STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

March 10, 2011 - 9:19 a.m.
Concord, New Hampshire

RE: DE 10-055
UNITIL SERVICE CORPORATION:
Notice of Intent to File Rate Schedules.
(Hearing regarding Settlement Agreement on permanent rates)

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Clifton C. Below
Commissioner Amy L. Ignatius

Sandy Deno, Clerk

APPEARANCES: **Reptg. Unitil Service Corporation:**
Gary M. Epler, Esq.

Reptg. Residential Ratepayers:
Rorie E.P. Hollenberg, Esq.
Kenneth E. Traum, Asst. Consumer Advocate
Office of Consumer Advocate

Reptg. PUC Staff:
Lynn Fabrizio, Esq.
Steven E. Mullen, Asst. Dir. - Electric Div.

Court Reporter: Steven E. Patnaude, LCR No. 52

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E X H I B I T S

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
3	Unitil's Initial Filing, including 2 volumes, consisting of a cover letter, Petition, Tariffs, Report of Proposed Rate Changes, Statement for Customers, Attestation by Officer, Testimony & Exhibits of Mark Collin, George Long, Thomas Meissner, Sam Hadaway and Paul Normand	premarked
4	Supplemental Testimony of Mark H. Collin	premarked
5	Unitil's response to Data Request Staff 1-29 **(CONFIDENTIAL)**	premarked
6	Unitil's response to Data Request Staff 1-29 *(REDACTED)*	premarked
7	Testimony & Exhibits of Staff Witnesses Steven Mullen, George McCluskey, James Cunningham, Jr., James Brennan, Dr. John Wilson & Michael Cannata	premarked
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8	Testimony & Exhibits of Kenneth E. Traum	premarked
9	Staff Supplemental Testimony of Steven E. Mullen	premarked
10	Joint Settlement Agreement	premarked
11	Timeline - Summary of Temp. Rate Recoupment and Rate Changes per Settlement Agreement	premarked

P R O C E E D I N G

CHAIRMAN GETZ: Okay. Good morning, everyone. We'll open the hearing in Docket DE 10-055. On April 15, 2010, Unitil Energy Systems filed a petition for authority to implement new permanent distribution rates, replace certain pages of its current tariff, and implement step adjustments for certain future rate base additions. An order suspending the tariff and scheduling a prehearing conference was issued on April 26, 2010. Subsequently, a secretarial letter was issued approving a procedural schedule regarding temporary rates and permanent rates. And, after a couple of postponements, the hearing for today was scheduled to review the Settlement Agreement among the parties that was submitted on February 23rd.

So, can we take appearances please.

MR. EPLER: Yes. Good morning, Mr. Chairman, Commissioners. Gary Epler, on behalf of Unitil Energy Systems, Inc. Thank you.

CHAIRMAN GETZ: Good morning.

MS. HATFIELD: Good morning, Commissioners. Meredith Hatfield, for the Office of Consumer Advocate, on behalf of residential ratepayers.

CHAIRMAN GETZ: Good morning.

MS. FABRIZIO: Good morning,

Commissioners. Lynn Fabrizio, on behalf of the Commission Staff.

CHAIRMAN GETZ: Good morning. And, it appears we have a panel in place. Are you ready to proceed, Mr. Epler?

MR. EPLER: Yes, Mr. Chairman. I thought, just administratively, it might be helpful to review a list of exhibits that we prepared just initially before we actually introduce them. There should be in front of you a one sheet/two sides, with a proposed list of exhibits. I'll just run through them quickly.

The first -- I believe we're, in the docket, we're up to Exhibit Number 3. So, what we've done is we've numbered these sequentially. Some of them are obviously sponsored by different parties, but, just for clarity sake, they're sequentially numbered. The first is "Unitil Exhibit 3", that would be the two volumes of the initial filing, all the testimony and exhibits. "Unitil Exhibit 4" would be the "Supplemental Testimony of Mark Collin". That was filed I believe on either November 3rd or November 4th. "Exhibit 5 Confidential" is a response to a Staff data request, Staff 1-29. That's a confidential report on vegetation management prepared by Unitil's consultant, ECI. "Exhibit 6" is a redacted version of that report. Unfortunately, this morning, when I checked the redacted version, there were some mistakes in the redactions. So, I will have to file that subsequent to this hearing, along with an appropriate Motion for Confidential Treatment, if that's all right with the Chairman?

CHAIRMAN GETZ: Okay.

MR. EPLER: "Exhibit 7" will then be the Staff testimony and exhibits.

CMSR. BELOW: Excuse me. To the extent there's both a public version and a confidential version of the Direct Testimony of Michael Cannata, how is that reflected?

MS. FABRIZIO: That's a good question, actually, Commissioner. Because we are proposing to adopt and mark for exhibit the entirety of Staff testimony, including the supplemental testimony filed by Mr. Mullen, as a single exhibit in this proceeding. And, that would include both the confidential and redacted versions of Mr. Cannata's filing.

CMSR. BELOW: Okay.

MS. FABRIZIO: But we can certainly separate out the confidential as a separate exhibit.

MR. MULLEN: Could I make a suggestion

that perhaps we mark Mr. Cannata's confidential as "Exhibit 7C"?

CHAIRMAN GETZ: Very good suggestion, Mr. Mullen.

MR. EPLER: That's why we put him on the panel.

MS. FABRIZIO: Is that "C" for "Cannata", I take it, because we don't have a name --

MR. MULLEN: For "confidential".

MS. FABRIZIO: Oh.

MR. EPLER: Okay. Then, I believe I was up to "Exhibit 8", which would be the testimony and exhibits of Ken Traum, on behalf of the Consumer Advocate. "Exhibit 9" is the Supplemental Testimony of Steve Mullen that was filed on November 19th. "Exhibit 10" is the cover letter, the Settlement Agreement, and the six attachments to the Settlement Agreement. And, "Exhibit 11" is a timeline that I believe should be in front of you as well, a one-page timeline, that the joint parties believe will be helpful in explaining the sequence of the changes in rates and the adjustments and the step increases.

And, unless there are questions from the Commission, I'm ready to proceed. And, if we can have the witnesses sworn.

(Whereupon ***Mark H. Collin***, ***Thomas P. Meissner***, ***Jr.***, ***Kenneth E. Traum***, and ***Steven E. Mullen*** were duly sworn and cautioned by the Court Reporter.)

MARK H. COLLIN, SWORN

THOMAS P. MEISSNER, Jr., SWORN

KENNETH E. TRAUM, SWORN

STEVEN E. MULLEN, SWORN

DIRECT EXAMINATION

BY MR. EPLER:

Q. Okay. Mr. Collin, starting with you, and then proceeding to your left down the panel, if each of you could identify yourselves and your business position and the entity that you represent.

A. (Collin) Yes. My name is Mark Collin. I'm the Treasurer of Unitil Energy Systems, Inc. I am also the Chief Financial Officer and Senior Vice President of Unitil Energy Systems' parent company, Unitil Corporation. My business address is 6 Liberty Lane West, Hampton, New Hampshire.

A. (Meissner) My name is Thomas Meissner. I'm Senior Vice President of Unitil Energy Systems, Inc., and I'm

Senior Vice President and Chief Operating Officer of Unitil Corporation. My business address is 6 Liberty Lane West, Hampton, New Hampshire.

A. (Traum) My name is Kenneth E. Traum. I'm the Assistant Consumer Advocate for the Office of Consumer Advocate, which is located here in the Walker Building, at 21 South Fruit Street, Suite 18.

A. (Mullen) My name is Steven E. Mullen. I'm the Assistant Director of the Electric Division here at the Commission, also located in the Walker Building, at 21 South Fruit Street, but Suite 10.

Q. Now, as you heard previously, there is a list of exhibits that the Settling Parties are seeking to introduce in this proceeding. So, I'd like to walk through those and have those identified by the appropriate witnesses.

