

**UNITIL ENERGY SYSTEMS, INC.**

**DIRECT TESTIMONY**

**OF**

**JOHN F. CLOSSON**

**And**

**JOSEPH F. CONNEELY**

**EXHIBIT JCJC-1**

**New Hampshire Public Utilities Commission**

**Docket No. DE 21-030**

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is John F. Closson, and my business address is 6 Liberty Lane West,  
4 Hampton, New Hampshire 03842.

5 My name is Joseph F. Conneely, and my business address is the same as Mr.  
6 Closson's.

7 **Q. Mr. Closson, what is your position and what are your responsibilities?**

8 A. I am the Vice President of Shared Services and Organizational Effectiveness for  
9 Unitil Service Corp. ("Unitil Service"), a subsidiary of Unitil Corporation ("Unitil  
10 Corp.") that provides centralized management and administrative services to each  
11 of Unitil Corporation's affiliates (the "Unitil Companies"). My primary  
12 responsibilities are in the areas of Human Resources and Administration.

13 **Q. Please describe your educational background.**

14 A. I earned a Bachelor of Arts degree from the University of New Hampshire in  
15 Durham, NH with a major in English and an MBA from the University of New  
16 Hampshire.

17 **Q. Have you previously testified before the New Hampshire Public Utilities  
18 Commission ("Commission") or other regulatory agencies?**

19 A. Yes, I have testified in front of the Commission in Docket DE 16-384, Unitil  
20 Energy Systems, Inc. ("UES", or the "Company") 2016 rate filing.

1 **Q. Mr. Conneely, what is your position and what are your responsibilities?**

2 A. I am the Manager of Organizational Effectiveness and Total Rewards for Unitil  
3 Service. My primary responsibilities are payroll, benefits, and Human Resources.

4 **Q. Please describe your educational background.**

5 A. I earned a Business and Finance degree from Saint Anselm College in  
6 Manchester, NH and an MBA from the University of New Hampshire in Durham,  
7 NH.

8 **Q. Have you previously testified before the Commission or other regulatory  
9 agencies?**

10 A. Yes, I have testified numerous times in front of the Commission over the last  
11 twelve years, most recently in the 2018 Cost of Gas Proceeding, Docket DG 18-  
12 043.

13 **II. SUMMARY OF TESTIMONY**

14 **Q. What is the purpose of your testimony?**

15 A. The purpose of our testimony is twofold: we will provide an overview of the  
16 Unitil Companies' compensation practices and policies; and we will sponsor the  
17 pro forma adjustments made to the following five items of Operating and  
18 Maintenance ("O&M") Expense:

- 19 (1) Payroll and Related Taxes;  
20 (2) Medical and Dental Insurance;

- 1 (3) Pension, Supplemental Executive Retirement Plan (“SERP”) and Post-  
2 retirement Benefits Other than Pension (“PBOP”);  
3 (4) 401(k) Expense; and  
4 (5) Deferred Comp Expense.

5 **III. COMPENSATION PROGRAM**

6 **Q. What is the Unitil Service’s compensation policy?**

7 A. Unitil Service’s policy is to compensate employees at, or near, the median of the  
8 market place for base pay and total cash compensation. The total compensation  
9 paid to employees, including base pay and incentive compensation, is an amount  
10 necessary to attract and retain highly skilled employees to meet the company’s  
11 service obligations for the direct benefit of the company’s customers. Paying  
12 employees market level compensation is consistent with that objective.

13 **Q. Please describe the incentive component of overall employee compensation.**

14 A. Unitil Service maintains three Incentive Compensation plans: (1) all nonunion,  
15 non-management employees are eligible to participate in the Unitil Service  
16 Incentive Plan; (2) key management employees are eligible to participate in the  
17 Unitil Service Management Incentive Plan; and (3) all nonunion employees are  
18 eligible for Unitil Service’s Restricted Stock Plan, although restricted stock grants  
19 are typically awarded to employees in key management positions.

