

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

**NORTHERN UTILITIES, INC.
PETITION FOR INCREASE IN
NATURAL GAS DELIVERY RATES**

Docket No. DG 11-069

**SETTLEMENT AGREEMENT ON
PERMANENT DELIVERY RATES**

This Settlement Agreement on permanent delivery rates (“Settlement Agreement”) is entered into this 22nd day of March, 2012, by and among Northern Utilities, Inc. (“Northern,” or “the Company”), the Office of the Consumer Advocate (“OCA”), and the Staff of the New Hampshire Public Utilities Commission (“Staff”) (collectively, the “Settling Parties”), and is intended to resolve all outstanding issues in the above-captioned docket, including, but not limited to, permanent delivery rate levels and specific rate design modifications.

1. INTRODUCTION AND PROCEDURAL HISTORY

1.1. On March 31, 2011, Northern filed with the New Hampshire Public Utilities Commission (“the Commission”) a Notice of Intent to File Rate Schedules in accordance with N.H. Code of Admin. Rule PUC §1604.05. At the time of the filing, the approximate amount of the proposed change to revenue was estimated to be \$3.6 million. The Company also proposed to recover the costs of distribution system investments made in 2011 via a step adjustment of approximately \$1.4 million. The Notice also indicated the Company’s intent to

file rate schedules requesting temporary rates, pursuant to RSA 378:27, for implementation during the pendency of the permanent rate relief request.

- 1.2. On May 4, 2011, pursuant to NH RSAs 378:7, 378:27, 378:28 and 378:29, and N.H. Code of Admin. Rules PUC §1600 *et seq.*, Northern filed testimony, supporting data and revisions to its Tariff NHPUC No. 10-Gas, along with a petition requesting: (1) a permanent annual increase in revenues of approximately \$3.74 million effective June 3, 2011; (2) a step adjustment in 2012 estimated to produce an annual increase of \$1.43 million in revenue relating to capital investments in rate base made in calendar year 2011; (3) an annual Targeted Infrastructure Recovery Adjustment (“TIRA”) mechanism to commence May 1, 2013 relating to rate base additions made on and after January 1, 2012 pursuant to the Company’s Bare Steel Replacement Program (“BSRP”), designed to recover BSRP expenditures made in the prior calendar year and which would produce an annual increase in revenue of approximately \$0.7 million; and (4) a temporary rate increase expected to produce an increase of \$1.8 million in annual revenues commencing with service rendered on August 1, 2011 and until the date a final, non-appealable order establishing permanent rates is issued.
- 1.3. By letter dated April 12, 2011, the OCA notified the Commission that it would be participating in this proceeding on behalf of residential ratepayers consistent with RSA 363:28.

- 1.4. On May 19, 2011, the United Steel Workers of America Local 12012-6 (“the Union”) petitioned for intervention in this proceeding.
- 1.5. On May 27, 2011, the Commission issued Order No. 25, 225 suspending the Company’s proposed tariff revisions pursuant to RSA 378:6, I. (a) pending investigation, scheduling a prehearing conference for June 16, 2011, and scheduling a hearing on the Company’s request for temporary rates for July 13, 2011.
- 1.6. Staff and OCA propounded data requests concerning the temporary rate request, and Northern provided responses on June 10, 2011.
- 1.7. On June 16, 2011, the prehearing conference was held as scheduled, at which time the Commission granted the Union’s intervention request. Also on June 16, 2011, the Settling Parties attended a technical session which resulted in agreement on temporary rate issues, including agreement on a total annual temporary delivery service revenue level of \$1,711, 246 above the current revenue level. To effectuate that increase, the Settling Parties agreed that a uniform, per-therm surcharge of \$0.0293 would be applied to all of the Company’s current rate schedules for service rendered on and after August 1, 2011. On July 7, 2011, the OCA, on behalf of the Settling Parties, filed the Stipulation and Settlement Regarding Temporary Rates signed by Northern, OCA and Staff, which the Commission heard on July 13, 2011. The Commission issued Order No. 25, 252 on July 22, 2011 approving the

Stipulation and Settlement Regarding Temporary Rates and authorizing the proposed temporary rate increase.

1.8. On July 29, 2011, Northern filed lead-lag testimony and cash working capital testimony of Paul M. Normand, along with supporting exhibits and work papers. Applying the lead-lag study to the Company's requested permanent rate increase has the effect of decreasing the annual revenue requirement by approximately \$132,875.

1.9. The Audit Staff of the Commission conducted an investigation and audit of Northern concerning test year information provided with the Company's request for a permanent rate increase. Northern responded to data requests from the Audit Staff and provided comments on the Draft Audit Report dated September 27, 2011. The results of the Audit Staff's review and recommendations are included in its Final Audit Report dated October 18, 2011.