First, turning your attention to what has been premarked as "Exhibit Number 3", which are the two volumes of the filing of the -- the initial filing of Unitil in this proceeding, consisting of the Petition, the tariffs, the testimony, and exhibits and so on. Mr. Collin and Mr. Meissner, though some of the material was prepared by other individuals, for purposes of this hearing, is it correct that these

volumes were prepared by you or under your direction?
A. (Collin) Yes, that's correct.
A. (Meissner) Yes, that is correct.
Q. And, do you, for purposes of this hearing on the Settlement, do adopt these as your testimony?
A. (Collin) Yes.
A. (Meissner) Yes.
Q. And, again, referring to "Exhibit 4", which is the Supplemental Testimony and Exhibits of Mr. Collin, this was prepared by you?
A. (Collin) Yes.
Q. And, you adopt this as your supplemental testimony?
A. (Collin) Yes.
Q. Referring to what's been marked as "Exhibit 5", the confidential response to Staff Data Request 1-29, Mr. Meissner, do you agree this is a report that was prepared by Environmental Consultants, Inc., on behalf of Unitil, and it's a "Distribution and Sub-Transmission Vegetation Management Program"?
A. (Meissner) Yes.
Q. And, if there are questions on that, you would be able to address them?
A. (Meissner) I will.
MR. EPLER: Okay. And, as I said,

"Exhibit 6" is a redacted version of that, and that will be provided subsequent to the hearing.

CHAIRMAN GETZ: Was there a Motion for Confidentiality filed with this? I don't --

MR. EPLER: There was a letter filed at the time the data request was provided. And, when I file the redacted version, I'll file a Motion for Confidential Treatment.

CHAIRMAN GETZ: Thank you.

BY MR. EPLER:

Q.   Now, referring to "Exhibit 7", those are the testimony and exhibits of the Staff witnesses. Mr. Mullen, obviously, these -- some of these were prepared by other individuals, but, for purposes of this hearing and the settlement, do you adopt these as your testimony and are you able to speak to them here?

A.   (Mullen) Yes.

Q.   And, as pointed out previously, there is one confidential part of that exhibit, "Exhibit 7C", which is the confidential version of Mr. Cannata's testimony, is that correct?

A.   (Mullen) Yes.

Q.   Turning to "Exhibit Number 8", that's the Testimony and Exhibits of Mr. Traum. Do you adopt these as your

testimony in this proceeding?
A. (Traum) Yes, I do.
Q. And, then, Mr. Mullen, back to you, what's been marked as "Exhibit 9", that's the supplemental testimony. Do you adopt those as your testimony as well?
A. (Mullen) Yes, I do.
Q. Then, what's been marked as "Exhibit 10" is the cover letter, the Settlement Agreement, and the six attachments that were filed by the Joint Settling Parties on February 23rd. Can the panel just verify that that is the Settlement Agreement that was agreed to by the parties, and you're able to speak to that?
A. (Collin) Yes.
A. (Traum) Yes, sir.
A. (Meissner) Yes.
A. (Mullen) Yes.
Q. And, then, the last exhibit, "Exhibit 11", Mr. Mullen, I believe you prepared this. And, this is a timeline showing the various rate increases, starting with the temporary rates and going through the term of the Agreement, is that correct?
A. (Mullen) Yes.
Q. And that was prepared by you?
A. (Mullen) Yes. And, I will speak to it later in the

hearing.

Q. Mr. Collin, I'm going to turn to you and ask you to kind of walk through the Settlement Agreement and summarize the provisions.

MR. EPLER: I just did want to point out to the Commission, on Page 4 of 26 of the Settlement Agreement, there's Paragraph 2.1. And, the last sentence, it says "Except as provided for specifically under this Settlement Agreement, there will be no other permanent distribution rate level changes." I just want to point out to the Commission that the Commission recently approved a DER step adjustment in Docket DE 10-292. And, that change in rates, which is anticipated to occur on April 1st, is not included in this document, but it is -- the parties recognize that it is expected to occur.

BY MR. EPLER:

Q. And, with that, Mr. Collin, if you can proceed with your summary of the Settlement Agreement.

A. (Collin) Good morning, Mr. Chairman, Commissioners. I'm going to go through and outline the Settlement Agreement. If I get too lengthy or you want me to move a little faster, I'm happy to do that. In addition, with your permission, I'd like to allow the other panel members to interrupt me, clarify something I've said, or join into the discussion, because we all have different perspectives potentially on the Settlement Agreement. And, I just want to make sure that the Commission gets the full benefit of the panel in going through the outline. So, with your permission, we'll be somewhat *ad hoc* and informal, in terms of the presentation, if that's okay.

So, beginning, I'll go through each of the sections. So, if we just go to the first page after the cover letter of the Settlement Agreement, there is an "Introduction and Procedural History". And, I think it's important to highlight some of the aspects of the procedural history to understand the process that we've gone through in reaching our settlement here today. We initially filed this rate case on April 15th, 2010. And, it was a request for a permanent rate increase of approximately $10.1 million. That was about ten months ago. In June of 2010, the Commission did approve the settlement reached among the parties setting temporary rates at 5.2 million, effective July 1st, 2010. So, that was essentially the start of the temporary rate period.

As part of a multi-year rate plan, the Company's initial filing also included a number of proposals to adjust rates in future periods, not just the current revenue requirement. It included step adjustments for specified future additions to rate base, recovery of costs incurred by the Company to repair and replace portions of its electric system due to damage caused by the February 2010 Wind Storm, and a multi-year rate plan structured around a proposed Reliability Enhancement and Vegetation Management Program.

During the course of the proceeding, the Audit Staff of the Commission conducted and prepared a written Audit Report on the test year financial information that forms the basis of the Company's rate filing, and separate Audit Reports on the costs the Company is seeking to recover related to the December 2008 Ice Storm and the February 2010 Wind Storm.

The Company filed the prefiled written testimony of five witnesses, including three officers of the Company. The three officers included myself, Tom Meissner, who is with me here today, and George Long, our Vice President of Human Resources. We also had two consultants as witnesses in the prefiled testimony. The Staff also filed the prefiled written testimonies of four members of the Commission Staff, including Steve Mullen, who is with -- on the panel here today, George McCluskey, James Cunningham, and James Brennan. And, the Staff had two consultant witnesses, including Dr. John Wilson and Michael Cannata. The OCA filed the prefiled written testimony of the Assistant Consumer Advocate, Kenneth Traum, who is on the panel with us here today.

The settlement reached by the parties is a culmination of a multi-month advocacy, audit, and discovery process, in addition to the prefiled testimony, and the process included numerous discovery requests by the Staff and the OCA, which the Company responded to, and several technical sessions, which we held during July, September, and December of last year. Settlement discussions began in earnest in December and January of this year, and I think probably lasted all the way up to when we made the filing in February. And, all that has led up to this hearing. So, we've had a very comprehensive and complete record I think from which to develop this result and support this Settlement.

Turning to Section 2 is where we first begin to outline the structure of the Settlement

Agreement and what we were able to reach. The Settlement provides for a series of changes to Unitil's permanent distribution revenues under a structure of a five-year rate plan and an Earnings Sharing Agreement that will begin on May 1st, 2011, and it ends essentially on May 1st, 2012. If you go, in the Settlement Agreement, on Page 3 --

A. (Traum) Mark, if I could interrupt you for a second.

A. (Collin) Sure.

A. (Traum) I believe you said "ends May 1st, 2012".

A. (Collin) Yes. Did I? 2016.

A. (Traum) Thank you.

A. (Collin) That's five years. Yes, that is. So, it ends May 1st, 2016. And, we've had some discussion actually earlier this morning whether or not the end was "April 30th, 2016" or whether it was "May 1st, 2016". And, I think we've come to agreement that "May 1st, 2016" is more the intent of the parties, as there is a potential rate adjustment under the Earnings Sharing Mechanism, which is discussed later on in the Settlement, that would result in a potential adjustment on May 1st, 2016, if there was overearnings during the prior year period. So, --

A. (Mullen) On that point, just to reconcile the dates.

If you look at the end of Section 2.1, it says "April 30th", that really should be "May 1st". And, when we get further into the Agreement, in Section 12.1 for the term, in Section 12.1 you will see that the date "May 1st, 2016" is stated there.

