III. LINE EXTENSIONS

1. Original Installation and Extension

In areas in which operation by the Company is authorized, service and main extensions will be extended for new customers and/or system improvements will be undertaken for customer initiated load increases pursuant to the Company's Tariff, Rules and Regulations and will be subject to the results of a discounted cash flow ("DCF") (i.e., a Net Present Value ("NPV")) analysis.

The Company uses a DCF method to evaluate main and service line extensions. This method considers an estimate of the cost of capital expenditures associated with the proposed extension, an estimate of the net revenue (revenues exclusive of related gas costs recoveries) to be derived from the expected new customer(s), an estimate of the associated operation and maintenance expenses, depreciation and property and other taxes. These amounts are reflected on an annual basis and result in the annual cash flow (after-tax) associated with the proposed new main or service line extension. These annual cash flows are discounted (over ten (10) years for commercial and industrial service and twenty (20) years for residential service) to a present value at a rate representative of the Company's updated after-tax weighted cost of capital. If the NPV is zero or greater, then no contribution is required. However, if the NPV is negative, then the excess cost is required as a Contribution in Aid of Construction ("CIAC") by the Initial Customer(s).

Payment will be required in advance or in accordance with installment program provisions in effect at the time that the installment contract is signed.

For administrative efficiency the Company has a "Standard Offer Service" ("SOS") and will apply the SOS when a single new service is required for residential gas heating. The SOS provides for the installation of 100 feet of service pipe, under normal installation conditions as determined by the Company, from a gas main at no charge to serve residential heating loads.

For the installation of additional feet of service pipe, the Company will calculate annually the cost per additional foot from a gas main, under normal installation conditions as determined by the Company. The cost per additional foot above of the SOS offered will be calculated using the DCF method above. The inputs for calculating the cash flows will be the average net revenue derived from a typical residential heating rate class customer and an estimate of capital cost such that the NPV is zero. The estimate of capital cost will then be applied to determine the cost per additional foot of service pipe above the SOS.

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III. LINE EXTENSIONS

2. <u>Subsequent Customer Contributions and Refunds</u>

If during the period of five (5) years immediately following the date of construction completion, additional Customers or Subsequent Customers, whose gas use was not reflected in any previous computation or re-computation of the CIAC, are connected to an extension which was installed subject to a CIAC, the CIAC will be recomputed. Such re-computation will result in a refund of some or all of the CIAC to the Initial Customer(s) if such Subsequent Customer(s) produces a positive NPV. A refund will be made by the Company to the Customer(s) who made the original payment and who continue to be customers of the Company.

3. <u>Easements</u>

The Company shall not be required to construct extensions hereunder other than on public ways unless the prospective Customer shall provide without expense or cost to the Company, the necessary permits, consents or easements for a satisfactory right-of-way for the construction, maintenance and operation of the main.

4. <u>Winter Construction</u>

Ordinarily no new service pipes or main extensions are installed during winter conditions (when frost is in the ground) unless the Customer defrays the extra expenses.

5. <u>Title</u>

Title of all extensions constructed in accordance with the above shall be vested in the Company.

6. <u>Reasonable Duration</u>

Under none of the foregoing provisions will the Company be required to install service pipes or to construct main extensions where the business to be secured will not be of reasonable duration.

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