

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

UNITIL ENERGY SYSTEMS, INC.

Petition for Declaratory Ruling and Approval of Adjustments to Certain Account Balances
Docket No. DE 11-105

SETTLEMENT AGREEMENT

This Settlement Agreement (“Settlement Agreement”) is entered into this 2nd day of October, 2012, by and among Unitil Energy Systems, Inc. (“UES,” or “the Company”), the Office of 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.

1. Procedural History

1.1. On May 13, 2011, UES filed a petition with the New Hampshire Public Utilities Commission (“the Commission”) seeking: 1) a declaratory ruling, pursuant to N.H. Code Admin. Rules Puc 207.01 and RSA 365:29 [Orders for Reparation], as to the time period to be used for calculating the Company’s reparation to a customer for over-collected charges for electric service; and 2) approval to adjust the account balances in the Company’s External Delivery Charge (“EDC”), Stranded Cost Charge (“SCC”), System Benefits Charge (“SBC”) and Non-G1 Default Service Charge, in order to correct for this same over-collection. In support of the Petition, the filing included the pre-filed joint direct testimony and schedules of: Robert S. Furino, Director, Energy Contracts, Unitil Service Corp.; Karen M. Asbury, Director, Regulatory Services, Unitil Service Corp.; and Justin C. Eisfeller, Director of Energy Measurement and Control, Unitil Service Corp.

1.2. A Secretarial Letter acknowledging the filing was issued by the Commission on May 16, 2011.

1.3. On May 24, 2011, the OCA notified the Commission that it would be participating in this matter on behalf of residential ratepayers consistent with RSA 363:28.

1.4. An Order of Notice was issued by the Commission on June 7, 2011, scheduling a pre-hearing conference and, following the conference, a technical session for June 24, 2011, and requiring that a copy of the Order of Notice be published in a newspaper with general circulation in those portions of the state in which the Company’s operations are conducted no later than June 13, 2011, and that the Company document the publication by affidavit filed with the Commission on or before June 24, 2011. A deadline for interventions was set for June 21, 2011, with any objections to interventions to be filed by June 24, 2011.

1.5. On June 10, 2011, Attorney Lawrence M. Edelman filed an appearance on behalf of UES.

1.6. A Petition to Intervene was filed by The Riverwoods at Exeter ("Riverwoods") on June 21, 2011.

1.7. The affidavit of publication was filed by UES on June 23, 2011.

1.8. On June 24, 2011, the previously scheduled prehearing conference was held at the Commission's office, followed by a technical session. During the technical session, the Parties (including UES, the OCA, Commission Staff and Riverwoods) agreed that Riverwoods would file a motion to dismiss by July 11, 2011, to which other parties would have the right to file a response within the time frame provided in the Commission's rules. It was also agreed that discovery on UES could begin immediately.

1.9. On June 28, 2011, Staff filed its Report of the Technical Session.

1.10. On July 11, 2011, Riverwoods filed its Motion to Dismiss or Stay. Responses to Riverwoods' Motion to Dismiss or Stay were filed on July 21 by UES and the OCA. Riverwoods filed a Reply to the Responses to its Motion to Dismiss on July 27, 2011.

1.11. The OCA submitted a letter to the Commission advising it of a technical session to be held among the OCA, UES and Staff on August 2, 2011.

1.12. On August 1, 2011, the Commission issued a Secretarial Letter advising the Parties that it was temporarily suspending the proceeding pending a ruling of the Rockingham Superior Court on a Writ of Summons filed by Riverwoods against UES.

1.13. On September 1, 2011, UES filed a fully executed settlement agreement between UES and Riverwoods, advising the Commission that it paid Riverwoods the sum of \$1,459,721, and that this payment was in addition to the May 13, 2011 payment by UES to Riverwoods of \$611,699, for a total payment to Riverwoods of \$2,071,420. On September 7, 2011, Riverwoods filed a letter stating that all claims between UES and Riverwoods had been settled and that it was withdrawing from any further administrative proceedings before the Commission.