A. (Collin) The rate changes are summarized in Section 2 and detailed more fully in other parts of the Settlement, which I'll discuss as we go along here. The initial change to Unitil's permanent rates of approximately 5 million will occur on May 1st, 2011. That amount will be adjusted for a filing that we will be making at the end of the month to provide information relative to our rate case expense and seek recovery of that rate case expense.

In addition to the 2011 rate change, there are three additional step adjustments contemplated by the Settlement Agreement, on May 1st 2012, on May 1st, 2013, and May 1st, 2014. These are projected on Page 5 of the Settlement Agreement. On Page 5, you'll see them in the middle. They range from just a little over 1.5 million in 2012, up to 1. -- almost 1.9 million in 2013, and then back down to 1.4 million rate change in 2014.

The calculation of the initial increase

in permanent distribution rates is shown on Page 6 of the Settlement Agreement, includes the reconciliation to the recoupment of temporary rates currently in place, and a 2011 step adjustment. This initial increase will be further adjusted after the Company files full documentation on its rate case expense by the end of this month. The initial increase currently represents about a 3.3 percent increase on total revenues.

So, if we go to Page 6, it might be helpful to the Commission, and you look at the calculation of the initial increase. The first line there talks about the permanent revenue deficiency of a little over $6.6 million. In a traditional comparison of what was filed by the Company, $10.1 million increase, this 6.6 million would essentially represent the results of the rate case vis-a-vis that 10.1 million. So, again, if you look at our -- the Company requested a 10.1 million increase, the result of the Settlement is about two-thirds of that increase would be awarded under this settlement process. And, that may help as a lot of the numbers that we talk about, the annual increases are adjusted, as I said, for things like step adjustments and rate recoupments and temporary rate reconciliation, and can kind of confuse really the effect of the process here, in terms of the overall revenue deficiency that's been granted to the Company.

If you turn to Page 7, this shows the 2012 Step Adjustment, which is the step adjustment in the first year following the implementation of permanent rates. And, this includes a removal of both the temporary rate recoupment and the removal of the recovery of rate case expense from distribution revenues going forward, as the recovery of these costs will be completed in the first year. So, those get removed from distribution base rate revenues. A more detailed projection of this step adjustment, along with the other step adjustments for each year, is described in Section 6 of the Settlement Agreement, which I will talk to during this outline, and that starts on Page 12, and in Attachment 1 there is also a detailed calculation presented. The three out year Step Adjustments, the 2012, the 2013, and 2014 Step Adjustments, are projected to represent an average annual increase of about 1.1 percent of total revenues in each year.

If we now go to Page 8, Section 3 talks

about some supply changes. And, this is one of the items that came up during the rate case process. This section provides that, in conjunction with the first step adjustment that will occur on May 1st, 2011, Unitil will make a reduction to distribution revenue to reflect that it's completed the recovery of its stranded costs related to industry restructuring, and as a result no longer requires working capital associated with these obligations. That is a reduction to distribution revenues of about $162,000. And, in addition, there are certain costs, working capital related costs and PUC assessment related costs, that are currently recovered in distribution rates, that are associated with supply related functions. And, therefore, the parties have agreed to further unbundle those from the distribution rates and move those over into a supply related recovery mechanism, which we call the "External Delivery Charge" on a going forward basis. That moves almost $600,000 from base distribution rates and puts those over into the External Delivery Charge for recovery on a going forward basis. And, just reflects the cost assignment from the distribution function to a more appropriate place in the supply function.

Turning to Page 9, the "Cost of Capital and Capital Structure", the parties have agreed, in terms of setting a revenue requirement and in terms of what will be used in setting the step adjustments is provided on that page. This includes a return on equity of 9.67 percent that will be utilized in determining the annual charges to distribution -- changes to distribution rates under the five-year rate plan and the Earnings Sharing Agreement.

A.   (Mullen) If I could just add on that, too, just to note that the 9.67 percent return on equity is the same as Unitil currently has authorized from its last distribution rate proceeding.

A.   (Collin) Section 5 lays out the Earnings Sharing Agreement that is one of the core components of this Settlement Agreement. This Earnings Sharing Agreement mechanism will be in place during the entire five-year rate plan, and includes the use of an average return on equity collar. Essentially, the earnings sharing mechanism limits the Company's ability to propose changes to distribution rates, and will result in a sharing of earnings if Unitil's earned ROE for distribution is greater than 10 percent.

The collar is -- has a lower end and an

upper end. The lower end basically provides that, unless Unitil earns less than 7 percent, the Company will not propose a change to its permanent distribution rates for effect prior to May 1st, 2016, except as otherwise provided for in the Agreement. There are some exogenous events that could allow the Company to adjust rates. There is also a provision that, for the DER programs that we're operating, would allow some adjustment for rates for those types of programs. But, other than that, the Settlement Agreement fully captures any changes to distribution rates that will be made over the period of the rate plan.

If Unitil's earned ROE for distribution is greater than 10 percent, then revenue equaling 75 percent of such difference will be refunded to customers over the following 12-month period beginning May 1st of that year. The refund will be applied proportionally to all customer classes as described in the Settlement Agreement. So, that basically provides that, to the extent that Unitil's earnings are above that 10 percent, that it will be a 25/75 percent of earnings sharing, where the consumers or customers will receive 75 percent of that, what we might classify as "overearnings".

As I indicated earlier, in Section 6, which starts on Page 12, provides further clarification and information relative to the step adjustments. Altogether, there are four step adjustments specified in the Settlement. The initial one, which takes place with permanent rates in 2011, as well as three step adjustments which occur in the following three years, all taking place on May 1st.

There's a table on Page 12 as well. And, in that table, the initial 2011 Step Adjustment is shown to include several adjustments to distribution revenues agreed to by the parties to reflect increases in net plant after the test year, as we took into account that the test year had -- was in 2009, and we had additional plant additions that occurred in 2010 during the discovery process and review of the rate case. So, we looked at 2010 adjustments.

In addition to that, the step adjustment also includes the first year phase-in of a Vegetation Management Program that was based on the ECI study, which we'll talk about in a moment, and includes a $1,250,000 phase-in of additional expenditures on tree-trimming. There is also an adjustment for increased pension and PBOP costs of about 320,000.

"PBOP" is "Post-Retirement Benefits Other than Pension", basically relates to retiree healthcare type costs. And, those expenses were based on increases in those areas after the test year, that the Company filed some information on relative to including those in rates, so that this rate plan would essentially provide for recovery of those on a going-forward basis.

In addition, we removed the storm cost recovery, which had initially been in distribution rates, to a recovery of storm costs in a specific ratemaking reconciling mechanism. So, they're no longer -- storm costs are no longer in distribution rates, but are included in a separate mechanism.

And, finally, there's the adjustments to the previously related supply allocation items that I talked about, where we've allocated certain costs away from distribution rates over to the supply function.

A. (Mullen) While we're still looking at the chart, 6.1, I just want to mention with the first line you'll see that it says "75 percent of Non-REP Net Plant". The 75 percent is meant to represent the non-revenue-producing portion of capital additions that are expected in each of those years.

A. (Collin) Yes. And, that applies to the 2012, 2013, and

2014 Step Adjustments. And, those are the three projected step adjustments. They reflect projected increase for the net plant, as Steve just described, at 75 percent of non-REP. They also reflect additional Vegetation Management Program and Reliability Enhancement Program O&M spending. There's a ramp-up in those amounts. So, there's an additional $900,000 of money dedicated to Vegetation Management on top of the increase that occurred in 2011. And, there's a $300,000 increase in O&M spending related to the Reliability Enhancement Program spending. And, in addition, in 2012, '13, and '14, there was also an increase in capital spending on a Reliability Enhancement Program. That capital spending is $1,750,000 annually.

A. (Traum) And, Mark, if I could just add that, for the benefit of the Commission, in terms of order of magnitude of the additional spending that this Settlement recognizes for REP and VMP, test year tree-trimming expenses, roughly $735,000.

A. (Collin) There's more detail on the REP and VMP in Section 7. And, I'll just basically summarize those. Mr. Meissner is very familiar with those programs and will certainly be prepared to answer any questions or explain further the workings of those programs.

