THE STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

DG 11-069

NORTHERN UTILITIES, INC.

DIRECT TESTIMONY OF

LAURENCE M. BROCK

EXHIBIT LMB-1

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Laurence M. Brock. My business address is 6 Liberty Lane West, Hampton, New Hampshire 03842.

Q. By whom are you employed and in what capacity?

A. I am Controller and Chief Accounting Officer of Unitil Corporation, Inc. ("Unitil"). I am the Controller of Unitil's utility operating subsidiaries, including Northern Utilities, Inc. ("Northern" or the "Company"), Granite State Gas Transmission, Inc. ("GSGT"), Unitil Energy Systems, Inc. ("UES") and Fitchburg Gas and Electric Company ("FG&E"). I am also Vice President and Controller of Unitil Service Corp. ("Service Corp."), which provides centralized management and administrative services to all of Unitil's affiliates, including Northern, GSGT, UES and FG&E.

Q. Please describe your business and educational background.

A. I am a Certified Public Accountant in the State of New Hampshire. I graduated from the University of New Hampshire with a Master's Degree in Business Administration. I completed my Public Accounting work experience requirement at Coopers & Lybrand, in Boston, MA. I have been employed with Unitil since June, 1995.

Q. Have you previously testified before the New Hampshire Public Utilities Commission or any state regulatory agencies?

A. Yes. I have testified before the New Hampshire Public Utilities Commission, (the "Commission") regarding the Company's acquisition of Northern. I have also testified before the Maine Public Utilities Commission ("MPUC") and the Massachusetts Department of Public Utilities ("Department") in various matters on behalf of Northern and FG&E.

Q. Please summarize your responsibilities at the Unitil Companies.

A. As Controller, I am responsible for the Unitil Companies' accounting and financial reporting functions. Those responsibilities include ensuring that the Unitil Companies are in compliance with the financial reporting rules and regulations promulgated by: the Securities and Exchange Commission (the "SEC"), the Federal Energy Regulatory Commission ("FERC"), the Internal Revenue Service (the "IRS"), the Maine Public Utilities Commission , the New Hampshire Public Utilities Commission and the Massachusetts Department of Public Utilities. I am also responsible for the Unitil Companies' compliance with the standards of Generally Accepted Accounting Principles ("GAAP"), as defined in the pronouncements of the Financial Accounting Standards Board ("FASB").

Q. Please briefly describe the organization of the Unitil Companies.

A. Unitil Corporation is a registered public utility holding company subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005. Unitil Corporation directly owns three local distribution utility companies: Northern, a gas utility doing business in New Hampshire and Maine, FG&E, a gas and electric utility doing business in Massachusetts, and UES, a New Hampshire electric utility. Unitil also directly owns GSGT, whose principal business is delivering natural gas transportation services to Northern. In addition, Unitil directly owns Unitil Power Corp., a wholesale power utility company that previously provided all-requirements power supply to its New Hampshire utility affiliates between 1986 and 2003; Unitil Realty Corp., which owns certain real property used by the Unitil Companies; Unitil Service Corp, a company that provides centralized management and administrative services to other Unitil Corporation affiliates at cost; and Unitil Resources, Inc., which provides retail energy brokerage and other services on a competitive basis. This organization structure is shown on SCHEDULE LMB – 1: UNITIL SYSTEM COMPANY STRUCTURE.

Q. Are you a member of any professional organizations?

A. Yes. I am a member of the American Institute of Certified Public Accountants and the New Hampshire Society of Certified Public Accountants.

II. SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to: i) describe Unitil's acquisition of Northern and GSGT on December 1, 2008 (the "Acquisition") and the relevant integration and accounting activities that have taken place since that time; (ii) discuss the service company affiliate structure of the Company, the associated cost allocation process, and the proposed new affiliate agreements to include Northern and GSGT; iii) provide an estimate of the net operating synergies cost savings that have been realized as a result of the Acquisition; and (iv) summarize specific accounting topics in this case related to the Acquisition and the Company's activities since then.

