

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 10-017

ENERGYNORTH NATURAL GAS, INC. D/B/A NATIONAL GRID NH

Petition for Rate Increase

SETTLEMENT AGREEMENT – PERMANENT RATES

This Settlement Agreement (“Agreement”) is entered into as of the 10th day of January, 2011, by and among EnergyNorth Natural Gas, Inc. d/b/a National Grid NH (“National Grid NH” or the “Company”), the staff (“Staff”) of the New Hampshire Public Utilities Commission (the “Commission”), and Pamela Locke (“Ms. Locke”). National Grid NH and Ms. Locke are hereinafter referred to collectively as the “Settling Parties”¹.

I. PROCEDURAL BACKGROUND

On January 26, 2010, National Grid NH filed with the Commission its notice of intent to file rate schedules to seek an increase in its annual distribution revenues. The OCA notified the Commission on February 4, 2010 that it would participate in the docket on behalf of residential ratepayers consistent with RSA 363:28. On February 26, 2010, National Grid NH filed its proposed rate schedules seeking an increase of \$11,422,718 in annual distribution revenues, which, according to the Company, would result in an average overall increase of 9.59 percent in customers’ combined distribution and commodity bills, and prefiled direct testimony of the following witnesses: Mr. Nickolas Stavropoulos, Mr. Frank Lombardo and Mr. Michael Adams (jointly), Mr. Robert Hevert, Dr. Susan Tierney, Ms. Susan Fleck, Ms. Tracey McCarthy, Mr.

¹ The other parties in this docket are the Office of Consumer Advocate (“OCA”) and Conservation Law Foundation (“CLF”). OCA, CLF and the Settling Parties are collectively referred to hereinafter as the “Parties”.

Mark Hirschey, Mr. Paul Normand, Ms. Ann Leary, and Mr. Kevin Spottiswood. In its filing, the Company also sought a temporary rate increase of \$5,711,339 and moved for waivers from compliance with certain requirements of the Commission's rules and for confidential treatment relative to information about the compensation paid to its officers and directors.

On March 10, 2010, the Commission issued Order No. 25,081, suspending the Company's proposed tariff revisions included in the Company's delivery rate filing, scheduling a prehearing conference and technical session for April 8, 2010 and a hearing on the Company's request for temporary rates for May 6, 2010, and ordering that the Company publish notice of hearing. The Company provided notice of the hearing through the publication of the order of notice. The order also granted the Company's motion for a waiver of the 30-day notice requirement of New Hampshire Code of Administrative Rules Puc 1203.02(d). The order noted that the Commission was not then ruling upon the Company's other pending motions, which the Commission ruled upon in a separate order.

On April 5, 2010, New Hampshire Legal Assistance ("NHLA") filed a Petition to Intervene on behalf of Ms. Locke and subsequently filed a preliminary statement of position and concerns on her behalf.

At the April 8, 2010 prehearing conference, representatives of National Grid NH, NHLA representing Ms. Locke, the OCA, and Staff entered appearances, and the Commission granted the only pending petition to intervene, that of Ms. Locke. Following the prehearing conference, Staff, OCA, and the Settling Parties met in a technical session and agreed upon a proposed procedural schedule to govern the remainder of the proceeding, which was submitted to the Commission by letter from Staff dated April 15, 2010. On April 16, 2010, by secretarial letter, the Commission affirmed the grant of intervention of Ms. Locke and approved the proposed

procedural schedule. On April 23, 2010, National Grid NH filed additional direct testimony of Mr. Normand regarding cash working capital and related lead-lag study. The Company also filed a letter responding to a question posed by Commissioner Ignatius of National Grid NH at the April 8, 2010 prehearing conference. Also, on April 26, 2010, Staff filed with the Commission a settlement agreement reached between National Grid NH and Staff with regard to temporary rates.

At a hearing on May 6, 2010, Staff and the Company jointly presented testimony supporting the temporary rate settlement. Under the settlement, temporary rates were designed to yield an increase of \$5,000,000 in annual operating revenue, with temporary rates to be implemented beginning June 1, 2010 on a service-rendered basis. On May 14, 2010, the Commission issued its Order No. 25,104, approving the settlement agreement with regard to temporary rates.