20 For the purposes of awarding incentive compensation, Unitil Service establishes  
21 performance objectives, the relevant weights assigned to each objective, and

1 performance standards. The current performance objectives are: customer  
2 satisfaction, gas safety, O&M cost per customer, Earnings Per Share, and electric  
3 reliability. The incentive compensation plans are administered on a company-  
4 wide basis using the combined performance of all Unitil Corporation affiliates.  
5 The incentive compensation paid to employees is a fundamental component of the  
6 company's overall compensation package, which in the aggregate is consistent  
7 with market levels and necessary to attract and retain the highly skilled employees  
8 that enable UES to meet its service obligations for the direct benefit of its  
9 customers.

10 As noted below, Unitil Service does not seek recovery of incentive compensation  
11 above or below incentive target levels; rather, incentive compensation is adjusted  
12 so that only the target level of performance is included in the revenue  
13 requirement.

14 **Q. Has Unitil Service performed a market study to evaluate the competitiveness**  
15 **of its total compensation?**

16 A. Yes, the company did a compensation study on behalf of Unitil Service in 2019.  
17 The compensation study was developed by Willis Towers Watson ("Towers  
18 Watson"), an internationally recognized consulting firm in the area of  
19 employment compensation. The study of Unitil Service salaries and benefits was  
20 undertaken for the express purpose of comparing them to external markets.  
21 Towers Watson assisted in: (1) reviewing competitiveness of base salaries and

1 salary ranges; (2) reviewing and recommending an appropriate and competitive  
2 cash incentive plan; (3) recommending changes to the executive plans; and (4)  
3 evaluating and recommending changes to all the non-cash employee benefits  
4 plans.

5 **Q. On what sources did Towers Watson rely for its market compensation data?**

6 A. Towers Watson used published surveys from its own database as well as  
7 information from the Hay Group, and Mercer. Specific survey sources included:  
8 the Towers Watson Energy Services Executive Compensation Database; the  
9 Towers Watson Energy Services Middle Management and Professional  
10 Compensation Database; the Hay Group Salary Survey; the Towers Watson  
11 General Industry Call Center and Customer Service Compensation Survey; the  
12 Towers Watson General Industry Human Resources Compensation Survey; the  
13 Towers Watson General Industry Information Technology Compensation Survey;  
14 the Towers Watson General Industry Logistics and Supply Chain Management  
15 Compensation Survey; the Towers Watson General Industry Supervisory &  
16 Management Compensation Survey; the Towers Watson Office and Business  
17 Support Survey; the Towers Watson General Industry Professional, Technical and  
18 Operation Compensation Survey; and the Towers Watson General Industry Sales  
19 Compensation Survey. In addition, Towers Watson conducted a search of other  
20 utility proxy statements on file with the Securities and Exchange Commission to  
21 compare the competitiveness of salaries for certain positions.

1 **Q. Did Towers Watson recommend that Unitil Service adopt a competitive**  
2 **position for its compensation and benefits policy?**

3 A. Yes. Towers Watson recommended that Unitil Service continues the policy of  
4 paying at, or near, the median for base pay, total cash compensation, and total  
5 compensation when compared to their database of utility companies. They also  
6 concluded that median pay levels in New England are roughly equal to median  
7 pay levels nationwide.

8 **Q. What was Towers Watson's conclusion about the competitiveness of the**  
9 **Unitil Service's pay structure?**

10 A. Towers Watson concluded that the Unitil Service's pay structure was very close  
11 to the market median for most job grades and for most positions. With respect to  
12 positions and pay grades that were below the market median, Towers Watson  
13 made specific recommendations for changes to these pay levels.

14 **Q. What actions have been taken to implement the recommendations of Towers**  
15 **Watson?**

16 A. Unitil Service began to implement the Towers Watson recommendations in 2015  
17 by adjusting the pay ranges for positions that were below the market median and  
18 by adjusting grade levels for specific positions as recommended by Towers  
19 Watson. The Target Award levels under the Incentive Plan and the Restricted  
20 Stock plan were adjusted closer to the market median.

21 **Q. At what intervals does Unitil Service conduct Compensation Studies?**



1 A. Compensation studies are completed every five years. Towers Watson last  
2 completed a compensation study in 2019.

3 **Q. How are wages determined for union employees?**

4 A. Union wage rates are established periodically through the collective bargaining  
5 process. This helps set fair and equitable wage rate goals to ensure that our union  
6 wages attract and retain qualified union employees. Union wages within the  
7 utility industry are increasing on average by 3.0 percent per year, and this equates  
8 to our current annual wage increases in the contract. Unitil Service completed  
9 negotiations of a five-year contract with the union employees in UES effective  
10 June 1, 2018. The contract is set to expire on May 31, 2023.