But the Settlement provides that Unitil will implement a Reliability Enhancement Program. Beginning in 2011, the Company will spend $1,750,000 annually in capital spending in the REP Program, and will increase annual REP O&M spending by 300,000 on an annual basis beginning in 2012. The Settlement also provides that Unitil will implement an augmented Vegetation Management Program based upon the recommended program of Unitil's consultant, ECI, as modified and agreed to by the parties during the course of this proceeding. These modifications are more fully described on Page 14 and 15 of the Settlement. And, again, I think Mr. Meissner and others here on the panel may be able to go into that in more detail, if the Commission would like.

A. (Mullen) I'd just like to add a comment related to the Reliability Enhancement and Vegetation Management Programs. The components of these programs and the activities to be performed are similar to programs that are currently in existence in Granite State Electric Company and Public Service Company of New Hampshire.

A. (Collin) The phase-in of the Vegetation Management Program spending reflects 200,000 of augmented

Vegetation Management Program spending above test year amounts included in the base revenue effective May 1st, 2011. So, in the initial 2011 increase is a 200,000 phase-in of VMP. And, then, additional increases of 1,250,000 and 950,000 included in the step adjustments for May 1st 2011 and 2012. Once fully phased in, the augmented Vegetation Management Program spending will reflect a level of about $2.4 million increase over test year distribution tree-trimming expense, as Mr. Traum said, of about 735 or $736,000, or about a three times increase in current Vegetation Management Program expending.

Finally, Section 7 also provides the Company to complete a number of engineering and operations studies, and the Staff will engage the services of a consultant to conduct a review of the Company's engineering and operations practices as they pertain to system reliability and operation efficiency improvements and reviews working -- and reviews. All of this will be done working in cooperation with the Staff and the Staff consultant. The Staff consultant funding is capped or set at about $50,000. And, that amount will be recovered in the initial Reliability Enhancement Program O&M spending that the Company would be recovering in the step adjustments. So, it's all part of that initial step-up in that O&M spending.

Section 8, which begins on Page 17, discusses a storm reserve accrual and recovery of other storm restoration costs. Under Section 8, the Company will be authorized to establish a Major Storm Cost Reserve. This is similar to the types of storm reserve that are currently authorized for Public Service Company of New Hampshire and Granite State Electric. And, we'll fund that reserve at a level of $400,000 annually. The Storm Reserve will be used to recover the costs associated with qualifying major storms, including pre-storm preparation costs. The Major Storm Cost Reserve shall be effective for the recovery of costs associated with qualifying storms occurring on or after July 1st, 2010, which was the effective date of temporary rates. In this regard, the parties agree that the major storm events of September 3rd and 4th, 2010, Hurricane Earl, and December 26, 2010, December 2010 Snow Event, qualify as events for which the reasonable incurred costs may be charged to the Major Storm Reserve. The parties have not agreed to the amount of cost recovery for these two events.

Section 8 also contains an agreement to

remove the recovery of the December 2008 Ice Storm costs from permanent distribution rates, as I previously mentioned, and instead recover these costs, together with the costs of the February 2010 Wind Storm, through a Storm Cost Recovery Adjustment surcharge. Approximately 7.6 million of combined cost for these two storms, inclusive of carrying charges, will be recovered on a levelized basis of 1.1 million a year over a period of eight years. Attachment 2 provides the details and supporting calculation of the Storm Cost Recovery Adjustment Factor.

A. (Mullen) I'll just say, related to those storm costs, you'll see in the body of Section 8.4, that the return that's going to accrue on those costs is at Unitil's cost of debt and does not include any equity.

A. (Collin) I'm going to take a pause here and allow Mr. Traum, from the Office of Consumer Advocate, is going to describe the Rate Design section of the Settlement Agreement. Ken.

A. (Traum) Thanks, Mark. Section 9 of the Agreement, which is labeled "Rate Design", actually covers two components: Interclass revenue allocation and intraclass, within the classes, which covers the allocation to the classes of costs for customer charges, energy, and demand charges, as applicable. Under the Settlement, the parties agree the increase to the residential class will be capped at 115 percent of the average increase for the permanent increase, as well as for the steps. The remainder of the revenue deficiencies will be allocated to the C&I classes based on class marginal costs up to their capped revenue targets for permanent rate purposes. For the steps, the increases for the C&I classes will be based on equal percentage increases.

The permanent class revenue requirements are shown on Attachment 3 of the Settlement, on Page 1, Line 14. For the residential class, the permanent increase will be applied as a roughly equal percentage increase of about 22 percent to the customer charge and the energy charges for effect on May 1, 2010. This is shown on the fifth page of Attachment 3. The results shown there for the usage blocks vary slightly from the 22 percent average increase, because another objective that the parties had was to retain the one-half cent per kilowatt-hour spread between the initial and tail blocks, with the tail block being higher than the initial block, as it is now.

For the -- excuse me. For the steps,

the residential increases will only be applied to the usage charges. These projected rates are shown on Attachment 4, Page 1. The typical bill impacts are shown for each class for the various steps throughout Attachment 5. For instance, on Attachment 5c, Page 1 of 8, a residential customer using 618 kilowatt-hours per month would see an increase in their monthly bill to the step adjustments anticipated for May 1, 2012 of about 1.2 percent. For G1 and G2 classes, the new customer charges are stated in the Settlement document on Section 9.2.2 for permanent rates.

The remaining revenue requirements for the C&I classes will be collected from demand and energy usage charges as shown on the fifth page of Attachment 3. As I previously stated, the revenue increases to the C&I classes for the steps will be based on equal percentage increases, as shown on Attachment 4, Page 1. The typical bill impacts are shown throughout Attachment 5.

Recoupment of the difference between temporary rates and permanent rates will be included in the 2011 Step Adjustment, as previously stated, and will be collected on a per kWh basis from the residential class.

A. (Collin) So, turning to Section 10, which is on -- starts on Page 20, I guess it ends and starts on Page 20, there is a couple of other minor -- other tariff changes that the parties are recommending the Commission approve for Unitil's proposed Outdoor Lighting Service. One is to approve a proposed Midnight Outdoor Lighting Service Option. Essentially brings the Company in compliance with the New Hampshire Dark Sky policy, and allows us to implement a photocell type lighting option that would turn lights off at I believe around midnight, through that, and would -- the tariff would reflect that lower energy usage. And, the second one is -- has to do with a proposed Metal Halide Lighting Service Option under the Energy Policy Act of 2005, that metal halide, as of I believe 2008, is no longer allowed to be manufactured or imported into the United States for use in outdoor lighting applications. As a result of that, we have proposed to add the Metal Halide Lighting Service Option as another white light type of option that customers could use, if they like that, the white light that comes from that type of luminaire versus it's more similar to the old mercury vapor.

CMSR. BELOW: I think you just said that

"the metal halide would be prohibited". Did you mean "mercury vapor"?

WITNESS COLLIN: Oh, I'm sorry. Yes. Did I? Mercury vapor is prohibited --

CMSR. BELOW: Okay.

WITNESS COLLIN: -- under the Energy Policy Act, and this would replace that same type of white light option. I'm sorry. Is that -- we clear on that one?

BY THE WITNESS:

A. (Collin) On Page 21 is a discussion of exogenous events, and these are events that would provide for a base rate -- base revenue change during the period of the five years, and is the one area of exception to the, essentially, the rate plan and Earnings Sharing Agreement structure that's otherwise in place during the five-year period. And, these exogenous events are defined on Page -- are better defined on Page 21, 22, and they would allow us to adjust our distribution rates upward or downward during the term of the rate plan and Earnings Sharing Agreement. These events reflect externally imposed changes that cause a significant change in the Company's costs and are defined in the Settlement under categories of state-initiated cost changes, things such as changes in state tax law or state assessments; federally-initiated cost changes, could be either federal regulatory changes or, again, changes in tax law or assessments; regulatory cost assignments, to the extent there are changes in assignments of costs between distribution rates and the other supply functions or transmission functions of the utility, there would be an ability to recognize those changes. And, then, externally imposed accounting rule changes. We've seen over the last several years that the accounting rules can sometimes have dramatic impacts on the way that a company needs to recognize its costs.