On June 25, 2010, the Commission issued its Order No. 25,119 requiring the Company to file a schedule of additional officer compensation information and otherwise generally granting the Company's motion for confidential treatment and its motion to waive certain filing requirements.

On August 9, 2010, CLF filed a petition to intervene out of time, which the Commission subsequently granted.

On August 9, 10 and 31 and September 22, 2010, the Staff and Parties held technical sessions to conduct discovery regarding the Company's filing. In addition, the Company responded to three rounds of data requests from Staff and the intervenors as well as data requests arising from the technical sessions. On September 13, 2010, the Company filed supplemental testimony of Mr. Frank Lombardo.

On October 22, 2010, Staff submitted testimony of Mr. Stephen Frink, Mr. Robert Wyatt, Mr. Randall Knepper, Mr. Thomas Frantz and Mr. Mark Naylor (jointly), Mr. James Cunningham, Dr. John Wilson, and Mr. Bruce Gay. On the same date, the OCA filed testimony of Mr. Kenneth Traum, Dr. George Briden, and Ms. Lee Smith and Mr. Arthur Freitas (jointly), CLF filed testimony of Ms. Shana Cleveland, Esq. and NHLA filed testimony of Mr. Roger Colton on behalf of Ms. Locke. The Company subsequently propounded data requests to Staff and the intervenors based on their October 22 testimony. On December 7, 2010, the Company submitted rebuttal testimony of Mr. Frank Lombardo, Mr. Robert Hevert, Dr. Susan Tierney, Ms. Susan Fleck, Mr. Paul Normand, Ms. Tracey McCarthy and Mr. Mark Hirschey (jointly), and Ms. Ann Leary. On December 14, 2010, Staff and the Parties held settlement discussions at the Commission. As a result of those and subsequent discussions, Staff and the Settling Parties have agreed to the terms of this Settlement Agreement, which is proposed to resolve all of the issues in this case. Staff and the Settling Parties recommend that the Commission approve this Agreement without modification.

II. TERMS OF AGREEMENT

A. Revenue Requirement; Rate Base; Rate of Return; Deferred Taxes

Staff and the Settling Parties agree that the Commission should authorize National Grid NH to charge rates that are designed to yield annual revenues of \$171,466,877, an increase of \$6,809,370 from the permanent rates previously in effect, based on the test year ended June 30, 2009. These rates were determined using a total (i.e., delivery and supply) rate base of \$164,302,838, pro forma test year operating revenues of \$164,657,507, operating expenses of \$139,517,168, and an overall rate of return of 8.33 percent. (See schedule included as Appendix 1.) The revenue requirement agreed to in this settlement is designed to be collected through delivery and supply (cost of gas) rates as set forth in Paragraphs B and C, respectively, below. (To the extent applicable, the rate base, operating revenues and operating expenses are also allocated between delivery and supply functions, as described below.)

Staff and the Settling Parties agree that the foregoing revenue requirement represents a reasonable compromise of all issues relating to the revenue requirement pending before the Commission for the purpose of permanent rates. As the sums expressed above are the result of compromise and settlement, they are liquidations of all revenue requirement issues. Staff and the Settling Parties agree that the revenue requirement recommended to the Commission in this Agreement results in permanent rates for National Grid NH's customers that are just and reasonable. The permanent rate increase described in this Paragraph A shall be reconcilable to the effective date of temporary rates in this case (June 1, 2010), in accordance with Paragraph I below.