III. COMPANY ACCOUNTING OVERVIEW

A. UNITIL'S ACQUISITION OF NORTHERN

Q. Please describe Unitil's acquisition of Northern.

A. On December 1, 2008, the date of the transaction closing (the "Closing"), the Company purchased (i) all of the outstanding capital stock of Northern, a natural gas distribution utility serving customers in Maine and New Hampshire, from Bay State Gas Company ("Bay State") and (ii) all of the outstanding capital stock of GSGT, an interstate gas transmission pipeline company primarily serving the needs of Northern, from NiSource, Inc. ("NiSource") pursuant to the Stock Purchase Agreement ("SPA") dated as of February 15, 2008 by and among NiSource, Bay State, and Unitil. The aggregate purchase price for the Acquisitions was $209.2 million, comprised of $160 million in cash, plus an additional working capital adjustment of $49.2 million. The details of the Acquisition purchase accounting are provided later in my testimony.

Q. Please describe the transition of Northern's operations to Unitil after the transaction closing.

A. Most of Northern's and GSGT's business functions were successfully assumed by Unitil's management during the first two weeks following the Closing. These functions were operating well and our managers had resolved minor issues in workflow and paperwork. Immediately after the Closing, the Company's efforts were focused on the transition of the customer portfolio of accounts and the Customer Service functions and related processes and systems as well as the Gas Purchasing, Management and Dispatch functions. Those functions continued to be supported by NiSource under the Transition Services Agreement ("TSA") between Unitil and NiSource and its affiliates, including Bay State.

Q. When were the transition and integration of Northern's operations to Unitil completed?

A. The integration of Northern's customer portfolio was completed by Unitil in July 2009, and at that point, the transition of Northern and GSGT was substantially complete with only minor miscellaneous follow-up items. To ensure there was no interruption or diminution to the quality of service to customers, Unitil had provided written notices to NiSource to extend Transition Services for the First and Second Extension Periods. Transition Services had been provided at various levels of support for over nine months. After July 2009, the level of Transition Services was limited to a small number of specific tasks. The Second Extension Period expired on September 30, 2009, and no further extensions were needed nor requested. In the September 2009 Transition Plan Report, the Company provided: i) a discussion and a summary of capital expenditures for the integration, and ii) a discussion of Transition Services and a summary of expenditures for Transition Services. The September 2009 Transition Plan Report was the final Transition Plan Report filed with the regulators in Maine and New Hampshire.

B. THE INTEGRATION OF NORTHERN UTILITIES, INC.

Q. Please provide a general description of the Transition Plan.

A. There were two components of the Transition Plan. First is the TSA, which provided for the smooth transition of Northern and GSGT to Unitil by ensuring there was no interruption in the quality of service to customers until Northern and GSGT were fully integrated into Unitil. Second was the Business Integration

Plan ("BIP"), which was coordinated between Unitil and NiSource to bring together all of Northern's operations, administration and management within the existing business processes of Unitil.

Q. Please describe the terms of the TSA.

A. The TSA was designed for NiSource to provide, at its fully loaded cost, transitional services to continue the operation and maintenance of Northern and GSGT until the successful transition to Unitil of all business functions previously performed by NiSource or Bay State. The business functional services included: Utility Operations, Construction, Information Systems, Corporate Governance, Corporate Accounting, Regulatory, Treasury, Accounts Payable & Purchasing, Taxes, Payroll, Benefits and Human Resources, and Revenues and Receivables. The TSA term was transitional in nature and was meant to end as promptly as practicable following the closing.

Q. Please describe the BIP.

A. The BIP was a vital component of achieving the potential synergy savings and was specifically focused on developing a best practices approach for the combined companies. To that end, the BIP went beyond the TSA and coordinated broad participation across Unitil, NiSource and Bay State from executives, managers and staff who were charged with integrating all the utility operating functions of Northern into Unitil. The focus of the BIP on utility processes and functions was a proven approach which allowed for the discovery of additional savings opportunities in the process.