1.10. The Staff and OCA issued several sets of data requests each comprised of numerous questions to which Northern responded. The Settling Parties, along with Union representatives, met in technical sessions in September and December 2011. Settlement discussions between the Settling Parties took place on multiple dates during December 2011 and January 2012, which discussions ultimately led to this Settlement Agreement.

2. DISTRIBUTION RATE CHANGE

2.1. The Parties agree to an annual revenue increase of \$3,675,150 effective May 1, 2012. The May 1, 2012 revenue increase consists of a revenue deficiency of

\$2,742,525, a settlement adjustment not subject to recoupment in the amount of \$113,806, and a step increase of \$818,819 to recover 2011 non-revenue producing capital expenditures. The revenue requirement schedules supporting Northern's overall revenue requirement and incorporating the provisions of this agreement are attached as Exhibit 1. Working Capital in the revenue requirement calculations is based on a lead/lag of 4.58 days as documented in the lead/lag study prepared by Mr. Normand as of 12-15-2011¹.

- 2.2. The Parties agree that the Recoupment of the difference between temporary and permanent rates, consistent with RSA 378:29, shall be recovered over a twelve month period beginning May 1, 2012 through an equal per therm charge for all classes, in accordance with the provisions of Northern's Local Delivery Adjustment Clause tariff. Northern shall file its revised proposed charge by April 2, 2012, for review and approval by the Commission. The Recoupment shall be calculated based on the difference between temporary rates and permanent rates incorporating the revenue deficiency of \$2,742,525. The calculation will incorporate actual billing data from August 2011 through February 2012 and estimated billing data for March 2012 through April 2012. The charge shall be subject to reconciliation. On or before July 31, 2013, Northern shall file with the Commission, for its review and approval, a reconciliation of the charge. The reconciliation shall include the final calculation of the difference between temporary rates and permanent rates being

¹ The Lead Lag Study Summary was provided as Attachment B to Staff 3-66 Supplemental.

collected through the charge and a recommendation for treatment of any under- or over-recovered balances projected to remain at the end of the twelve month period.

- 2.3. The Parties agree that Northern's prudently incurred Rate Case Expense shall be recovered over a twelve month period beginning May 1, 2012 through a uniform charge per therm, including interest, in accordance with the provisions of Northern's Local Delivery Adjustment Clause tariff. Northern shall file with the Commission, through its Executive Director, its proposed charge by March 15, 2012, for review and approval by the Commission. The Company shall provide a copy of this filing to all parties in this case, and the parties may file comments and recommendations within a time period set forth by the Commission. The Rate Case Expense shall reflect actual expenses incurred through February 2012 and estimated expenses through the conclusion of the proceeding. The charge shall be subject to reconciliation. On or before July 31, 2013, Northern shall file with the Commission, through its Executive Director, for its review and approval, a reconciliation of the charge. The Company shall provide a copy of this filing to all parties in this case, and the parties may file comments and recommendations within a time period set forth by the Commission. The reconciliation shall include the final amount of rate case expense and a recommendation for treatment of any under- or over-recovered balances projected to remain at the end of the twelve month period.

3. COST OF CAPITAL AND CAPITAL STRUCTURE

3.1. In determining the revenue requirement, the Settling Parties utilized an overall capital structure as set forth below, including a 9.50 percent return on equity:

	Component		Weighted
	<u>Percentage</u>	<u>Cost</u>	<u>Cost</u>
Common Equity	40.25%	9.50%	3.82%
Preferred Stock Equity	0.0%	0.00%	0.00%
Long-Term Debt	58.28%	5.81%	3.39%
Short-Term Debt	<u>1.47%</u>	<u>2.28%</u>	<u>0.03%</u>
Total	<u>100.00%</u>		<u>7.24%</u>

4. DEPRECIATION RATES

4.1. The Company will use the Whole-Life Depreciation Accrual Rates which are documented in Exhibit 2. The detailed calculation of the depreciation and amortization settlement adjustments incorporated into the revenue requirement calculations in Exhibit 1 are derived in Exhibit 2 Attachment 1 (containing Schedules JJC-1 through JJC-8).

