



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

Docket No. DE 13-063

Granite State Electric Company d/b/a Liberty Utilities
Distribution Service Rate Case

DIRECT TESTIMONY

OF

MARK E. SMITH

March 29, 2013

I. INTRODUCTION AND BACKGROUND

Q. Please state your name and business address.

A. My name is Mark E. Smith. My business address is 11 Northeastern Boulevard, Salem, NH 03079.

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

A. I am employed by Liberty Energy Utilities (New Hampshire) Corp. ("Liberty Energy NH") as the Vice President of Human Resources. In this capacity, I am responsible for all human resource matters including providing input into compensation and benefit strategy.

Q. Please describe your educational background and professional experience.

A. I received Bachelor of Arts degree in History and Biology from Assumption College. I have also received a Master of Business Administration from Nichols College in Massachusetts. Prior to my employment by Liberty Energy NH, I was employed by National Grid USA Service Company, Inc. ("National Grid") as the Vice President of Human Resources, and prior to that as Vice President, Employee and Labor Relations for National Grid.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain how Granite State Electric Company's ("Granite State" or the "Company") customers are served through the work of employees

1 of Liberty Energy NH as well as to support Granite State's revenue requirement as it
2 relates to employee compensation, including wages and benefits, including post-
3 retirement benefits. My testimony also addresses how Liberty Energy NH has proactively
4 managed and controlled employment costs, and will demonstrate that the compensation
5 package for Liberty Energy NH's employees is a reasonable and necessary business
6 expense that the Company must incur in order to meet its obligations to provide safe and
7 reliable service to its customers. I will also explain why the costs of Liberty Energy NH's
8 variable pay plan should be reflected in the revenue requirement and how the plan is
9 structured to align the interests of the Company with its customers.

10
11 **Q. Please describe how Liberty Energy NH is staffed in order to serve Granite State**
12 **and its customers.**

13 A. As of the July 3, 2012 closing on the sale of Granite State, all union and non-union
14 employees providing service to Granite State are employed by Liberty Energy NH.
15 Liberty Energy NH's offices are located at 11 Northeastern Boulevard in Salem, New
16 Hampshire, while area work centers for electric operations are located in Salem and
17 Lebanon, New Hampshire.

18
19 As of December 31, 2012, the test year for this case, there were 202 union and non-union
20 employees of Liberty Energy NH. A copy of the organizational chart for Liberty Energy
21 NH as of December 31, 2012 is attached to my testimony as Attachment MES-1, which
22 depicts the departments within Liberty Energy NH and reflects staffing levels within

1 those departments. As described in Ms. Mason and Dr. Schmidt's testimony, Liberty
2 Energy NH will be hiring 45 employees in 2013 which are necessary for the provision of
3 services to Granite State customers. These positions are shown on Attachment MES-2.
4

5 **II. EMPLOYEE COMPENSATION AND BENEFITS**

6 **Q. Please describe Liberty Energy NH's compensation philosophy.**

7 A. In order to provide safe and reliable service to customers, Liberty Energy NH must attract
8 and retain high performing qualified personnel. To accomplish this, Liberty Energy NH
9 provides a pay structure that recognizes and rewards excellence, maintains fair and
10 competitive market pay and benefits for employees, and encourages employees to
11 improve skills while providing a safe working environment. Specifically, Liberty Energy
12 NH's policy is to compensate employees at the median of the marketplace for base pay
13 and total cash compensation. We believe that an overall compensation and benefits
14 package that is market competitive and supports a high performance culture by directly
15 linking performance to rewards is critical to our success. By maintaining a
16 comprehensive and competitive approach to total rewards that establishes appropriate
17 levels of pay and benefits, Liberty can attract and retain a high quality workforce and
18 motivate employees to improve their performance.
19

20 **Q. What is the basis for Liberty Energy NH's compensation structure for non-union**
21 **employees?**

22 A. Liberty Energy NH hired a significant number of former National Grid employees to staff

1 its operations, many of whom previously worked on New Hampshire operations. Liberty
2 Energy NH has maintained the compensation structure used by National Grid in light of
3 the significant number of employees who transitioned from National Grid to Liberty
4 employment and given that the salary structure at National Grid had been established
5 based on market data.

