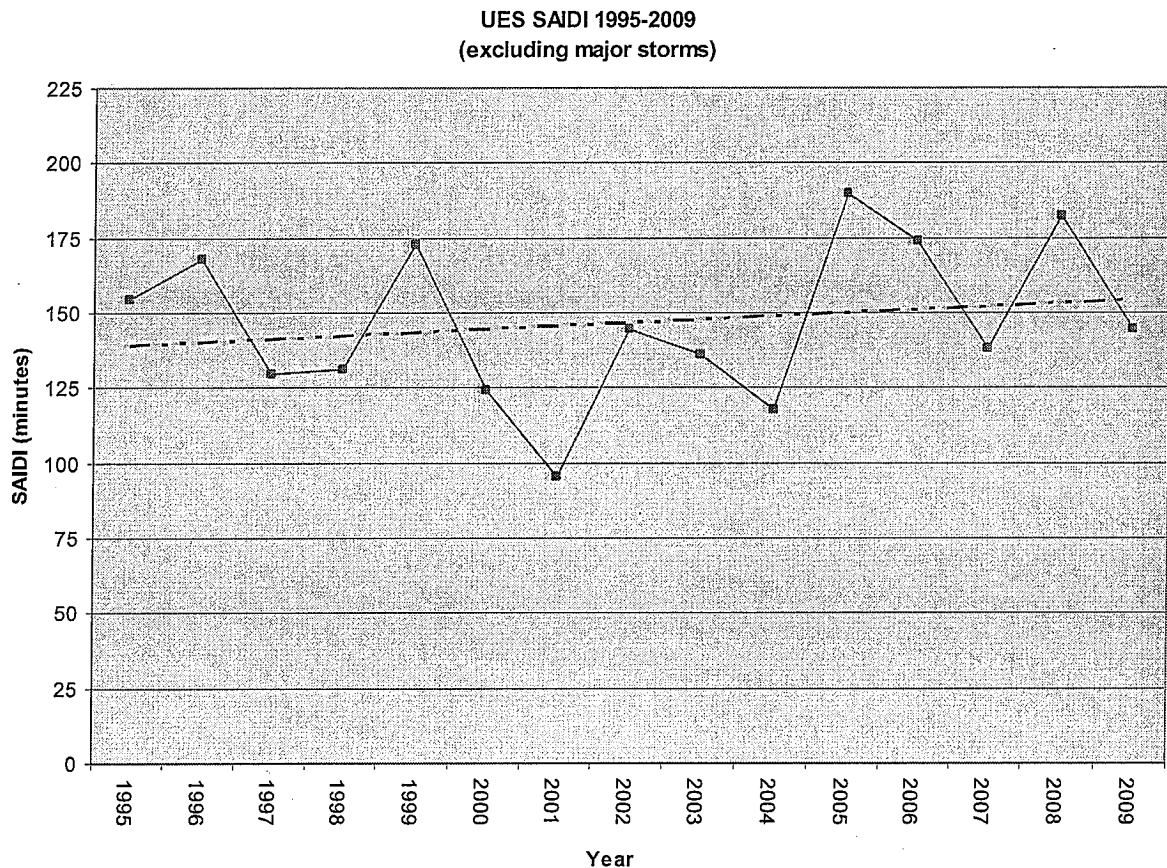
Date of Response: July 15, 2010
Witness: Thomas P. Meissner, Jr.

Request:

Reference Meissner testimony, page 5 (Bates 0177), Figure TPM-2. Please supply Figure TMP-2 by operating company and including data from 1995 through 1999. As part of your response, please confirm that the data is for NH operating companies only and that major storm exclusions are based on the NHPUC definition of a major storm.

Response:

The chart below provides the annual SAIDI for UES including data from 1995 through 1999, with major storms excluded. The data is for New Hampshire only (UES); the major storm exclusions are based on the NHPUC definition of a major storm.



COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF PUBLIC UTILITIES

D.P.U. 09-30

DIRECT TESTIMONY OF
PAUL M. NORMAND

EXHIBIT BSG/PMN-1

ALLOCATED COST OF SERVICE STUDY

IN SUPPORT OF
BAY STATE GAS COMPANY
REQUEST FOR REVENUE DECOUPLING AND
BASE-REVENUE ADJUSTMENT

APRIL 16, 2009

1 provide a complete reference and understanding of the allocation methods
2 employed in my study.

3 **III. ALLOCATED COST OF SERVICE STUDY**

4 **Allocated Cost of Service Study**

5 **Q. Would you briefly define an Allocated Cost of Service Study or COSS?**

6 A. The cost to serve the customers of any utility company consists generally of
7 operating expenses and return. For a historical test period, these costs are recorded
8 on the books and on records of the Company, and the overall cost to serve the
9 collective customers of the utility can be readily established. On the other hand,
10 the unique cost to serve customers in the various service classifications is much
11 less apparent. Costs can vary significantly between customer classes depending
12 upon the nature of their demands upon the system and the facilities required to
13 serve them. The purpose of an Allocated Cost of Service Study is to assign or
14 allocate each relevant component of Bay State's overall costs of service on an
15 appropriate basis in order to determine the proper cost to serve the Company's
16 respective classes. The result is a cost matrix displaying for each cost category the
17 detailed costs of serving each customer class.



Exhibit No.:
Issue: Class Cost of Service
Witness: Paul M. Normand
Type of Exhibit: Direct Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2010-____
Date Testimony Prepared: June 4, 2010

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-____

DIRECT TESTIMONY

OF

PAUL M. NORMAND

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
June 2010**

**Certain Schedules Attached To This Testimony Designated "(HC)"
Have Been Removed
Pursuant To 4 CSR 240-2.135.**

1 for major cost components at existing and uniform rates of return. Schedule PMN-4
2 presents a detailed description of the external allocators used in these studies.

3 **ACCOUNTING COST OF SERVICE STUDY**

4 **Allocated Cost of Service Study**

5 **Q. Would you briefly define an Allocated Cost of Service Study?**

6 A. The cost to serve the customers of any utility company consists generally of allowable
7 investments, operating expenses and a return. For a historical test period, these costs are
8 a matter of record and the overall cost to serve the collective customers of the utility may
9 be readily established. On the other hand, the unique cost to provide services and energy
10 to customers of the various customer classes is much less apparent. Costs can vary
11 significantly between customer classes depending upon the nature of their demands,
12 delivery voltage on the system, and the facilities and services required. The purpose of
13 an Allocated Cost of Service Study is to directly assign costs based on company records
14 or allocate each relevant and identifiable component of cost on an appropriate basis in
15 order to determine the proper cost to serve the Company's customer classes (Schedules
16 PMN-2, PMN-3, and PMN-4) under study. The analyses result in matrices displaying the
17 detailed costs of serving each customer class for the functional cost category. Additional
18 costs can be further unbundled into various cost categories reflecting the services
19 provided by the Company to its customers for energy delivery.

20 **Q. Please describe the procedure that you used in preparing your Allocated Cost of**
21 **Service Study.**

22 A. Through the application of a computerized microcomputer cost model developed by
23 Management Applications Consulting specifically for KCP&L's electric operations, it