C. UNITIL SERVICE CORP. SHARED SERVICES

Q. Please summarize the services provided by Service Corp.

A. Service Corp. provides centralized management and administrative services to each of Unitil's affiliates. Please refer to SCHEDULE LMB – 2: UNITIL SERVICE CORP. CLIENT COMPANY STRUCTURE. Currently, these shared services fall into six functional areas: Customer Service & Business Development; Engineering, Operations & Business Continuity; Corporate & Administration; Regulatory, Finance & Accounting; Energy Contracts; and Technology. Customer Service & Business Development include customer inquiry, billing, cash remittance, credit and collections and other day-to-day customer service functions. Engineering, Operations & Business Continuity consists of distribution operations management and engineering, planning, design, safety and protection, and Emergency Response Preparedness and Business Continuity Planning. Corporate & Administration provides executive services, human resources and administrative support to all affiliates. Regulatory, Finance & Accounting monitor and control compliance with government and regulatory agencies, cash management, budgeting, financial reporting and accounting. Energy Contracts is responsible for gas and electricity procurement, energy portfolio management and market analysis. Technology administers the Company networks, information systems and communications equipment. Please refer to SCHEDULE LMB – 3: UNITIL SERVICE CORP. DEPARTMENTS & FUNCTIONS, and SCHEDULE LMB – 4: DISTRIBUTION OPERATION CENTER DEPARTMENTS & FUNCTIONS.

Q. Please describe the agreement between Service Corp. and the other Unitil affiliates.

A. Service Corp. provides centralized management and administrative services to each of the affiliates of Unitil under the terms of a Service Agreement between the parties. Service Corp. is the provider and each of the affiliates is a client of Service Corp. in this structure. Please refer to SCHEDULE LMB – 5: SERVICE AGREEMENT BETWEEEN NORTHERN UTILITIES, INC. AND UNITIL SERVICE CORP., dated December 1, 2008. The Service Agreement describes the services to be provided by Service Corp. to Northern and describes how the accounting and billing for those services will be performed by Unitil Service Corp. in accordance with the guidelines originally established under the Public Utility Holding Company Act of 1935 ("PUHCA '35 Act") and now governed by FERC pursuant to the provisions of the Energy Policy Act of 2005 (the "EPA"). The final rules implementing the EPA, issued by the FERC and effective February 8, 2006, preserve the "at cost" standard for traditional centralized service companies providing corporate administrative functions.

Therefore, Service Corp. maintains a time and billing accounting software system and provides a detailed monthly invoice to each of its client companies.

D. SYNERGIES COST SAVINGS

Q. Did the company project that the Acquisition of Northern by Unitil would produce synergy cost savings?

A. Yes. In testimony filed and responses to discovery provided in DG 08-048, the Company indicated there were opportunities to achieve synergies, or cost savings, as a result of the Acquisition and the Company provided a preliminary estimate of the projected savings. The Company provided a financial analysis of the potential synergy cost savings as SCHEDULE LMB-3, pp. 1-3 to the pre-filed testimony of Laurence M. Brock and later updated the analysis in Response ODR 2-2 Supplemental to discovery in New Hampshire Docket No. DG 08-048. Please refer to SCHEDULE LMB – 6: UNITIL'S ORIGINAL ESTIMATE OF SYNERGY COST SAVINGS.

Q. What areas of potential synergy savings were originally identified by Unitil?

A. The largest area of potential synergy savings identified was the lower labor and overhead costs associated with the provision of centralized utility management and administrative services, or shared services, to Northern and GSGT by Service Corp. There were also some additional potential synergy savings identified that were related to the cost-effective purchasing of insurance and employee and retiree benefit plan administration services.