11 **IV. PAYROLL AND RELATED TAXES**

12 **Q. What adjustment was made to payroll?**

13 A. The payroll adjustment, as reflected on Schedule RevReq 3-2, pages 1 and 2,  
14 adjusts the test year payroll charged to O&M Expense for the following:

- 15 (1) Annualization of the pay rate increases that have occurred during calendar  
16 year 2020 for the union employees; and  
17 (2) The effect of pay rate increases that occurred on January 1, 2021, that will  
18 occur on June 1, 2021, and that are projected to occur on January 1, 2022  
19 and June 1, 2022.

20 These adjustments have been made to the payroll for both UES and Unitil  
21 Service.

1 **Q. Please describe the adjustment to UES's payroll.**

2 A. The payroll adjustment to UES's test year payroll is shown on Schedule RevReq  
3 3-2, page 1. The first step was to normalize the test year payroll to reflect  
4 incentive compensation at a target payout level. The next step was to annualize  
5 the effect of the 2020 union employee pay increase that occurred during the test  
6 year. Added to the annualized O&M payroll were the pay rate increases for 2021  
7 and 2022, which were applied separately, by union and non-union categories, and  
8 by year, to arrive at the O&M payroll pro formed for 2020, 2021 and 2022 pay  
9 rate increases. The 2020 wage increase of 3.0 percent for union employees was  
10 based on the contract, effective June 1, 2020.

11 The wage increases for non-union employees take effect on January 1 each year.  
12 On January 1, 2021, the average annual increase was 3.65 percent. For January  
13 1, 2022, the average annual increase for nonunion employees is projected to be  
14 the same, 3.65 percent. The actual increase for 2022 will be updated during the  
15 pendency of this proceeding when the actual increase is determined as part of the  
16 annual salary budget process which will occur in autumn 2021.

17 The payroll amount was then reduced by the amount charged to capital in order to  
18 arrive at the Test Year O&M Payroll, adjusted for target incentive compensation.

19 The effect of the UES pro forma payroll adjustments for both union and nonunion  
20 employees is an increase in O&M of \$154,147. See Schedule RevReq 3-2, page  
21 1, column 4, line 11.

1 **Q. Please describe the adjustment to the Unitil Service payroll.**

2 A. The payroll adjustment to Unitil Service's payroll is shown on Schedule RevReq  
3 3-2, pages 1 and 2. The adjustment to the Unitil Service payroll was prepared in a  
4 similar manner as the adjustment to UES's nonunion payroll. First, the Unitil  
5 Service test year payroll was identified and adjusted to reflect the incentive  
6 compensation at a target payout level. Next, the amount included in the monthly  
7 billings for services provided by Unitil Service to the UES division was  
8 determined. To this amount, the 2021 actual rate increase of 4.40 percent  
9 (including market adjustments and promotions) and the 2022 projected rate  
10 increase of 4.40 percent were applied separately for each year to arrive at the pro  
11 formed payroll for the 2021 and 2022 pay increases. The actual increase for 2022  
12 will be updated during the pendency of this proceeding when the actual increase  
13 is determined as part of the annual salary budget process which will occur in  
14 autumn 2021. This amount was then reduced by the amount charged to capital in  
15 order to arrive at the pro forma O&M payroll amount of the Unitil Service  
16 charge. The effect of the Unitil Service pro forma payroll adjustment charged to  
17 UES is an increase in O&M of \$555,368. See Schedule RevReq 3-2, page 1,  
18 column 5, line 11.

19 **Q. Please describe the adjustment for incentive compensation.**

20 A. The adjustment for incentive compensation is shown on Schedule RevReq 3-2,  
21 page 1, column 6, line 12. The test year incentive compensation was booked to  
22 the target level so no adjustment is required.

1 **Q. What is the total adjustment to the test year payroll for the pay rate**  
2 **increases described above and for the normalization of the Incentive**  
3 **Compensation expense?**

4 A. The total adjustment to the test year payroll is \$709,516 as reflected on Schedule  
5 RevReq 3-2, page 1, column 6, line 13.