6
7 As a former Vice President for Human Resources at National Grid, I am very familiar
8 with National Grid's compensation structure, which I knew to have been developed based
9 on market based data from Towers Watson. Towers Watson evaluated the compensation
10 paid by other employers within the energy/utility industry and outside the industry for the
11 same or similar type of work. National Grid's salary structure was based on
12 compensating employees at the median level of salaries for equivalent functions in the
13 geographic region in which the employees worked and from which they were recruited.
14 As a result, National Grid base pay was established within a range around the competitive
15 value of the individual's job. This same Towers Watson data was used to evaluate the
16 salaries of EnergyNorth employees, which salaries were approved by the Commission in
17 EnergyNorth's 2008 and 2010 rate cases (DG 08-009 and DG 10-017). To the extent that
18 Liberty Energy NH has hired non-National Grid employees, Liberty has followed the
19 National Grid pay scale to establish compensation, as well as reviewing external sources
20 of market based compensation. Attachment MES-3 contains a Towers Watson study
21 supporting these pay rates.
22

1 **Q. Will there be any increases in compensation for non-union employees?**

2 A. Yes. Liberty Energy NH will provide for a 3% merit budget to increase non-union base
3 wages. Increases will be effective January 1, 2013.

4
5 **Q. Does the Company employ any unionized workers?**

6 A. Yes. As of December 31, 2012, the Company employed 30 union employees, some of
7 whom are members of the Utility Workers Union of America, AFL-CIO and others who
8 are members of the International Brotherhood of Electrical Workers, Locals 326 and 486.
9 Both unions have separate agreements with Liberty Energy NH which set forth the terms
10 and conditions of union members' employment.

11
12 **Q. How are the union wage rates set?**

13 A. Union wage rates are established through the collective-bargaining process which results
14 in a collective-bargaining agreement that establishes the terms for increases in wages and
15 benefits for affected employees. Attachment MES-4 identifies each Liberty Energy NH
16 union which provides service to Granite State's customers, and for each, provides
17 collective bargaining agreement dates, the date of the agreed increase in payroll, and the
18 corresponding percentage increase.

19
20 **Q. How are total compensation and benefits determined for union employees?**

21 A. The total compensation and benefits of union employees are determined through
22 collective bargaining, in a similar fashion as union wages. During the collective-

1 bargaining process, Liberty Energy NH assesses changes in the value of the overall
2 compensation packages offered to union employees to ensure that the total compensation
3 and benefits levels remain reasonable and commensurate to the labor market and other
4 union and non-union employees at similar levels in the organization. Wherever possible,
5 Liberty Energy NH encourages its union employees to join in the benefit programs
6 offered to non-union employees in order to streamline the administration of the benefit
7 programs and provide the most value to the employees and their families at the least cost.
8

9 **Q. Is Liberty Energy NH committed to payroll increases for union employees beyond**
10 **the test year?**

11 A. Yes. As set forth in MES-4, the current contract for the International Brotherhood of
12 Electrical Workers, Locals 326 and 486, provides for a 2.5% increase on May 12, 2013,
13 which is reflected in the revenue requirement. There are no expenses associated with a
14 2013 increase for the Utility Workers of America because their contract with Liberty
15 Energy NH expires May 11, 2013. The Company expects that it will begin to bargain
16 with the Utility Workers of America for a new contract in the Spring of 2013.
17

18 **III. VARIABLE COMPENSATION**

19 **Q. Are employees of Liberty Energy NH eligible for variable compensation? If so,**
20 **please describe why a variable pay component as an important part of total**
21 **compensation for its employees.**

22 A. Yes. Liberty Energy NH has a variable compensation program called the Short Term

1 Incentive Plan (“STIP”) which is implemented throughout all Liberty Utilities’
2 companies. The STIP provides direct and specific incentives to employees to achieve or
3 exceed certain operating performance goals of importance to the Company and its
4 customers, including safe and reliable service, as well as certain financial metrics.
5 Accordingly, the variable pay component of Liberty Energy NH’s overall employee
6 compensation package aligns the interests of the Company and of its customers, and
7 assists the Company in meeting its public policy objectives. In addition, today’s
8 marketplace dictates that variable pay be a fundamental component of a company’s
9 efforts to attract qualified employees. Such an approach is almost universal today among
10 companies the size of Liberty Energy NH. Using data from National Grid, nearly 100%
11 of surveyed companies had variable pay plans, and nearly all of employees at those
12 companies participated in those plans. *See* Attachment MES-3.