Q. Please describe synergy cost savings as they apply to this case.

A. In this case, synergy cost savings are those expected operating cost reductions to Northern as a result of the Acquisition. The calculation of the synergies amount realized is the difference between Northern's costs after the Acquisition compared to what those costs would have been [pro-formed amount] if the Acquisition had not occurred. The synergies in this case occur principally at the level of costs for shared services from Unitil Service Corp. There are additional synergies that are analyzed at the Distribution Operating Company ("DOC") level by comparing pre- and post- Acquisition local DOC operating costs as well as allocated direct charges such as insurances and benefit plan administration costs. In addition, there can be qualitative synergy cost savings from post-Acquisition operating efficiencies, systems upgrades, and enhanced functional management resource improvements. The Company also provided an interim update of synergy cost savings related to 2009 in Unitil's recent response to Staff's data request ("Staff 1-2") in DE 10-055, the UES rate case. This response provided an identification and quantification of cost savings and synergies resulting from the Acquisition that have been realized. The response was provided May 21, 2010.

Q. Have the synergy cost savings as they apply to this case been realized?

A. Yes. Please refer to SCHEDULE LMB – 7: UNITIL'S 2010 SYNERGY COST SAVINGS ANALYSIS. SCHEDULE 7 to this testimony is the most recent synergy cost savings analysis which indicates that 2010 synergy cost savings of $2.5 million were realized at Northern [SCHEDULE 7, page 1 of 2, columns (C) + (D) + (E), line 14]. The Source of these synergy cost savings was principally in the area of savings on the costs of shared services from Unitil Service of $2.2 million with additional other General and Administrative ("G & A") cost savings achieved of $0.3 million in 2010.

Q. Did Northern realize quantifiable synergy cost savings in the 2010 test year as a result of the Acquisition?

A. Yes. As shown on SCHEDULE 7, page 2 of 2, Northern was charged $8.5 million (including NU-ME, NH-NH, and GSGT) for shared services from Service Corp.in 2010. This actual amount paid by Northern to Service Corp. in 2010 (i.e. $8.5 million) is 7.59% higher than the $7.9 million paid in 2009 and directly comparable to the $7.3 million from Unitil's original estimate for 2008 base year costs. The pro-formed (i.e. assuming the Acquisition had not occurred) 2010 Service Corp. fees are shown as $10.7 million [SCHEDULE 7, page 1 of 2, column (C) + (D) + (E), line 8]. Thus, the synergy cost savings realized by Northern in 2010 were $2.7 million [SCHEDULE 7, page 1 of 2, column (C) + (D) + (E), line 14]. There were additional cost savings and operational efficiencies achieved at Northern during the test year in addition to the savings in Service Corp. charges.

Q. Why were the actual $2.5 million in synergy cost savings realized at Northern in 2010 from Service Corp. charges higher than the original estimate of $2.4 million filed in Docket No. 2008-155?

A. Generally, the synergy cost savings to each of the Unitil companies as a result of the Acquisition have tracked fairly close to original estimates with slight variations depending on the amount and the nature of services provided by Unitil Service Corp. to each of its client companies over the time period since the Acquisition. The actual areas of synergy savings varied as well due to intercompany personnel transfers to fill positions which was not fully anticipated when the original synergy cost savings analysis was performed. As indicated in footnotes (C), (D) and (E) to line 15 of SCHEDULE 7, page 1 of 2, combined Synergies realized from shared services from Unitil Service were $0.3 million higher than estimated and synergy cost savings from other G & A costs were ($0.2 million) lower than estimated for a net favorable variance of $0.1 million above the original estimate of synergy cost savings.

Q. Were there other savings, operational improvements and enhanced functional management services achieved as a result of the Acquisition which

were not projected or quantified in the original estimate of synergy cost savings performed in 2008?

A. Yes. Contributing to the actual quantified expense savings achieved is the additional funding of improvements to operational functionality in the areas of emergency storm response and preparedness, business continuity planning, communications and municipal relations, and centralized dispatch and control, principally related to adopting strategic management strategies at Unitil which were not fully identified during the Acquisition and transition period.