And, so, those exogenous costs would allow for distribution rate changes. The Company would have to make a filing and a show of cause that they had an impact on our cost structure and that it was appropriate to change the distribution rates. And, they also must exceed a threshold level of $200,000 to be eligible for a request. And, again, that request would go through a full hearing process at the Commission before anything could be made.

A. (Mullen) And, again, similar to comments of other sections of this agreement, the exogenous events that are contemplated under this agreement are similar types of events that are in the multi-year rate agreements that we currently have with Public Service of New Hampshire and Granite State Electric Company.

A. (Traum) And, I'd just like to add, in Section 11.5, that Unitil will not seek a rate increase under this section during the period of time when they're required to return overearnings to customers pursuant to Section 5.1.3.

A. (Collin) In addition, in Section 11, there is also a provision that would allow the Company to file for a change in its distribution rates if there is a period of what's been defined as "excess inflation". Excess inflation is measured by annual changes in the Gross Domestic Product Implicit Price Deflator. And, they are -- it's measured as the inflation that exceeds 4 percent. The amount of the increase in excess of 4 percent to distribution revenue shall be equal -- I'm sorry. The amount of increase to distribution revenue shall be equal to the amount by which such average inflation rate exceeds 4 percent multiplied by actual O&M expense in the calendar year that that applied to. It would not start until calendar year 2012, and therefore would not take place until 2013, in terms of an actual adjustment to rates. So, it's pushed out a little bit. It's an excess inflation item that would not come in until later in the rate plan. And, any adjustment would exclude O&M expenses that are being recovered under Unitil's Reliability Enhancement Program.

Section 12 talks about the term of the agreement. And, again, the term, for clarification, is a five-year period. And, as we discussed, it runs from May 1st, 2011 to May 1st, 2016. There is a potential for a rate change under the agreement in 2016, if, in 2015, the Company has an overearnings occurrence.

And, then, Section 13 provides the general provisions, which are fairly customary and common to settlement agreements of this type, and I think are in accordance with settlement agreements typically filed before the Commission.

That concludes my summary. And, as I indicated, the panel is certainly available for questions.

MR. EPLER: Yes. Mr. Chairman, I just did want to just reference one other section and just provide a little further explanation.

BY MR. EPLER:

Q. Referring to Section 7.4, which is on Page 15 of 26 of the Settlement Agreement, Mr. Meissner, that discusses the changes in the Vegetation Management Program spending --

A. (Meissner) Yes.

Q. -- over the test year amount. And, just so that the Commission understands, my understanding of the increases, and those are some significant increases, but that the basis for those increases is that, number one, the Company would be moving to a five-year trim cycle on both its multi-phase and single-phase plant. That the Company also will be hiring professional arborists. And that, probably most significantly, in terms of cost drivers, there will be a very comprehensive Hazard Tree Removal Program. Are those the major cost drivers there?

A. (Meissner) Yes, that's correct.

Q. And, with the Hazard Tree Removal Program, the reason for that large cost is because you're actually going outside the tree zone and proactively trying to identify either diseased trees or trees that have a danger of, if they were to topple during a storm, like an ice storm or a wind storm, that they could bring down the lines, such as what was experienced during previous ice storms and wind storms?

A. (Meissner) That's correct. It's essentially a program to remove whole trees, to the extent that they pose a hazard to facilities.

MR. EPLER: Thank you. That's all the questions I have.

CHAIRMAN GETZ: Ms. Hatfield.

MS. HATFIELD: Thank you, Mr. Chairman. Good morning, gentlemen.

WITNESS COLLIN: Good morning.

WITNESS MULLEN: Good morning.

BY MS. HATFIELD:

Q. Mr. Collin, could you please turn to Page 11 of the Settlement Agreement.

A. (Collin) I'm there.

Q. And, in Section 5.1.2, could you look at that please?

A. (Collin) Yes.

Q. I believe you've testified about the fact that the Settlement is intended to include all potential rate changes that will occur over the five year period, is that correct?

A. (Collin) That's correct.

Q. And, this section makes clear that there are two exceptions, is that right?

A. (Collin) Yes. I think that's -- that's right, yes.

Q. And, one exception would be something you just testified about, the exogenous events found in Section 11, is that right?

A. (Collin) Yes.

Q. And, the other exception would be if the Company made additional filings under RSA 374-G, the Distributed Energy Resources statute?

A. (Collin) Yes.

Q. So, if the Company did make a filing under that statute, there might be additional changes to account for recovery of those types of projects?

A. (Collin) Yes. And, just to be clear, there is also the section right below it, does talk about the ability for the Company to file for a change if our ROE falls below the 7 percent level. So, I guess that is a third, third off-ramp.

Q. Thank you. And, Mr. Mullen, would you please look at Page 14 of the Settlement Agreement.

A. (Mullen) I'm there.

Q. And, please look at Section 6.6. Is it your understanding from this section that there will be a review process for step adjustments, and that, if the Staff or the OCA are not in agreement with those

proposals, that they could ask the Commission to hold a hearing to review them?
A. (Mullen) Yes, that's correct.
Q. Thank you. Mr. Meissner, could you please turn to Page 17.
A. (Meissner) Yes, I'm there.
Q. Section 8.1, which Mr. Collin testified about, discusses a "qualifying major storm", do you see that?
A. (Meissner) Yes, I do.
Q. Could you give us a sense of whether there has been a "qualifying major storm" in 2011 in the recent storm events that we've had, if you know?
A. (Meissner) I do not believe we've had a qualifying major storm any time in the last year.
Q. Okay. Thank you.
A. (Meissner) If I may, I'd point out as well that these definitions that are described here, the "22 concurrent troubles" and "15 percent of customers interrupted", those were actually definitions that were developed by the Commission back in the '90s as part of a docket at that time. And, we've stuck with those definitions since that time.
Q. Thank you. Mr. Traum, would you agree that the Settlement Agreement before the Commission is a fair

resolution of all of the issues in the case?

A. (Traum) Yes, I would.

MS. HATFIELD: Thank you. I have nothing further.

CHAIRMAN GETZ: Thank you Ms. Fabrizio.

MS. FABRIZIO: Thank you, Mr. Chairman.

BY MS. FABRIZIO:

Q. I'll turn to Mr. Mullen. Excuse me. You have adopted, as "Exhibit 11", a timeline entitled "Summary of Temporary Rate Recoupment and Rate Changes per Settlement Agreement". Could you walk through this timeline and explain the various elements for the benefit of the Commission.

A. (Mullen) Certainly. What I've tried to do on this page is to represent, on a single page, what is described over multiple pages of this agreement, primarily in Section 2 and Section 6. If you just start at the left-hand side, the first date there is "July 1st, 2010". That was the effective date of temporary rates, so that would begin the reconciliation period between permanent rates and temporary rates. And, as described in Section 8, that would also be the effective date that we agreed for the Major Storm Reserve, the annual $400,000 funding. That would encompass a couple of storms that Mr. Collin described, and that are specifically mentioned in Section 8.

Moving to "May 1st of 2011", that would be the effective date of permanent rates. And, it would start the recoupment of the difference between permanent rates and temporary rates for the period from May 1st, 2011 back to July 1st, 2010. That temporary rate recoupment will go forward for one year. Also, this would start the five-year term of the Agreement, including the Earnings Sharing Mechanism. And, it would start the Storm Recovery Surcharge to collect costs related to the December 2010 Ice Storm and the February -- December 2008 Ice Storm, let me get my years right, and the February 2010 Wind Storm.

Moving to "May 1st, 2012", there you get a net rate change of 1.5 million, because you get a step increase for some of the REP and VMP costs, 75 percent of non-REP plant, and that's getting reduced by the end of the temporary rate recoupment of $1.2 million.

Moving to 2013, "May 1st, 2013" and "May 1st, 2014" are the step increases that were described earlier by Mr. Collin. And, on "May 1st, 2016", that's when you get the end of the five year Earnings Sharing and the end of the Settlement Agreement term. So, I'm just trying to make it in pictorial form, a little easier to follow, rather than having to flip through all the pages.

Q. Thank you. Excuse me. Mr. Mullen, you've heard some testimony this morning regarding Section 7 of the Settlement Agreement concerning Reliability Enhancement and Vegetation Management Programs the Company will undertake. Do you have anything further to comment on those programs in this provision?