6 **Q. Have you prepared a payroll tax adjustment?**

7 A. Yes, as shown on Schedule RevReq 3-20, an adjustment was prepared to pro form  
8 the amount of the Social Security and Medicare taxes related to the payroll  
9 adjustments described above.

10 **Q. Please describe how the payroll tax adjustment was calculated.**

11 A. The payroll tax adjustment is shown on Schedule RevReq-3-20. The total O&M  
12 payroll increase of \$706,516 as shown on Schedule RevReq-3-2, page 1, column  
13 6, line 13 was multiplied by the Social Security rate of 6.2 percent, deriving the  
14 additional Social Security tax amount of \$43,990. To determine the additional  
15 Medicare tax, the total O&M payroll increase of \$709,516 was multiplied by the  
16 Medicare tax rate of 1.45 percent, deriving the additional Medicare tax amount of  
17 \$10,288. The total of additional Social Security and Medicare taxes is \$54,278.

18 **Q. Have test year payroll taxes been adjusted for Employee Retention Credits**  
19 **(“ERC”) and Families First Coronavirus Response Act (“FFCRA”) credits?**

20 A. Yes, as shown on Schedule RevReq-3-20. Page 2, an adjustment of \$106,244 was  
21 prepared to remove the reduction to test year payroll taxes as a result of the

1 Company's use of ERC, which were enacted as part of the Coronavirus Aid,  
2 Relief, and Economic Security ("CARES") Act to incentivize companies to retain  
3 employees, as well as FFCRA credits. The adjustment is supported and presented  
4 in the Testimony of Mr. Jonathan Giegerich.

5 **V. MEDICAL AND DENTAL INSURANCE**

6 **Q. Please describe Unitil Service's current medical and dental insurance plan.**

7 A. Unitil Service provides a Consumer Directed Health Plan ("CDHP") to its  
8 employees. The CDHP has two parts: a high deductible health insurance plan and  
9 a health savings account ("HSA") funded with pre-tax dollars for out-of-pocket  
10 medical expenses. The deductible is \$1,500 for individual coverage and \$3,000  
11 for two-person coverage, and family coverage. Unitil Service contributes one-  
12 third of the deductible to the employees' HSAs. After the deductible is satisfied,  
13 coinsurance of 10 percent applies, up to an annual out-of-pocket maximum of  
14 \$3,000 for individual coverage and \$6,000 for two-person and family coverage.  
15 Coinsurance for out-of-network coverage is 30 percent with higher out-of-pocket  
16 maximums.

17 Unitil Service also offers two dental plans, a standard plan for union employees  
18 with a maximum annual benefit of \$1,500; and a premium plan for nonunion  
19 employees with a maximum annual benefit of \$2,000. Both plans provide  
20 preventive care, restorative care and orthodontic benefits.

1 **Q. What steps has Unitil Service taken to contain the increases in the medical**  
2 **insurance expense?**

3 A. Unitil Service has taken several steps to contain these costs:

- 4 • Unitil Service periodically compares the coverage and cost of its insurance  
5 programs to market alternatives. This review is conducted for UES  
6 individually and as part of the Unitil Companies, to ensure that the value for  
7 the cost of insurance is maintained, and that costs are contained as much as  
8 feasible.
- 9 • On January 1, 2007, Unitil Service introduced a Consumer Directed Health  
10 Plan as an option for its nonunion employees. The premiums for the CDHP  
11 are significantly lower than the Company's other medical plan offerings.
- 12 • Effective January 1, 2010, the CDHP was the single health plan offering for  
13 Unitil Service's non-union employees.
- 14 • Effective January 1, 2011, a coinsurance feature of 10 percent was added to  
15 the CDHP. Coinsurance is the percentage of allowed charges for which the  
16 member is responsible after the deduction is satisfied. In addition, Unitil  
17 Service increased the stop-loss limit on claims from \$125,000 to \$200,000.
- 18 • Prior to January 1, 2018, Unitil Service offered an Exclusive Provider  
19 Organization Plan ("EPO") plan to union employees hired before April 1,  
20 2012. This plan was discontinued through the collective bargaining process  
21 and the CDHP became the single health plan offering for all union

1 employees. Costs for EPO plan were significantly higher than the CDHP  
2 plan.

