

**Unitil Energy Systems, Inc.**  
**Annual Reporting under Settlement Agreement**

**Explanation of Filing**

**Reliability Enhancement Program (“REP”) and Vegetation Management Program (“VMP”) Annual Report 2015**

As noted by the Commission in its Order in DE 14-063, although the May 1, 2014 step adjustment was the final step adjustment associated with the Settlement Agreement approved in DE 10-055, UES is expected to continue the REP/VMP activities for the five year period established by the Settlement Agreement and continue to file the annual reports. Pursuant to Section 7 of the Settlement Agreement, UES is required to file an annual report showing actual REP and VMP activities and costs for the previous calendar year and its planned activities and costs for the current calendar year. Actual and planned REP and VMP costs shown in the report are to be reconciled with the revenue requirements associated with the actual and planned capital additions and expenses. The REP/VMP Annual Report for 2015 is attached hereto.

As required by Section 7 of the Settlement Agreement, UES has reconciled its VMP and REP program costs. From December 31, 2014 through December 31, 2015, the Company has collected \$4,558,739 in VMP revenue (Table 1).<sup>1</sup> Additionally the Company has collected \$80,000 in REP revenue related to VMP (Table 16) and \$842,718 in revenue from Fairpoint Communications<sup>2</sup>, for a grand total of \$5,481,457. During that same period, the Company spent \$4,496,011 in VMP expense (Table 1) and \$48,895 of REP expenses related to VMP (Section 3.2.1) for a total of \$4,544,906, leading to an over-collection of \$936,551. Included in the over-collection is \$474,333<sup>3</sup> of storm hardening revenue associated with revenue that will be billed January 1, 2016 to April 30, 2016. In order to adjust the VMP reconciliation for activity only through December 31, 2015 the Company proposes to reduce the over-collection of \$936,551 by \$474,333 to \$462,218.

The Company also collected \$220,000 in REP revenue related to reliability inspection and maintenance (Table 16) from December 31, 2014 to December 31, 2015. During that same period, the Company spent \$220,000 (Section 3.2.2), for a \$0 balance.

These two components result in an over collection amount of \$462,218. In DE 14-063, the Commission approved UES’ proposal to move over/under collections of VMP and REP revenue to the Company’s External Delivery Charge (“EDC”) mechanism since May 1, 2014 was the last step adjustment under the Settlement Agreement. Accordingly, this amount will be credited to the EDC mechanism effective May 1, 2016.

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<sup>1</sup> Test year amount of \$735,739 + \$200,000 augmented VMP spending in permanent rates + \$2,200,000 (\$1,250,000 + \$950,000) +\$1,423,000 included in step adjustments.

<sup>2</sup> The Settlement Agreement did not consider payments from FairPoint Communications for tree trimming. UES will credit these payments to its External Delivery Charge.

<sup>3</sup> Storm hardening revenue in permanent rates is \$1,423,000. \$474,333 equals four months of revenue (\$1,423,000/12\*4).

**Earnings Sharing**

In accordance with Section 5 of the Settlement Agreement, UES has calculated its earned return on equity on Form F-1 for the calendar year ending December 31, 2015. UES's Form F-1 for the year ending December 31, 2015 shows an earned return on equity of 8.40% and is attached hereto. Since its return on equity is not greater than 10 percent, UES is not subject to a sharing of earnings for the 2015 calendar year reporting period.

**Exogenous Events**

In accordance with Section 11 of the Settlement Agreement, UES certifies that no exogenous events occurred during calendar year 2015 which caused changes in excess of the Exogenous Events Rate Adjustment Threshold.