A. (Mullen) Yes. In addition to the comments by Mr. Collin and Mr. Meissner, I'd just like to note that some of the -- some of the costs and some of the activities that are going on in there are also follow-ups from the Commission's After Action Review of the December 2008 Ice Storm. Specifically, the subject of a system arborist, and as well as trying to get some consistency in the clearances, the side clearances for trimming purposes, and the cycle for trimming among the various distribution utilities in the state. So, and that's part of what we've done here, in terms of the five year cycles for all of Unitil's various voltages. That's similar -- that is now the same as what PSNH has for cycles, and they will also have the 8-foot side clearances, which is the same as Public Service Company of New Hampshire.

Q. Thank you very much. Now, turning to, if you have before you, your direct testimony, which we've recognized as "Staff Exhibit 7". If you could turn to Page 38 of that testimony. And, here you have recommended eliminating certain reporting requirements that stem from previous dockets. This is not covered in the Settlement Agreement. Would you care to address your recommendation today?

A. (Mullen) Yes. I put this question and answer in my direct testimony as more of a housekeeping item than anything else. In my direct testimony, I mention some quarterly and annual reports that Unitil's been filing since docket DE 02-221 related to the status of its pension plan. Since that time, we've had a couple of rate cases where we've thoroughly looked at Unitil's pension and PBOP costs. And, so, what I put in here was just, like I say, a housekeeping item to -- I think that those reporting requirements can really end. At the time of the order in that docket, there was no end period on them, it was pretty open-ended.

Similarly, one that's not mentioned in here, another docket, there was one in 2003, DE 03-238.

There's also an annual reporting requirement related to their PBOP costs. I think, and as I've recommended in my testimony, that Staff believes that the reporting requirement could be lifted. However, Staff recommends that Unitil file a letter in reference to the pension and PBOP reporting requirements, just to try and tie that up, and just request that those -- request the Commission approval for the cessation of those reporting requirements. It's not something I don't think that needs to be filed in this docket, *per se*. But, while I had the opportunity, I threw it in so I wouldn't forget about it.

Q. Thank you. Now, Mr. Mullen, in conclusion, do you believe that the Settlement that has been presented today is a just and reasonable resolution of the issues raised in this rate case?

A. (Mullen) Yes, I do.

MS. FABRIZIO: Thank you. I have no further questions.

CHAIRMAN GETZ: Thank you. Commissioner Below.

CMSR. BELOW: Sure.

BY CMSR. BELOW:

Q. And, I'll just follow off on that and ask Mr. Mullen if he believes that it serves the public interest and I would ask the other witnesses the same question?

A. (Mullen) Yes, I do.

A. (Traum) Yes, I do.

A. (Meissner) Yes, I do.

A. (Collin) Yes, I do.

Q. Okay. And, Mr. Meissner, just to clarify something that I may have misheard you, but I thought I heard you say, in response to a question from Ms. Hatfield, that "there had been no major storm events in the past year." Do you mean "since the first of the year"?

A. (Meissner) Maybe I should clarify, and I thought of that after I answered. In terms of actually becoming a major storm event, I would answer "no". But, in terms of storms that qualify as being a major storm likely to occur under the PDI index of Level 2, we have had that occur.

Q. Well, and 8.3 of the Settlement Agreement says "The Parties agree that the September 3-4, 2010 and December 26, 2010 events...are major storm events."

A. (Meissner) They qualified because we had to incur significant costs planning for a storm event. You know, Hurricane Earl was probably the best example. Hurricane Earl had a probability or a likelihood of striking New England, and all the utility's pre-stage crews had planned accordingly. But, then, at the last minute, Hurricane Earl didn't actually strike. So, we incurred the cost, but we didn't have a major storm event.

Q. I see. So, for purposes of the Settlement, then you're treating them as such that they actually did meet the technical criteria that would be in place going forward?

A. (Meissner) The technical criteria in the Settlement, there's a qualifier that says "if a major storm is likely to occur", and then we've defined what that means, "likely to occur". Then, some charges can be properly charged to the Storm Reserve, whether or not the major storm actually occurs.

Q. Okay. That's fine.

A. (Meissner) And, there have been instances where that was the situation.

CMSR. BELOW: Okay. Thank you. That's all.

CHAIRMAN GETZ: Commissioner Ignatius.

CMSR. IGNATIUS: Thank you.

BY CMSR. IGNATIUS:

Q. A little more on the Major Storm Recovery provisions.

And, looking at Page 18 of the Settlement Agreement, there's a description of a process where I take it, and correct me if I'm wrong, that, in order to actually draw from the account, you need to have Commission approval, is that correct, either I guess Mr. Meissner or Mr. Collin?

A. (Meissner) I mean, it's subject to Commission audit, and it's subject to our making a demonstration that it was reasonable.

Q. Have you thought through --

A. (Collin) Commissioner, just to be clear on that though.

Q. Please.

A. (Collin) We would do the accounting to the account on our own without approval. The accounting, we make a judgment that it qualifies that it was a major storm. We would go ahead and account for it that way. And, then, it would be at some later date, when the activity to that account was reviewed, more than likely in a rate case, in a future rate case, where you go back and look at the history of what storms qualify and how they qualified, before any adjustment would be made to that. But, as a normal course of business, the Company would go ahead and use that accounting based on the definitions in this agreement.

A. (Mullen) Just to expand on that a little bit. Mr. Collin just said "in a future rate case". Considering that we have a five-year agreement here, and similar to the process that we currently undertake with Granite State Electric and Public Service Company of New Hampshire, who also have storm reserves, we can do -- we do and we have done audits independent of a rate case process. So, it doesn't have to necessarily be tied to a rate case, just after, you know, after a certain period of time we'll just look at the costs that are charged there, and we will send the auditors out to look at those costs and review them.

Q. So, the reference at the bottom of 8.2, on Page 17, and carrying over to Page 18, that "The Company may petition the Commission to recover extraordinary costs of such events", doesn't mean that you can't touch the fund until you have Commission approval. It's that you'll go ahead and draw from that fund, but the Commission approval process will after-the-fact evaluate whether that was appropriate to do so?

A. (Meissner) That specific provision actually applies to a little bit different situation. And, there may be situations where you have a major disaster or some type of event that doesn't actually qualify for the

Commission criteria of a major storm and may not reach a PDI Level of 2. And, in that case, we would not be able to just charge the storm reserve. But we would have the ability to petition the Commission, if we think that it should be appropriately charged to that reserve. So, in that case, it would require approval in order to do that.

And, one specific example that was cited by the Commission's witness or consultant was the Alstead flooding situation. Where it really didn't fit into the criteria of a major storm, *per se*, but there were significant costs associated with that. So, in that situation, the involved company was able to petition the Commission for special treatment under the Storm Reserve.

Q. Are these provisions similar to the mechanisms in place for the other companies?

A. (Mullen) Yes.

Q. So, the details of which term applies and who reviews things in what order is something that you've had experience with?

A. (Mullen) Yes. Each storm has its own major storm definitions that are tailored specifically to those companies. But, in general, the process that's described here is similar.

Q. And, the Storm Recovery Adjustment Factor surcharge in 8.4, how does that -- how does that play out year to year? When do we see that come forward? Does it necessarily show up in a particular sort of case or only on a case-by-case basis?

A. (Collin) I think it would actually be our expectation that that surcharge would be approved as part of this proceeding. And, the Company would begin an eight year recovery of those storm costs. There would be no additional costs added to it or changed. It's kind of a fixed amount that the Company would recover over eight years. And, outside of an audit process, where the Staff wanted to look at it or the Commission wanted to look at it, you essentially wouldn't hear about it again until the eight years were up and we're ready to cancel the tariff.

Q. So, it's not an adjustment factor that will pick up from year to year additional costs. It's really limited to the December '08 Ice Storm and the February '10 Wind Storm?

A. (Collin) That's correct.

A. (Mullen) I would say the details about the costs for those storms and the calculation of that factor is included in Attachment 2 to the Settlement Agreement.

Q. Right. Thank you. Mr. Mullen, if I can ask you a couple of questions about Mr. Cannata's testimony. He raises a concern about the changes in the scope of the Kingston project, I believe. Costs going up and some of the requirements of that project changing, which I take it are in the hands of PSNH in the redesign of that project, is that right?