13
14 **Q. Please explain how the variable compensation program is designed to encourage**
15 **good employee performance as well as ensuring that employees are committed to**
16 **meeting the needs of customers, such as service quality and service reliability.**

17 A. The variable compensation program is designed to motivate employees to meet
18 objectives set around customer satisfaction, safety, reliability, employee development and
19 efficiency. The program balances each of these objectives in a matter that best meets the
20 Company’s obligation to customers.

1 **Q. Does Attachment MES-3 also demonstrate that Liberty Energy NH's variable**
2 **compensation is reasonable in terms of pay-out amount?**

3 A. Yes. For each of the market salary bands presented in the Attachment, Liberty Energy
4 NH's total compensation, including variable compensation, compares favorably to the
5 market average total compensation.
6

7 **IV. EMPLOYEE HEALTH AND DENTAL BENEFITS**

8 **Q. Please describe the benefit package that is offered to Liberty Energy NH's**
9 **employees.**

10 A. Liberty Energy NH provides a variety of employee health and welfare and pension plans
11 to its union and non-union employees. Benefit plans are offered for medical coverage,
12 dental coverage, life insurance coverage, and long-term disability coverage. There are
13 also paid vacations and holidays. In addition, employees are offered a defined benefit
14 pension plan and a defined contribution or 401(k) plan. Former National Grid employees
15 have post-retirement benefit ("OPEB") plans, which include medical benefits and life
16 insurance.
17

18 **Q. How does Liberty Energy NH ensure that its benefit programs are reasonable and**
19 **competitive?**

20 A. Liberty Energy NH monitors the marketplace to ensure that its benefit programs are both
21 cost-effective and sufficient in order to attract and retain the highly skilled workforce
22 needed to deliver excellent customer service and achieve the financial success required

1 by the capital markets. Liberty Energy NH does this through participation in industry
2 groups and benefit councils to learn best practices and stay abreast of market
3 developments. For example, I am a member of the Energy Council of the Northeast, a
4 utility based group where such data is exchanged. In addition, Algonquin Power &
5 Utilities Corp. has hired outside consultants such as Burnham Benefits Advisors to assist
6 with benchmarking our benefits programs with market data. *See* Attachment MES-5.

7
8 **Q. What efforts has Liberty Energy NH undertaken to control costs associated with its**
9 **benefit programs?**

10 A. Liberty Energy NH has undertaken significant efforts to reduce costs associated with
11 employee benefit programs since the closing. As of August 1, 2012, all non-union
12 employees were brought into a common benefit platform. This eliminated the variety of
13 vendors that existed under National Grid's plans, and established one program design
14 associated with one vendor. This has resulted in significant cost reductions through
15 economies of scale. We estimate that this one change resulted in an approximately
16 \$400,000 decrease in annual benefit premiums for the legacy non-union National Grid
17 employees who are now employed by Liberty Energy NH over the costs incurred by
18 National Grid. These savings are reflected in the test year revenue requirement.

19
20 Liberty Energy NH was also successful in actively managing health care expense for
21 retirees. This was accomplished by consolidating many different pre and post-65 retiree
22 healthcare plans into one pre-65 and one post-65 plan. These plans offered similar levels

1 of benefits to what retirees had previously. Under National Grid, these plans were
2 administered by an outside vendor. The Liberty Energy NH human resource department
3 has taken on administration of these plans which has resulted in an annual savings of
4 \$30,000 in administrative costs. Liberty has also reduced the costs to provide health care
5 benefits to retirees of Granite State and EnergyNorth Natural Gas, Inc. by \$100,000.
6 These savings are also reflected in the test year revenue requirement.
7

8 **V. PENSION PROGRAMS**

9 **Q. Have there been any changes since the closing to the pension programs that apply to**
10 **current and former employees of Granite State?**

11 A. Yes. Liberty Utilities created a single pension plan, transferring those employees who had
12 participated in National Grid's various pension plans into one plan, Liberty Energy
13 Utilities (New Hampshire) Corp. Retirement Plan. These employees will retain the
14 benefit formulas currently in place. This will result in administrative savings. Those
15 Liberty Energy NH employees who were not employed by National Grid are eligible to
16 participate in a new Liberty Utilities pension plan which provides for a market based cash
17 balance plan. *See Attachment MES-6.*
18

19 **Q. Does this conclude your direct testimony?**

20 A. Yes it does.

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