The Staff and Settling Parties recognize that the rate base set forth above is net of a level of deferred taxes that reflects the impact of tax returns that are currently under review by the

Internal Revenue Service ("IRS"). That review may result in the Company having to make an adjustment to its deferred taxes to reflect a settlement with or adverse determination by the IRS. If the Company pays additional income taxes on a current basis and makes a corresponding reduction to its deferred tax position based on the review by the IRS, Staff and the Settling Parties agree that the Company shall be authorized to adjust its delivery rates upward by an amount sufficient to collect the revenue requirement associated with the corresponding increase in rate base to the extent that such deferred tax adjustment relates to plant in service as of June 30, 2009 or plant included in any Cast Iron/Bare Steel ("CIBS") replacement program rate adjustment after that date. The Company shall be also authorized to collect through its local distribution adjustment charge ("LDAC") any interest paid to the IRS; provided, however, that the amount recovered through such mechanism shall not include any penalty payment, if one is assessed by the IRS, and the interest to be recovered shall not exceed interest computed at a rate of 8.33 percent. When a final determination is made, the Company shall file a copy of the final determination with the Commission, the Staff, the OCA, and the Settling Parties along with the Company's proposal for recovery of the amount due, if any.

B. Delivery Rates

The overall revenue requirement agreed to by Staff and the Settling Parties is designed to result in an increase of \$6,197,090 in base delivery rates. Staff and the Settling Parties agree to the following total amounts for purposes of determining the Company's delivery rates:

1. Rate Base - \$160,661,116;
2. Firm Operating Revenues - \$51,744,835;
3. Operating Income (after federal and state taxes) - \$13,383,071; and
4. Tax Factor - 1.68138.

C. Supply Rates

In addition to direct gas costs, the Company's supply (i.e., cost of gas) rates include four categories of indirect gas costs: production and storage investment, cash working capital, miscellaneous overhead, and allowance for bad debt. The revenue requirement agreed to by Staff and the Settling Parties is designed to result in an increase of \$612,280 in the indirect gas costs collected through cost of gas rates, based on an assumed bad debt rate of 3.02% in the first year in which the rates provided for in this Agreement are in effect. (The actual increase will depend on the actual bad debt rate that is applicable.) Staff and the Settling Parties agree that the indirect gas costs to be used in the Company's cost of gas proceedings, effective with the cost of gas rates charged for service rendered on and after May 1, 2010, should be determined as follows, but, to the extent applicable under the Company's tariff, shall be based upon the gas costs and related revenues in each cost of gas proceeding:

1. Production and Storage Costs: \$1,980,428;
2. Cash Working Capital: Will be determined by multiplying gas costs by 3.9104 % (net lag of 14.273 days divided by 365) times the prime lending rate; and
3. Miscellaneous Overhead: \$13,170.
4. Allowance for Bad Debt: See Paragraph D below.

D. Commodity-Related Bad Debt

To recover the commodity-related portion of its uncollectible accounts expense, the Company is allowed to include in its cost of gas a percentage of its gas supply-related costs, which is referred to as the commodity-related bad debt percentage. Staff and the Settling Parties agree that the amount to be recovered for commodity-related bad debt shall be fully reconciled based on the percentages of gas cost revenues indicated below. The time periods in the first

column in the table below are the time periods during which the applicable bad debt percentage shall be measured (i.e., the Company's write-offs and revenues shall be determined) and the period that shall be subject to reconciliation for such bad debt percentage. (The reconciliation period and the bad debt rate measurement period will be the same period. For example, the actual bad debt rate for the May 2010 – April 2011 period will be applied to May 2010 – April 2011 supply-related gas costs and reconciled accordingly.) The time periods in the second column in the table below are the time periods during which the applicable bad debt percentage shall be in effect for rate making purposes. The commodity-related bad debt percentage is assumed to be equal to the overall bad debt rate, and shall be calculated by dividing the Company's actual net write-offs for the relevant measurement period by its revenues for the same period.

Commodity-related bad debt shall be reconciled on an annual (not seasonal basis, as is currently the case) beginning with the reconciliation for the period May 2010-April 2011. This reconciliation will be included in the Company's November 2011 Peak Period cost of gas ("COG") filing. (There will be no commodity related bad debt reconciliation amount included in the Company's 2011 Off Peak Period COG filing.) Beginning in November 2011, both the Peak and Off Peak Period COG filings will include an annualized commodity-related bad debt reconciliation factor calculated by dividing the annual commodity related bad debt reconciliation amount for the prior twelve-month period ending April by the projected annual sales for the upcoming year.