A. (Mullen) Well, yes. And, I think Mr. Meissner could give you an update about what the status of that project is. At this time, there is -- to my understanding, the project is not going forward. But I will defer to Mr. Meissner on that.

Q. All right.

A. (Meissner) That is correct. At the time of the filing, we had been working with PSNH on a multi-year plan, essentially, and it does involve the facilities of both companies. And, that had been what was proposed in the filing and in the testimony. During the course of the case, there was really two changes. One being that load growth did not come in as anticipated, so the need for that reinforcement project essentially has been pushed out. There will be a need in that area, it may just be one or two years further out into the future.

And, then, in addition, the scope of the project changed, the cost of the project changed, and there was not really an agreement on any of that between the companies any longer, so we withdrew that from the proceeding.

Q. All right. Thank you. Mr. Meissner, again, maybe you can help with this. In Mr. Cannata's testimony, he describes, on his testimony, Page 8 and 9, he takes issue with Unitil's focus on circuit hardening, and that there's too much emphasis there, and there are other more cost-effective approaches that should be taken advantage of. I'm way out of my league here in engineering. So, where -- how does his concern fit into some of the terms in the Settlement Agreement?

A. (Meissner) Let me start by saying I think the term "circuit hardening" was part of the reason that that arose. It was maybe a poor choice of term for us to use in that. And, you know, to some extent we borrowed that from the way other companies were characterizing that, including the term "feeder hardening". So, I think that that had certain meaning in Mr. Cannata's mind, and I think he equated our proposal to "feeder hardening" of another utility. When, in fact, that really wasn't the intent of our proposal. Our proposal was more of a reliability-based analysis and solution. And, I think it was that terminology that maybe created a misperception. I think during the course of the discussions and during the course of the technical sessions, you know, we, along with Mr. Cannata and Staff, got more of a common understanding of what is meant by the REP. And, I don't think that there's really a fundamental disagreement at this point.

A. (Mullen) On that, I will just add, if you look at Page 15 and 16 of the Settlement, Section 7.6.1 and 7.6.2, related to some of the issues that were described by Mr. Cannata in his testimony and discussed with the Company throughout the proceeding. That's where you get some of the studies that the Company is going to perform, as well as the system review and the particular areas for potential improvements in 7.6.2. So, that's where a lot of that comes from.

Q. And, Mr. Mullen, is it your understanding that the reliability upgrades that are agreed to in the Settlement Agreement are -- that Mr. Cannata would find them appropriate steps to take?

A. (Mullen) In terms of what's envision in the Reliability Enhancement Program?

Q. Yes.

A. (Mullen) Yes.

MR. EPLER: May I ask a clarifying question?

BY MR. EPLER:

Q. Mr. Mullen, would you agree that Mr. Cannata was fully engaged in the drafting of Section 7.6.1 and 7.6.2?

A. (Mullen) Yes, he was.

BY CMSR. IGNATIUS:

Q. Mr. Traum, I had a question about a comment you made in the Settlement Agreement on Page 23, 11.5. And, it's possible that Ms. Hatfield asked you a question about it and I was coughing and didn't hear it. So, forgive me if you've already addressed this. You had noted that, if there's a period of time where the Company has high earnings and is in its sharing phase of returning 75 percent of the earnings over 10 percent, and that were to overlap, I assume, with a period where there is an exogenous factor that has kicked in that would have authorized the -- would allow the Company to seek a rate increase, that it wouldn't, that the Company would not take such action, is that right?

A. (Traum) Correct.

Q. Can you elaborate on that any further, the mechanism? How you do the calculations? You know, what do you calculate first? Do you first do refunds and then allow the exogenous factor? Do you first allow the exogenous factor and that may cut the overearnings and therefore cut the refunds? Did you get to that point as you went through the mechanisms?

A. (Traum) I wouldn't -- certainly other panel members can comment also, but I would think that, if we're looking at actual returns for a 12-month period, and we're coming out with a return over 10 percent, that over 10 percent would have already recognized any exogenous costs within it.

A. (Mullen) I'll take a stab at this here. I'm going to try to put a hypothetical example. Say if, during the calendar year 2013, pursuant to Section 5.1.3, Unitil was overearning over the 10 percent and there was some sharing of revenues to go back to customers, that would happen during the next year, during 2014. If, during 2014, there was, say, a state law change or a federal law change that had Unitil incur some additional costs during that period, the working of Section 11.5 would mean, since you're already at a time of overearning, you don't really need to have the rate increase. You're returning overearnings, you don't need to have the rate increase during this particular time. And, I would just see if Mr. Collin agrees with my explanation?

A. (Collin) Yes. No, I think that's right. I think the earnings sharing, we measure at the end of each period, at each year, December 31st. If the Company was overearning, the refund would take place starting May 1st of the following year. I think what we're saying is, if an exogenous factor occurs in the following year, such that you would be looking for an adjustment, you would not make that in the current year, at that May 1st time frame. I think you would be able to consider that in the next year as part of the ROE impact to add on in that year. So, it will get incorporated, just it does get delayed, essentially.

Q. All right. Mr. Mullen, the timeline you did is helpful, seeing it all in one spot. And, I know we have exhibits that show the individual increases with each of these events. But has any effort been made to track the rate increases from event to event on your timeline, what customers would see as their rates adjust up and down?

A. (Mullen) In terms of percentages or dollar impacts?

Q. Either.

A. (Mullen) There are a series of attachments. Mr. Traum is pointing me to Attachment 4. Let me just get there. And, what you're asking, that's the intent of Attachment 4 is to show what's happening over each of the years at the various classes.

CMSR. BELOW: Maybe you mean Attachment 5?

WITNESS MULLEN: Yes. That works, too.

CMSR. BELOW: Okay.

BY CMSR. IGNATIUS:

Q. Well, I guess what I'm wondering is the sort of cumulative impact. For example, looking at Attachment 5, that first page for residential, you have a permanent rate of an increase of 3.1 percent, compared to the November 1, 2010 number. Then, you have a step increase, it's the permanent rates plus step that same date, compared to the November 1 date, of 6.1 percent. I assume that's all-in. That's not 3 percent plus 6 percent. That's a total of 6 percent, is that correct?

A. (Collin) Yes.

Q. And, from that point on, do they simply add on top of each other, so that Step 2 is another 1.5 above, Step 3 is 1.2, and Step 4 is, there's a lot of steps there, Step 4 is 1.2 percent above?

A. (Collin) That's correct.
Q. And, these are obviously projections, they're not hard numbers. The actual numbers are yet to be determined, correct?
A. (Collin) That's correct.
Q. Is there a provision, and maybe they're there and I've just forgotten it, is there a provision for review if the actuals come in significantly different than what was anticipated in the Settlement Agreement?
A. (Mullen) The actuals, especially in terms of the capital additions? Yes, there is. And, just give me a second to find it.
A. (Traum) On Page 14 in, I believe, Section 7.2, the last sentence, "The actual revenue requirements will be based on actual REP capital expenditures and will be subject to a cap of $2 million on REP capital spending in [each] calendar year."
Q. Thank you.
A. (Mullen) In addition to that, I'm going to refer you back to Page 12, in Section 6.1. The paragraph right under the table talks about the "forecasted increases to non-REP Net Plant in Service...for the years 2011, '12 and '13." And, then, if you move to Page 13, at the top of the page, the continuation of Section 6.2,

it says "In its annual filings, Unitil will explain any material variations between [the] actual increases to Net Plant in Service and the forecasted increases described in Section 6.1."

Q. Thank you. And, it sounds like the more the Company can share its expectations of where the actuals are heading, the earlier it can share those, the better in terms of ironing out why there are discrepancies and where the numbers really fall?

A. (Mullen) Yes.

CMSR. IGNATIUS: Thank you. I have nothing further.

BY CHAIRMAN GETZ:

Q. Mr. Meissner, I have a couple of questions. I want to talk to you about the Reliability Enhancement Program and the Vegetation Management Programs. And, if I look at Exhibit 3, your initial testimony, if you have it there.