3 **Q. As stated earlier, with the assistance of Towers Watson, Unitil Service**  
4 **performed a benefits study in 2019. On what sources did Towers Watson**  
5 **rely for its market data?**

6 A. Towers Watson based its study on the benefits data provided to it by 14 peer  
7 utility companies who participate in Towers Watson's benefits surveys. Included  
8 in the list of peer utility companies are five New England companies.

9 **Q. What was Towers Watson's conclusion about the competitiveness of the**  
10 **Unitil Service's benefits?**

11 A. Towers Watson concluded that, on a total value basis, Unitil's overall benefit  
12 program is aligned with the market median.

13 **Q. What is the purpose of the Medical and Dental Insurance Adjustment?**

14 A. The medical and dental insurance adjustment, as developed on Schedule RevReq  
15 3-4, was prepared to pro form for changes in insurance rates that will occur during  
16 2021 and are forecasted to occur on January 1, 2022. We have made these  
17 adjustments to the medical insurances for both UES and Unitil Service.

18 **Q. Please describe how the Medical and Dental Insurance adjustment was**  
19 **calculated.**

1 A. The adjustment for Medical and Dental Insurance is shown on Rev Req 3-4. An  
2 employee participant count was developed for each plan by type of coverage (i.e.,  
3 individual, two-person or family). This employee participant count excluded  
4 employees who choose to opt-out of the medical and/or dental plan. The 2021  
5 rates were applied to the employee participant counts to derive the annual costs  
6 related to the plans. The Medical and Dental insurance costs were then reduced 20  
7 percent, the amount that all employees contribute toward the cost of their  
8 coverage. Added to these costs were amounts to reflect payments to employees  
9 who choose to opt out of the medical plan and the Unitil Service's contributions  
10 to the employees' HSAs. These costs were increased by 9.0 percent for medical  
11 and 4.0 percent for dental to reflect the effect of the projected 2022 rate increases,  
12 which will be updated during the pendency of this proceeding when the actual  
13 2022 rates are determined. The Medical and Dental costs were then reduced by  
14 the amounts chargeable to capital to determine the pro formed Medical and Dental  
15 Insurance O&M expense of \$219,155. This amount was compared to the Medical  
16 and Dental Insurance costs developed for 2021 based on the 2021 rates to derive  
17 the 2021 and 2022 increase of \$123,234 as reflected on Schedule RevReq 3-4,  
18 column 3, line 3.

19 **Q. Please explain the adjustment for the Medical and Dental Insurances that are**  
20 **allocated to UES through the Unitil Service charge.**

21 A. This adjustment is shown on Schedule RevReq 3-4. Similar to UES, the  
22 nonunion employees of Unitil Service are all covered under the CDHP. Union



1 employees of Unitil Service hired prior to January 1, 2017 have a choice of  
2 coverage under the CDHP or the Preferred Provider Organization (“PPO”) Plan.  
3 For union employees hired after January 1, 2017, the CDHP is the only plan  
4 offered.

5 The PPO plan provides both in and out-of-network services. No deductible or  
6 coinsurance is required for in-network services, but a copayment is required for  
7 most services. Out-of-network services are subject to a \$400 per person annual  
8 deductible (\$800 per family) followed by 50.0 percent coverage for the remaining  
9 covered medical expenses.

10 The Unitil Service Medical and Dental costs are allocated among the client  
11 companies of Unitil Service on the basis of labor charged. The pro forma  
12 adjustment was calculated in an identical manner as the UES adjustment, except  
13 for this allocation process. To proforma the effect of the 2021 and 2022 rates, a  
14 Unitil Service employee participant count was developed. The employee  
15 participant count excluded employees who choose to opt out of the medical plan.  
16 The 2021 rates were applied to this employee participant count to derive the 2021  
17 annual costs. Subtracted from these costs were amounts that Unitil Service  
18 employees contribute toward the cost of their coverage. Added to these costs were  
19 amounts to reflect payments to employees who choose to opt out of the medical  
20 plan, and Unitil Service’s contributions to the employees’ HSAs. These costs  
21 were then increased by 9.0 percent for medical and 4.0 percent for dental to

1 reflect the effect of the projected 2022 rate increases, which will be updated  
2 during the pendency of this proceeding when the actual 2022 rates are  
3 determined. The Unitil Service allocation factor for UES was applied to this  
4 amount and the allocated amount was reduced by the amount chargeable to  
5 capital. The resulting O&M expense was then compared to the Medical and  
6 Dental Insurance cost developed for 2021 based on the 2021 rates to derive the  
7 2021 and 2022 increase of \$359,921. This amount is shown on Schedule RevReq  
8 3-4, column 4, line 3.