Q. Has Unitil achieved the cost savings synergies from the Acquisition that it promised and have the customers of Northern received 100% of the benefit of the synergy cost savings realized in the 2010 test year?

A. Yes. As promised, Unitil has passed on to customers, through synergy operating cost savings reflected in the test year Cost of Service for ratemaking in this case, 100% of the benefits of the synergy cost savings achieved by Northern in the 2010 test year. Since the post-Acquisition synergy cost savings have been established, they will continue to benefit Northern's customers in 2010 and beyond.

IV. SPECIFIC ACCOUNTING TOPICS IN THIS CASE

A. ACQUISITION PURCHASE ACCOUNTING

Q. Please describe the relevant aspects of the accounting associated with the terms of the Acquisition of Northern and GSGT by Unitil.

A. Unitil purchased all of the capital stock of (i) Northern from Bay State and (ii) GSGT from NiSource. The price for the shares of Northern and GSGT was $160.0 million plus a net working capital adjustment at the time of closing of $49.2 million for a total aggregate purchase price of $209.2 million. In addition, Unitil incurred Transaction costs of $7.8 million and Transition Costs of $6.7 million for a total cash purchase price of $223.7 million to complete the Acquisition. Please refer to SCHEDULE LMB – 8: ACQUISITION PURCHASE ACCOUNTING SUMMARY. The Transaction was structured as the sale of the stock of Northern and GSGT for cash, however Unitil and NiSource made a Section 338(h)(10) election under the Internal Revenue Code with respect to the tax treatment of the Transaction. The primary consequence of this election is that Unitil received the benefit of a “stepped up” depreciable tax basis in the assets of Northern as if the Transaction had been structured as an asset sale. Based on the terms and the tax election, the transaction resulted in a bargain purchase discount of $24.8 million to Unitil which was recognized as a Plant Acquisition Adjustment (“PAA”) in purchase accounting.

Q. Were there any specific stipulations to which Unitil agreed regarding the accounting treatment of the Acquisition for future ratemaking purposes for Maine and New Hampshire?

A. Yes. Unitil agreed to exclude the amortizations of the: Transaction Costs, Transition Costs, and the PAA from future ratemaking. Also, Unitil agreed to pro-form the Accumulated Deferred Income Tax ("ADIT") credit balance into the rate base calculation for future ratemaking purposes as if the predecessor owner's ADIT balance had not been reduced to zero by the tax election. These ratemaking stipulation items are discussed individually and in detail below.

Q. Please describe all significant adjustments to be made, for ratemaking purposes, to test period revenues, expenses, assets and liabilities related to the acquisition of Northern by Unitil.

There are two types of adjustments to the test period related to the acquisition of Northern by Unitil Corporation on December 1, 2008. First, there are general purchase accounting adjustments which are recognized by Unitil Corporation as the Buyer in accounting for the transaction under GAAP and these adjustments are excluded from the test period revenues, expenses, assets and liabilities for ratemaking purposes. The specific purchase accounting adjustments excluded from the base period are further discussed in the testimony of witness David Chong. Second, there are specific acquisition-related adjustments that are made to Northern's test year amounts related to stipulations in the Settlement

Agreement reached in DG 08-048 among the parties, including NHPUC Staff, and which were approved by the Commission in Order No. 24,906.

As part of the Settlement Agreement related to the purchase of Northern, Unitil agreed to make two specific adjustments in future ratemaking proceedings. First, Unitil agreed to exclude the amortizations of the PAA, Transactions costs and Transition costs for ratemaking purposes until these amortizations expire in 10 years. Second, Unitil committed to hold Northern's customers harmless for the elimination of the historical (i.e. Seller's) ADIT liabilities by maintaining pro-forma accounting for regulatory purposes to continue to provide ratepayers with the ratemaking benefit of the Seller's historical ADIT balances until such time as the new post-acquisition ADIT on the acquired assets would equal or exceed the historical pro-formed amount.