A. (Meissner) Yes.

Q. Page 23 of your testimony, which is Page 195 of the binder.

A. (Meissner) Yes, I'm there.

Q. And, on Line 3, there's -- you talk about the Company "completes an annual study of the "worst performing circuits" and identifies solutions." And, I assume that you identify a "worst performing circuit", that there could be a number of things going on. It could be -- it could require trimming, it could require changing out fuses, it could be aging infrastructure. So, there could be a combination of solutions that would involve either a Vegetation Management Program expense or Reliability Program capital expenditures, is that fair?

A. (Meissner) That's correct. Yes.

Q. So, you would come up with some set of solutions to a particular circuit. And, it also says on Page 26 of your testimony that you have some -- looks like some general asset replacement strategies that are being pursued. Now, is that for these -- is that system wide, regardless of whether they're poor performing circuits? How does that play out?

A. (Meissner) Asset replacement strategies are usually independent of the reliability evaluation process, although they could be related. They're not completely divorced. But an example would be pole replacements. We do regular inspections of pole replacements, and we have an annual pole replacement program that are replacing poles that fail inspection. And, that's done independently of any reliability impact at all, is to replace the poles before we experience a failure or safety issue.

Q. So, these types of steps that you're talking about on Page 26 of your testimony, that's happening system wide, you know, replacing potted porcelain cut-outs, porcelain insulators, etcetera?

A. (Meissner) That's correct. We essentially embark on a replacement based on a specific type of equipment or a specific reason for replacement. But, for example, a porcelain potted cut-out issue, that could arise out of our reliability analysis. We could see an increase of failures of that type of cut-out. Based on failure rates and so forth, a decision may then be made to replace all of that class of equipment.

Q. So, I'm just trying to understand it. So, there's a general program of replacing certain assets, if you had a "worst performing circuit" identified, then, while you were looking at that circuit, you'd also be taking these kinds of steps and maybe some other steps?

A. (Meissner) That's correct. The evaluation that's done on "worst performing circuits" is normally the Engineering Department. We'll select those circuits. They will essentially look at every interruption that occurred on that circuit. They'll plot it with GIS as to where they're occurring on the circuit, and they will determine the causes of those interruptions. So, then, they will tailor solutions specifically to address the causes of outages that we've experienced.

Q. And, then, where Mr. Cannata talked about, you know, focusing, and I think you discussed this issue, whether there was not a meeting of the minds on what "circuit hardening" meant, --

A. (Meissner) Meant, yes.

Q. -- he focused on, in his testimony, on Page 8, of basically focusing on fuses and reclosers. But, if you had a "worst performing circuit", and you went out to look at that, that would be looking at the fuses and the reclosers would be part of what you would be looking at?

A. (Meissner) That's correct. There's two approaches we take. One is to first prevent the outage, and a solution for that might be tree-trimming. Or, if the outages are somewhat random and you can't really identify a particular cause, then we try to limit the extent of those outages. And, that's when we would apply reclosers or fuses to try to limit it to a smaller group of customers.

Q. And, then, that's the focus in the Settlement Agreement, of Section 7.6, is that particular emphasis on fuses and reclosers?

A. (Meissner) That's correct. We're going to do the studies identified in the Settlement. And, there's going to be this focused audit. And, the intent of that is to essentially establish a baseline. So that we're all on the same page of understanding the causes of reliability issues and understanding the solutions to those issues.

Q. And, this will all go in parallel to the types of efforts you're talking about on Page 26 of your testimony, about replacing aging infrastructure, underground cable, *etcetera*?

A. (Meissner) That's correct. And, during the course of discovery, we did provide our analyses of "worst performing circuits" and where we experience some problems, and the cost and benefit methodology that was used to identified solutions. So, we did talk through that extensively during discovery.

CHAIRMAN GETZ: Okay. That's all I have. Any redirect?

MR. EPLER: No thank you, Mr. Chairman.

CHAIRMAN GETZ: All right. Hearing

nothing, then you're excused. Thank you, gentlemen.

WITNESS COLLIN: Thank you.

WITNESS TRAUM: Thank you.

CHAIRMAN GETZ: I did have one question, Mr. Epler.

MR. EPLER: Yes.

CHAIRMAN GETZ: On the Exhibit 5, the "Distribution and Sub-Transmission Vegetation Management Program", you said there was -- a letter was filed, which I didn't -- I couldn't find in mine. But you said there is going to be a Motion for Confidentiality?

MR. EPLER: Yes.

CHAIRMAN GETZ: Is the substance of the issue, is this like proprietary work product?

MR. EPLER: Yes.

CHAIRMAN GETZ: So, it's really the Environmental Consultants, Inc., who would like this treated in confidence?

MR. EPLER: Yes. That's correct. There's certain studies that they do and certain indices that they created out of a large database, and they feel that that's proprietary to them. So, there's various charts and so on throughout the report that they would like protected, because they feel that that's their proprietary work product.

CHAIRMAN GETZ: Okay. Thank you.

MR. EPLER: But the analysis that's in the report would not be redacted.

CHAIRMAN GETZ: All right. Thank you. Is there any objection to striking the identifications and admitting the exhibits into evidence?

MS. HATFIELD: No.

CHAIRMAN GETZ: Hearing no objections, they will be admitted into evidence. Anything we need to address before opportunity for closings?

(No verbal response)

CHAIRMAN GETZ: Hearing nothing on that, then, Ms. Hatfield.

MS. HATFIELD: Thank you, Mr. Chairman. The OCA would like to thank both the Company and Staff for a very productive and cooperative settlement discussions in this case. And, we are pleased to be presenting this Settlement to you today. And, we respectfully request that you approve it. Thank you.

CHAIRMAN GETZ: Thank you. Ms. Fabrizio. And, don't move that.

MS. FABRIZIO: Can you hear me? Thank you, Mr. Chairman. Staff has also reviewed Unitil's filing and discovery responses in this proceeding to assess the Company's revenue requirements and the need for adjustments to current rates. In light of the Company's obligation to improve its Vegetation Management and Reliability Enhancement Programs, continued investments in its electrical system, certain changes in pension and PBOP discount rates and actuarial estimates, and the fact that sales have not been keeping up with the increase in operational expenses over the past five years since Unitil's last rate case, Staff believes the proposed Settlement represents a just and reasonable resolution of the issues raised in this docket.

Staff further believes that the rate design results in fair and reasonable adjustments to current rates for the various customer classes, particularly as the Settlement provides some limits on those adjustments.

The Settlement presented today covers a range of issues, including normal rate case issues, such as revenue requirements, as well as reliability issues, including the follow-up obligations stemming from the Commission's 2008 Ice Storm review.

The Settlement also provides for rate stability, as the Company cannot come in for a new rate case for five years. And, given that five-year stay-out period, the Settlement also provides for a sharing of any risks that may be due to changes in Company earnings over that time. But also allows the Company to recover costs for certain non-revenue-producing capital investments that may be needed during those five years.

In summary, what the parties have tried to accomplish in this Settlement is the creation of a realistic and reasonable opportunity for Unitil to earn a reasonable return over a five-year period by providing for some minimal step adjustments to rates for certain expenses, such as improvements in the Reliability Enhancement and Vegetation Management Programs, while setting parameters over that time in the event earnings increase or decrease beyond what is expected to occur.

Accordingly, Staff recommends that the Commission approve the Settlement as presented today as just and reasonable and in the public interest. Thank you.

CHAIRMAN GETZ: Thank you. Mr. Epler.

MR. EPLER: Yes, Mr. Chairman, Commissioners. Thank you. The Company agrees with and appreciates the summation of the Staff counsel, Ms. Fabrizio, and agrees to what she said, so I won't repeat that. And, also, I just -- I wanted to also second the sentiments expressed by the Consumer Advocate. That we appreciate the opportunity to work through this case. It was a very, very productive, a good exchange of information, a good dialogue throughout, and we think it resulted in a very good result. So, we appreciate the efforts of all involved, and recommend that you approve the Settlement as filed.

CHAIRMAN GETZ: Okay. Thank you. Then, we'll close the hearing and take the matter under advisement.

(Whereupon the hearing ended at 10:51 a.m.)