1.14. On September 30, 2011, UES filed a Motion to Amend its Petition, accompanied by an Amended Petition and amended supporting testimonies of Mr. Furino, Mr. Eisfeller and Ms. Asbury.

1.15. During the period from June 2011 through May 2012, UES responded to two rounds of formal discovery from the Staff and one from the OCA, and the Parties participated in several technical sessions and settlement discussions, which ultimately led to this Settlement Agreement. No person or party other than the signatories below participated in these settlement discussions.

2. Rate Adjustments

2.1. This Settlement Agreement provides for several adjustments to UES's delivery charge reconciliation mechanisms, over a period three years as specified below, in the interest of resolving the outstanding issues in this docket.

2.2. UES shall be allowed to recover over a period beginning the first day of the month immediately following Commission approval of this Agreement through November 30, 2015, as an adjustment to its Non-G1 Default Service recovery mechanism, the amount of \$1,152,493 plus interest.

2.3. UES shall be allowed to recover over a period beginning the first day of the month immediately following Commission approval of this Agreement through July 31, 2015, as an adjustment to its External Delivery Charge, the amount of \$137,970 plus interest.

2.4. UES shall be allowed to recover over a period beginning the first day of the month immediately following Commission approval of this Agreement through July 31, 2015, as an adjustment to its Stranded Cost Charge, the amount of \$103,557 plus interest.

2.5. The rate of interest applicable to the adjustments to the Non-G1 Default Service recovery mechanism, the External Delivery Charge and the Stranded Cost Charge set forth above shall be the rate for Customer Deposits pursuant to Puc 1203.03, as adjusted from time to time by the Commission. Interest shall be applied to each of these adjustment amounts beginning June 1, 2012 through and until final recovery.

2.6. The Parties recognize that as a result of the recoveries provide for in paragraphs 2.2 through 2.4, UES will credit its Consumption Tax payment to the State of New Hampshire in an amount to be determined by the Company.

2.7. UES agrees to not seek recovery from ratepayers of the following amounts:

Distribution Revenue	\$185,663
Supply Adjustment Revenue	163,597
Interest Paid to Customer	269,916
System Benefits Account–Energy Efficiency	23,253
System Benefits Account–Low Income	18,001
Restructuring Surcharge	592
Rate Case Surcharge	4,696
<u>Fuel Purchased Power Adjustment Charge</u>	<u>4,380</u>
<u>Total:</u>	<u>\$670,098</u>

2.8. UES will pursue such remedies as it may have from the vendor and manufacturer of the equipment installed at Riverwoods that led to UES' making payment to Riverwoods. UES will advise Staff as to the status of its efforts to obtain such financial remedies and the form of such remedies. UES further agrees that if, after six months from the date of the Commission order in this proceeding, it has not been successful in obtaining remedies, it will not engage in further purchases from the vendor or manufacturer. The OCA takes no position on this term of the Settlement Agreement.

3. General Provisions

3.1. 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.

3.2. Under this Settlement Agreement, the Settling Parties agree to this joint submission to the Commission, which represents a compromise and resolution of all issues in this proceeding.

3.3. 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.

3.4. 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 the issues 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.

3.5. 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.

3.6. 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.

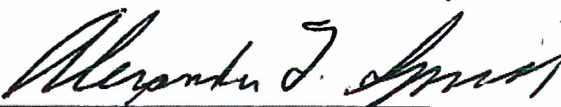
3.7. This Settlement Agreement is the product of confidential settlement negotiations. The content of these negotiations, including any documents prepared during such negotiations for the purpose of reaching a settlement, shall be privileged and all offers of settlement shall be without prejudice to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

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


4. Conclusion

The Parties affirm that the proposed Settlement Agreement is just and reasonable and should be approved.

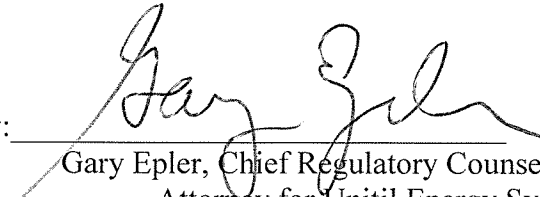
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