5. RATE DESIGN

5.1. **Cost Functionalization:** The functionalization of costs between the Company's Cost of Gas Clause ("COGC") and its base rates is provided in Exhibit 3 Attachments 1 through 5 (containing Schedules PMN-1G-2 through PMN-1G-6, respectively) attached hereto. The annual indirect costs to be included in the COGC as of the date of Temporary Rates are specified in

Attachment 1(Schedule PMN-1G-2) at pages 5 and 6.² These costs are \$307,762 for Production and Storage Capacity (LNG & LPG Excluding Bad Debts) and \$411,600 (\$314,750 for Dispatching & Acquisition and \$96,850 for Other A&G). Beginning August 1, 2011, a reconciliation of the difference between these expenses and those expenses previously recorded in Northern's COGC shall be assigned and included in the Company's 2011-2012 Winter Period and 2012 Summer Period COGC Reconciliations. In subsequent COGCs these expenses will not be separately reconciled.

As of the date of Temporary Rates, the Company's Working Capital Allowance related to supply requirements and recovered through the COGC will be calculated by multiplying supply costs by the percentage derived from dividing the supply-related net lag of 9.25 days³ by 365 days and multiplied by the monthly prime lending rates in effect for the period. Beginning August 1, 2011, a reconciliation of the difference between the supply working capital requirement as calculated above and supply working capital requirement previously recorded in Northern's COGC shall be assigned and included in the Company's 2011-2012 Winter Period and 2012 Summer Period COGC Reconciliations. The supply related cash working capital to be recovered through subsequent COGCs will reflect the forecasted supply working capital

² A summary of the separation between distribution and supply costs is also provided in Attachment 1 to Staff 2-50 Supplemental.

³ This value is drawn from the leag/lag study prepared by Mr. Normand dated 12-15-2011 provided as Attachment B to Staff 3-66 Supplemental.

requirement for the period and the difference, as determined in a reconciliation calculation, between the applicable prior period supply working capital revenue and the supply working capital requirement, using actual supply costs and monthly interest rates.

As of the date of Temporary Rates, Bad Debt expenses related to supply costs for the period and recovered through the COGC will be based on actual write offs. Beginning August 1, 2011, a reconciliation of the difference between the supply related bad debt expenses as calculated above and supply related bad debt expense previously recorded in Northern's COGC shall be assigned and included in the Company's 2011-2012 Winter Period and 2012 Summer Period COGC Reconciliations. The bad debt expense related to supply costs to be recovered through subsequent COGCs will reflect the forecasted supply bad debt expense for the period and the difference, as determined in a reconciliation calculation, between the applicable prior period supply related bad debt revenue and the supply related bad debt write offs.

5.2. **Non-Distribution Portion of PUC Assessment:** In Schedule RevReq-3-10 in Exhibit 1, the Company removed from its 2010 test year distribution cost of service \$147,687 associated with the non-distribution portion of the annual PUC assessment as calculated in response to Staff 2-30. Effective May 1, 2012, the

Company will begin recovery of the actual non-distribution portion of the annual PUC assessment in its Residential Low Income Assistance and Regulatory Assessment (RLIARA)⁴ by including estimated costs for the period August 1, 2011 through October 1, 2012 (15 months) over a twelve month recovery period. The Company shall calculate the non-distribution portion of the annual PUC assessment based on the proportion of non-distribution revenues to total revenues in the prior year. This cost component will be part of the annual reconciliation for future RLIARA rate calculations effective on November 1.

- 5.3. **Class Allocation:** In accordance with the Cost Functionalization referenced above, the distribution rates are designed to yield an increase in base revenues of \$2,837,773. This base revenue requirement shall be allocated to customer classes in accordance with the rate design provided in Exhibit 4, and the rate design studies included as Exhibit 4 Attachment 1 (Marginal Cost Study Schedules PMN 2G-1 and PMN-2G-2) and Exhibit 3 Attachments 1 through 5. The adoption of this revenue allocation for purposes of this settlement does not represent agreement as to any specific methodology or calculation for the derivation thereof.

⁴ The Company's Residential Low Income Assistance Program rate has been renamed to Residential Low Income Assistance and Regulatory Assessment.

5.4. **Distribution Charges**: The derivation of the distribution rate components for all customer classes are presented in Exhibit 4, with reference to the rate design studies included as Exhibit 4 Attachment 1, Exhibit 3 Attachments 1 through 5 and Exhibit 4 Attachment 2 (containing the Cost of Service Workpapers). The adoption of this rate design for purposes of this settlement does not represent agreement as to any specific methodology or calculation for the derivation thereof.

The bill impacts resulting from the increase in base distribution rates is presented in Exhibit 5, which shows the impact of the higher permanent base distribution rates, and a small increase in the Local Delivery Adjustment Clause (“LDAC”) due to a change in the low income discount and recovery of the non-distribution portion of the NHPUC assessment, offset by the decrease in the base component of the Cost of Gas rates,⁵ compared to the permanent rates that were previously in effect.