Q. Please summarize how the purchase price paid for Northern and GSGT was allocated as a result of the Acquisition.

A. The Purchase Price Allocation to the assets and liabilities purchased is shown on SCHEDULE LMB – 8: ACQUISITION PURCHASE ACCOUNTING SUMMARY.

B. TRANSITION AND TRANSACTION COSTS

Q. Please describe the adjustments to be made, for ratemaking purposes, to base period expenses for Transition and Transaction costs related to the acquisition of Northern and GSGT by Unitil.

A. Please refer to SCHEDULE LMB – 9: TRANSITION AND TRANSACTION COSTS SUMMARY. Unitil agreed to exclude the amortizations of Transaction costs, and Transition costs for ratemaking purposes until these amortizations expire in 10 years. Accordingly, net amortizations of Transaction and Transition costs recorded in Accounts 406 and 407 were removed for rate making purposes. The specific adjustments to the test period are discussed in the testimony of David Chong.

C. INTEGRATION COSTS

Q. Please describe Integration Costs as they relate to the Acquisition?

A. Integration costs relate to expenditures to build or upgrade systems and facilities that were required for Unitil to independently operate Northern. Integration expenditures represent expenditures associated with utility plant, equipment and information systems that were incurred by the Company to meet its obligation to customers after the Acquisition was completed. These types of costs 1) were necessary capital expenditures for the Company to meet its utility service obligations to customers (e.g. used and useful, in-service plant); 2) replaced or supplemented existing utility plant, equipment and systems and their associated costs; and 3) enhanced and/or extended the life of existing utility plant, equipment and systems for the benefit of customers.

Q. Were there any specific stipulations to which Unitil agreed regarding the accounting treatment of the Integration Costs, related to the Acquisition, for future ratemaking purposes for Maine and New Hampshire?

A. Yes. In the DG 08-048 Settlement Agreement, the parties agreed that "Unitil will be allowed to recover, in a future Northern base rate proceeding, prudently incurred Integration Costs for capitalized project expenditures to build or upgrade systems and facilities required for Unitil to independently operate Northern." The parties also agreed to extend by 3 years the depreciable life of such Integration Costs related to information systems development and improvement costs which are recorded in account 303, Intangible Plant.

Q. What amount of Integration Costs actually incurred by Northern have been included in rate base for ratemaking purposes in this case?

A. Please refer to SCHEDULE LMB – 10: ACQUISITION INTEGRATION PROJECT COSTS. The amount of actual Integration Project Costs incurred by Northern was $3,965,458 through December 31, 2010. The original estimate of Integration Project Costs was $3,224,425. Northern has complied with the agreement to extend the depreciable lives of the Integration Project Costs on its books.

Q. What is the reason for the additional expenditures above the original estimate of Integration Costs?

A. Three categories of projects account for the additional expenditures: 1) Customer Information System ("CIS") Upgrade project costs were above the original estimate by $537,207 2) Gas Operations & Engineering Projects costs were above the original estimate by $67,586 and 3) Finance, Accounting & Other Projects were above original estimate by $136,240.

Q. What is the reason for the additional expenditures above the original estimate of CIS project Integration Costs?

A. The additional expenditures above the original estimate of CIS Project Integration Costs were directly attributable to the complexity of the Seller's CIS software environment and data and the required additional validation testing, which resulted in costs for additional time and Information Technology resources that were not anticipated in the original estimate. These costs included charges for programmers who worked for the vendor of Unitil's CIS and other Information Technology consultants as well as additional resources from Unitil's Information System function at Unitil Service Corp. The additional costs were appropriate and necessary to ensure the accurate conversion of the Northern customer portfolio to Unitil's CIS.