9 **VI. PENSION, SERP AND PBOP PLANS**

10 **Q. Please describe the current Pension, SERP and PBOP plans sponsored by the**  
11 **Unitil Service.**

12 A. Unitil Service sponsor the Unitil Corporation Retirement Plan (“Pension Plan”)  
13 which provides monthly retirement income to employees who qualify for a  
14 retirement benefit. The Pension Plan retirement benefits are based upon an  
15 employee’s level of compensation and length of service. At the end of the test  
16 year, the Pension Plan covered approximately 700 people, including 225 people  
17 who are currently receiving benefits. The Pension Plan maintains an investment  
18 trust fund for the management of the Plan’s assets and the funding of current and  
19 future retiree pension benefits.

20 Unitil Service also maintains a Supplemental Executive Retirement Plan  
21 (“SERP”), a non-qualified defined benefit plan which is self-funded. The SERP

1 is designed to encourage service by the participating executives until retirement  
2 and to then provide a retirement benefit which, when added to other retirement  
3 income of the executive, will ensure a competitive level of retirement income  
4 when compared to other utilities. The SERP is a component of executive  
5 compensation that was evaluated in the Towers Watson 2019 compensation study  
6 and determined to be competitive with the peer group. Eligibility for participation  
7 in the Plan was limited to executives selected by the Board of Directors; the SERP  
8 was closed to new participants in 2018. Currently, the SERP provides benefits to  
9 four retired executives while two active employees are currently eligible.

10 The Unital Service also sponsors a Post-Retirement Benefits Other than Pension  
11 (“PBOP”) Plan, which provides a variety of health and welfare benefits to  
12 approximately 270 employees and 327 retirees and their beneficiaries through the  
13 end of the test year. For postretirement benefits, the PBOP Plan provides health  
14 insurance benefits for retirees and their spouses under age 65; a Medicare  
15 Supplement insurance plan for retirees and spouses over age 65; partial  
16 reimbursement of Medicare premiums, and a modest paid-up life insurance  
17 benefit for retirees. Eligible widows and widowers of deceased retirees are also  
18 covered by the health insurance benefits. The PBOP Plan currently maintains two  
19 Voluntary Employee Trusts and a 401(h) Account within the Pension Plan to fund  
20 covered benefits.

1 With a few exceptions, the Pension and PBOP Plans of Unitil Service cover union  
2 and non-union employees equally and the provisions of the plans and the benefits  
3 provided under the plans apply to management and non-management in the same  
4 way.

5 **Q. How long has the Pension Plan been in place?**

6 A. The current Pension Plan is a consolidated retirement plan that resulted from the  
7 merger of various predecessor plans, some of which dated back to 1959. The  
8 current plan was amended in 2009 following the acquisition of Northern and  
9 Granite State Gas Transmission, Inc. by Unitil Corporation. The Pension Plan  
10 currently offers a defined pension benefit to all eligible employees of the Unitil  
11 Service, including the employees of UES. Certain predecessor plan benefits are  
12 grandfathered in accordance with IRS regulations.

13 Effective January 1, 2010, the Retirement Plan was closed to nonunion new hires  
14 and it was closed to UES union employees hired subsequent to April 1, 2012.

15 These changes were made as a result of various changes in accounting rules and  
16 funding rules which made maintaining a defined benefit pension plan more  
17 expensive.

18 Although these new hires are not eligible for any benefits from the defined benefit  
19 pension plan, they are eligible for the 401(k) plan which has been enhanced for  
20 this group of employees in order to replace the benefits that have been provided  
21 by the defined benefit plan. Further, the 401(k) plan provides this group of

1 employees with ownership, control and portability of their retirement benefits,  
2 which are not features that are possible with the traditional defined benefit  
3 pension plan.