The step adjustment increases effective May 1, 2012, shall be applied as equal percentage increases to each distribution rate component. The rate design for the step adjustments is provided in Exhibit 6. The bill impacts associated with this change are provided in Exhibit 7.

⁵ Adjustments in the Cost of Gas include indirect costs, bad debt and working capital.

5.5. **Dual Fuel Rider**: The Company's request for a Dual Fuel Rider is withdrawn without prejudice, and no action will be taken on it at this time. To address instances where the Company's distribution system is constrained as a result of reserving distribution capacity for a customer(s) and the Company is not being adequately compensated for the reserve capacity held for said customer(s), the parties agree that the Company shall develop and propose an appropriate tariff applicable to such customer(s) to provide appropriate compensation.

6. TARIFF CHANGES

6.1. The Parties agree to the tariff changes in Exhibit 8, shown with changes marked. These changes reflect revisions to: Line Extensions; the Cost of Gas Clause as described in Section 5.1; the LDAC; Rate Schedules which include the revised distribution rates; and other minor changes included in the Company's proposed tariff; and the termination of Temporary Rates, Bi-Monthly Rates and Firm Stand-By Gas Supply Service.

7. GENERAL PROVISIONS

7.1. This Settlement Agreement is expressly conditioned upon the Commission's acceptance of all its provisions, without change or condition. If the Commission does not accept this Settlement Agreement in its entirety, without change or condition, or if the Commission makes any findings that go beyond the scope of

this Settlement Agreement, and any of the Settling Parties is unable to agree with the changes, conditions or findings, this Settlement Agreement shall be deemed to be withdrawn and shall not constitute any part of the record in this proceeding and shall not be used for any other purpose.

- 7.2. Under this Settlement Agreement, the Settling Parties agree to this joint submission to the Commission, which represents a compromise and liquidation of all issues in this proceeding.
- 7.3. The Settling Parties agree that the Commission's acceptance of this Settlement Agreement does not constitute continuing approval of, or precedent for, any particular issue in this proceeding. Acceptance of this Settlement Agreement by the Commission shall not be deemed to constrain the Commission's exercise of its authority to promulgate future orders, regulations or rules that resolve similar matters affecting other parties in a different fashion.
- 7.4. This Settlement Agreement shall not be deemed an admission by any of the Settling Parties that any allegation or contention in this proceeding by any other party, other than those specifically agreed to herein, is true and valid. This Settlement Agreement shall not be construed to represent any concession by any Settling Party hereto regarding positions taken with respect to Northern's permanent rate request in this docket, nor shall this Settlement Agreement be deemed to foreclose any Settling Party in the future from taking any position in any subsequent proceedings. The revenue requirement amounts associated with

each of the rate adjustments detailed herein are liquidated amounts that reflect a resolution of all the issues in this proceeding.

7.5. The Settling Parties agree that all pre-filed testimony and supporting documentation should be admitted as full exhibits for the purpose of consideration of this Settlement Agreement, and be given whatever weight the Commission deems appropriate. Consent by the Settling Parties to admit all pre-filed testimony without challenge does not constitute agreement by any of the Settling Parties that the content of the pre-filed testimony is accurate or that the views of the witnesses should be assigned any particular weight by the Commission. In addition, the resolution of any specific issue in this Settlement Agreement does not indicate the Settling Parties' agreement to such resolution for purposes of any future proceedings.

7.6. The rights conferred and the obligations imposed on the Settling Parties by this Settlement Agreement shall be binding on or inure to the benefit of any successors in interest or assignees as if such successor or assignee was itself a signatory party. The Settling Parties agree to cooperate in advocating that this Settlement Agreement be approved by the Commission in its entirety and without modification.

7.7. This Settlement Agreement is the product of confidential settlement negotiations. The content of these negotiations, including any documents prepared during such negotiations for the purpose of reaching a settlement, shall

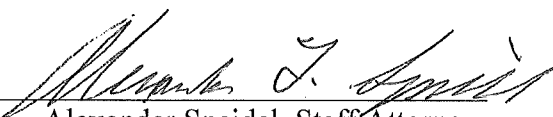
be privileged and all offers of settlement shall be without prejudice to the position of any party presenting such offer.

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

8. CONCLUSION

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

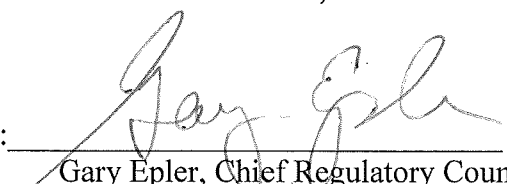
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