| Bad Debt % Measurement and Reconciliation Period | COG Period | Actual Bad Debt Rate | Bad Debt allowed Recovery |
|--|--|-------------------------|------------------------------|
| May 2010-Apr 2011 | Nov 2011- Oct 2012 | Actual | Actual |
| May 2011-Apr 2012 | Nov 2012- Oct 2013 | Greater than 2.9% | Actual less 0.4 |
| | | 2.5% to 2.9% | 2.5% |
| | | Less than 2.5% | Actual |
| May 2012-Apr 2013 and thereafter | Nov 2013-Oct 2014 and thereafter | Greater than 3.3% | Actual less 0.8 |
| | | 2.5% to 3.3% | 2.5% |
| | | Less than 2.5% | Actual |

Notwithstanding the foregoing, if the Company's actual bad debt percentage is reduced to 2.5 percent or less during any rolling twelve-month period (which need not be the same twelve months as the measurement periods defined above), then beginning with the reconciliation filing for the period during which this bad debt percentage was achieved the Company shall thereafter recover its actual commodity-related bad debt on a fully reconcilable basis and the mechanism set forth above shall no longer apply.

E. Depreciation

Staff and the Settling Parties agree that the Company should continue to use the depreciation accrual rates and related depreciation and amortization expense currently in effect.

F. CIBS Program

Staff and the Settling Parties agree that the existing CIBS rate adjustment mechanism as currently structured shall remain in effect.

G. Rate Design

Staff and the Settling Parties agree that the rate design to be implemented to recover the revenue requirement set forth above shall be as described below and as more particularly set forth in Appendix 2. A report of proposed rate changes under this rate design is included as Appendix 3.

1. Rate Class Revenue Targets: Rate class revenue targets will be capped at 112.5 percent of the overall Company average delivery rate increase of 14.49 percent, but in no case shall a rate class receive a decrease.

2. Customer Charge: The customer charge for residential rate classes will be capped at an increase of 21.2 percent over the customer charge in effect for that rate class prior to the temporary rates in this case, except that the customer charge for the R-3 (residential heating) rate class shall be \$17.00 and the customer charge for the R-4 class shall be \$6.80. The customer charge for commercial and industrial classes will be capped at 25 percent over the customer charge in effect for that rate class prior to the temporary rates in this case.

3. Volumetric Charges: The volumetric charge shall be designed to reduce the current declining block price differential to \$.0467 per therm for R-3 (residential heating) and \$.0187 for R-4 (low income). For all other classes, volumetric charges shall be adjusted equi-proportionately to achieve the class revenue targets.

4. Marginal Cost Study: While not all parties agree that marginal costs should be used to allocate class revenue requirements or design rates, the rate design in this case will more closely approximate the marginal costs to serve.

H. Outreach

The Company agrees to meet with Staff and the Parties on a semi-annual basis beginning in the spring of 2011. (The meetings are currently expected to be held in March and October of each year.) Each meeting will be in two parts. The first will focus on outreach to customers and state and local agencies and other public and private organizations, such as the Community Action Agencies, to inform them of the R-4 discount rate. The second will focus on collection activities. Staff agrees to work with the Settling Parties to convene and facilitate these discussions.

I. Temporary Rate Reconciliation

The difference between the delivery revenues obtained from the rates prescribed in the temporary rate order, Order No. 25,104, and the delivery revenues which would have been obtained under the rates finally determined, if applied during the period such temporary rate order was in effect, will be recovered from customers through the Company's LDAC on a volumetric basis across all rate classes over a period of twelve months, beginning with the first peak or off-peak filing made after Commission approval of the settlement. The amount to be recovered to reconcile the difference between permanent and temporary rates shall be reduced by \$7,776.

J. Rate Case Expense

The Company agrees to submit an accounting of its rate case expense, with appropriate supporting documentation, for review by Staff and the Parties, and approval by the Commission, upon the conclusion of this proceeding. The Company shall recover its prudently incurred rate case expense in the same manner as it recovers the temporary rate recoupment. Staff shall provide its initial recommendation for rate case expense recovery to the Parties as soon as

reasonably possible, and the Company shall be authorized to recover the approved rate case expense beginning with the first peak or off-peak filing made after Commission approval of such amount.