D. UNITIL TAX SHARING AGREEMENT

Q. Did Unitil execute a tax sharing agreement between Unitil and Northern as part of the Acquisition?

A. Yes. A copy of Unitil's Tax Sharing Agreement with its affiliates is attached as SCHEDULE 11 hereto. There was no need to update the Agreement as a result of the Acquisition because the Agreement provides that all entities acquired by any of the Unitil affiliates will be automatically included in the Agreement. Essentially, the Tax Sharing Agreement provides that Northern will pay its share of Unitil's consolidated income taxes as if it was a "stand-alone" entity preparing its own tax returns and will pay those taxes to Unitil, the consolidated tax return filer, on the same financial terms as Unitil's existing affiliate companies.

E. ACCUMULATED DEFERRED INCOME TAXES

Q. What are the specific stipulations to which Unitil agreed regarding the accounting treatment of ADIT for future ratemaking purposes in Maine and New Hampshire associated with the Acquisition?

A. As part of the Settlement Agreements in both states related to the purchase of Northern from NiSource ("Seller"), Unitil ("Buyer") voluntarily agreed to make specific adjustments in future ratemaking proceedings. Unitil committed to hold Northern's customers harmless for the elimination of the seller's historical ADIT liabilities by maintaining pro-forma accounting for regulatory purposes to continue to provide ratepayers with the ratemaking benefit of the Seller's historical ADIT balances until such time as the Buyer's new ADIT on the acquired assets would equal or exceed the Seller's pro-formed amount. As part of this stipulation, Unitil also agreed that the ADIT balances related to capital additions after the acquisition would be the same for accounting and ratemaking purposes.

The Settlement Agreements containing these stipulations were approved by the Maine PUC in Docket No. 2008-155, and by the NH PUC in Docket DG 08-048. These stipulations are contained in the Maine Settlement Agreement at Provision B.5, "Accumulated Deferred Income Tax," and in the New Hampshire Settlement Agrement in Article 3.5, "Accumulated Deferred Income Tax."

The wording in both the Maine and New Hampshire provisions is identical. They state: "In regard to Unitil's Section 338(h)(10) election in accounting for the acquisition of the common stock of Northern, Unitil commits to hold Northern's customers harmless for the elimination of the historical ADIT liabilities resulting from such election by maintaining pro-forma accounting for regulatory purposes to continue to provide ratepayers with the ratemaking benefit of Northern's ADIT balances existing prior to the Proposed Transaction, until such time as Northern's actual ADIT, related to the historical Utility Plant assets acquired, equal or exceed the level that Northern's pro-forma ADIT would have been absent the Proposed Transaction. The ADIT balances related to capital additions after the closing date are not affected by the Section 338(h)(10) election and the treatment of these balances will not change for accounting and ratemaking purposes."

Q. Specifically, how did the Company pro-form ADIT for ratemaking purposes in this case?

A. Attached is SCHEDULE LMB – 12: ACCUMULATED DEFERRED INCOME TAX MEMORANDUM which describes the formulas, processes and calculation to pro-formed ADIT for ratemaking in this case. Included in the SCHEDULE LMB – 12 is its Attachment 1 which provides the detailed calculation of the pro-formed ADIT amount which is carried into Schedule Rev-Req-5-4 of the Company's Cost of Service and Revenue Requirements schedules included with David Chong's testimony.

F. UNITIL COST ALLOCATION MANUAL

Q. Does Unitil have a detailed Cost Allocation Manual ("CAM") and has it provided the CAM in this case?

A. Yes. The Company has provided its Cost Allocation Manual ("CAM") in SCHEDULE LMB – 13: UNITIL COST ALLOCATION MANUAL, JANUARY, 2011.

Q. Does the Company maintain consistent and detailed policies for the allocation of Service Corp. costs to its affiliates?

A. Yes. The business processes used by Unitil Service Corp. to charge its services, including allocation methodologies where applicable, is comprehensively provided in the Unitil Cost Allocation Manual provided as SCHEDULE LMB - 13, hereto.