III. CONDITIONS

This Agreement is expressly conditioned upon the Commission's acceptance of all its terms, without change or condition. If the Commission does not accept this Agreement in its entirety, without change or condition, or if the Commission makes any findings that go beyond the scope of this Agreement, and the Staff or any of the Settling Parties notify the Commission within five business days of their disagreement with any such changes, conditions or findings, the Agreement shall be deemed to be withdrawn, in which event it shall be deemed to be null and void and without effect, shall not constitute any part of the record in this proceeding, shall not be relied upon by Staff or any party to this proceeding or by the Commission for any other purpose.

Staff and the Settling Parties agree that the Commission's approval of this Agreement will not constitute continuing approval of, or precedent for, any particular principle or issue, but such acceptance does constitute a determination that the adjustments and provisions set forth herein in their totality are just and reasonable and consistent with the public interest and that the revenues contemplated will be just and reasonable under the circumstances.

The discussions that produced this Agreement have been conducted on the understanding that all offers of settlement and settlement discussions relating to this docket shall be confidential, shall not be admissible as evidence in this proceeding, shall be without prejudice to the position of any party or participant representing any such offer or participating in any such discussion, and are not to be used in connection with any future proceeding or otherwise.

The information and testimony previously provided in this proceeding are not expected to be subject to cross-examination by Staff and the Settling Parties, which would normally occur in a fully litigated case. Staff and the Settling Parties agree that all direct and rebuttal testimony and supporting documentation should be admitted as full exhibits for purposes of consideration of this Agreement. Agreement to admit all direct and rebuttal testimony without challenge does not constitute agreement by Staff and the Settling Parties that the content of the written testimony filed on behalf of Staff or the other Parties is accurate or what weight, if any, should be given to the views of any witness. The Staff and Settling Parties recognize that the testimonies submitted in this proceeding included various proposed ratemaking mechanisms and, except as specifically set forth in this Agreement, such proposals shall be deemed to have been withdrawn. In addition, the identification of the resolution of any specific issue in this Agreement does not indicate Staff's or any of the Settling Parties' agreement to such resolution for purposes of any future proceeding, nor does the reference to any other document bind Staff and the Settling Parties to the contents of, or recommendations in, such document for purposes of any future proceeding. The Commission's approval of the recommendations in this Agreement shall not constitute a determination or precedent with regard to any specific adjustments, but rather shall constitute only a determination that the income requirement and rates resulting from this Agreement are just and reasonable. Furthermore, in light of the fact that they have entered into this Agreement, the Staff and the Settling Parties have agreed to forego cross-examining witnesses regarding their pre-filed testimony and, therefore, the admission into evidence of any witness's testimony or supporting documentation shall not be deemed in any respect to constitute an admission by any party to this Agreement that any allegation or contention in this proceeding

is true or false, except that the sworn testimony of any witness shall constitute an admission by such witness.

This Agreement may be executed by facsimile and in counterparts, each of which shall be deemed to be an original, and all of which, taken together, shall constitute one agreement binding on all parties hereto.

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WHEREFORE, this Agreement has been executed by Staff and the Settling Parties on the
dates set forth beside their names.

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
By its attorneys

Celia B. O'Brien
Celia B. O'Brien, Esq. *by GHS*
Assistant General Counsel


Date: January 10, 2011

McLane, Graf, Raulerson & Middleton, Professional Association

Steven V. Camerino
Steven V. Camerino, Esq. *by GHS*
Patrick H. Taylor, Esq.

Date: January 10, 2011

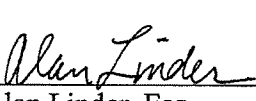

STAFF OF THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION
By their attorney



Matthew J. Fossum, Esq.

Date: January 10, 2011

PAMELA LOCKE
By her attorneys
New Hampshire Legal Assistance


Alan Linder, Esq.

Daniel Feltes, Esq.

Date: January 10, 2011