Q. How does Service Corp. ensure a fair and reasonable allocation of costs among Northern and the other Unitil affiliate companies after the Acquisition?

A. Service Corp.'s time and billing accounting software system provides a detailed monthly reporting of the costs of all services provided to each client company including labor costs, overhead costs and direct charges. Each month, all Service Corp. employees submit a time card, which indicates the number of hours to be charged to each client company and those hours are recorded on the timecards by the employees according to their job functions and the Job Order Numbers ("JON") of the specific tasks that they performed. Service Corp. overhead costs are charged in direct correlation to direct labor hours. In cases where charges are allocated, an allocation factor (such as revenues, assets or number of customers) is used. Where appropriate, a combination of allocation factors is employed to best reflect a causal relationship to the type of expense being charged.

Q. Did the Company update its Service Corp. Time Charge Guidelines so they are fairly applied in determining the allocations to Northern?

A. Yes. The Unitil Cost Allocation Manual provided as SCHEDULE LMB - 13, provides a comprehensive and complete description of how the Time Charge Guidelines are applied in determining the compilation of labor costs to be charged to Northern and the other Service Corp. client companies. Further, the first determinant of how labor costs are charged by Service Corp.to Northern and the other Service Corp. client companies is by specific identification of employee hours worked for an individual client company, by functional Job Order Number ("JON") which indicates the service provided to the client company by the employee, see SCHEDULE LMB - 13, attached hereto. In instances where specific identification is not available, allocation factors are used to more appropriately reflect the distribution of the service provided by Service Corp. or the proper distribution of other shared costs among entities.

G. FAS 109 – ACCOUNTING FOR INCOME TAXES

Q. Briefly describe the FASB Statement of Financial Accounting Standards No. 109 – ACCOUNTING FOR INCOME TAXES ("FAS 109") as it relates to this case?

A. FAS 109 is the current governing standard for accounting for income taxes under GAAP. The standard was effective for years beginning after December 15, 1992. One of the main objectives of FAS 109 is to require companies to report their deferred tax liabilities on the balance sheet method which requires the measurement of tax liabilities to be calculated based on the amounts expected to be paid in the future. FAS 109 superseded all previous reporting standards regarding income tax accounting, including APB No. 11 which had previously allowed companies to report income taxes on an "effective rate" method in which income tax expense recognition was closer to the companies' actual taxes paid in the period reported. For regulated companies, the adoption of FAS 109 required the recognition of a regulatory asset to recognize the collection in rates of future taxes that will come due.

Q. Other than the effect of the original adoption of FAS 109 for income tax reporting, are there other reasons why the FAS 109 regulatory asset on Northern's books is adjusted from time to time?

A. Yes. Specifically in the State of Maine, certain income tax reporting timing items are not fully normalized for ratemaking purposes. Which means that the current tax benefits of certain tax timing items, like Bad Debt, Pension, PBOP and Property Tax deductions, are flowed through to customers in current rates. On Northern's books, the recognition of the liability under FAS 109 for the payment of the taxes due when these timing items "turn around" in future periods, results in periodic adjustments to the FAS 109 regulatory asset. In general terms, the FAS 109 regulatory asset would also become adjusted if there were changes in statutory income tax rates which would require a revaluation of the company's deferred tax liabilities under the rules of FAS 109.

Q. How is the FAS 109 Regulatory Asset recovered in rates and what is Northern's specific proposal in this case?

A. FAS 109 regulatory assets are established by regulated companies awaiting ratemaking treatment for either the "collection of" or "return to" ratepayers of tax payments or benefits as the case may be. When ultimately included in a regulated company's cost of service in establishing new rates, the FAS 109 regulatory asset becomes amortized into expense and there will be recovery, but not net income to the company. Included in the testimony of Northern's Cost of Service witness David Chong is establishing the amortization of the FAS 109 Regulatory Asset balance at December 31, 2010 of $2, 876,101 over a 10 year term.

V. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.