4 **Q. How long has the SERP been in place?**

5 A. The SERP was originally established and adopted effective January 1, 1987, and  
6 was amended and restated effective January 1, 1998, and again effective  
7 December 31, 2007. The SERP was further amended and restated in its entirety,  
8 effective December 31, 2016, primarily to amend the definition for Final Average  
9 Pay and to add an Article setting forth the procedure for any claims and appeals in  
10 the event of non payment of benefits. As noted earlier, in 2018 the SERP was  
11 closed to new entrants.

12 **Q. How long has the PBOP Plan been in place?**

13 A. Unitil Service has provided post-retirement health and welfare benefits dating  
14 back to 1970 and earlier. While these benefits were once fairly common within  
15 the utility industry, most companies now require retiree contributions toward the  
16 cost of these plans. In an ongoing effort to manage the cost of these plans,  
17 effective January 1, 2010, the following changes were made to the PBOP for all  
18 nonunion employees and for union employees of UES. Employees in these  
19 groups who retire subsequent to January 1, 2010 will now contribute 20 percent of  
20 the cost of their retiree medical benefits. The new contribution level includes  
21 both the medical benefits before age 65 and the Medicare supplement benefits

1 after age 65. In addition, future retirees will not receive the partial reimbursement  
2 toward their Medicare premiums. Further, employees hired subsequent to January  
3 1, 2010 will only be provided with Unitil Service subsidized medical insurance  
4 until they reach age 65, but will not be eligible to receive a Medicare supplement  
5 plan after age 65.

6 **Q. Who oversees the investment of the Pension and PBOP trust funds?**

7 A. Oversight and monitoring of the investments of the trust funds are ultimately the  
8 responsibility of the Unitil Corporation Retirement Plan Committee (the  
9 “Committee”), which is appointed annually by the Unitil Corporation Board of  
10 Directors, in conformance with the Employee Retirement Income Security Act  
11 (“ERISA”). This Committee currently consists of five members: four outside  
12 Board members, and Unitil Corporation’s Chief Financial Officer. The  
13 Committee relies on the advice of investment managers to determine appropriate  
14 and prudent investment strategies in compliance with the regulatory and prudence  
15 guidelines of ERISA. The Committee also relies on the advice of its actuaries,  
16 attorneys, accountants and other consultants to develop the key assumptions used  
17 by Unitil Corporation’s actuaries to value the Plan’s assets and liabilities and  
18 determine the annual pension expense, cash funding and other accounting  
19 information as required by the rules and regulations of the Security and Exchange  
20 Commission, Department of Labor, Internal Revenue Service and other  
21 governing regulatory agencies.

1 **Q. Are you sponsoring any adjustments to the Pension, SERP and PBOP**  
2 **expenses?**

3 A. Yes, we are.

4 **Q. Please describe the adjustment made to the Pension, SERP and PBOP**  
5 **expenses.**

6 A. These adjustments are detailed on Schedule RevReq 3-5. Each year, an actuary  
7 determines the annual Pension, SERP and PBOP expenses based on a variety of  
8 factors including a participant census, discount rates, expected return on plan  
9 assets, rate of compensation increase and medical trend rates. A comparison of  
10 the 2021 O&M expense to the 2020 test year O&M expense for the Company and  
11 for Unutil Service (allocable to the Company) reflects a total increase in pension  
12 expense of \$62,288, a total increase in SERP expense of \$85,989 and a total  
13 decrease in PBOP expense of \$41,636.

14 **VII. 401(K) PLAN**

15 **Q. Please describe the Unutil Service Tax Deferred Savings and Investment Plan**  
16 **(401(k) Plan) sponsored by the Unutil Companies.**

17 A. The 401(k) Plan was established for the benefit of Unutil Service employees,  
18 effective January 1, 1985. For eligible employees who are participants in the  
19 Pension Plan, Unutil Service matches employees' 401(k) contributions up to 3.0  
20 percent of base pay. Employees who are not participants in the Pension Plan are  
21 eligible for the enhanced features of the Plan where Unutil Service both matches

1 employees' 401(k) contributions up to 6.0 percent of base pay and makes a  
2 401(k) contribution equal to 4.0 percent of an employee's base pay.

3 **Q. What is the purpose of the Company's 401(k) adjustment?**

4 A. The purpose of the adjustment is to update Unutil Service's 401(k) costs to reflect  
5 the effect of the wage increases that took effect in 2021 and that are projected to  
6 take effect in 2022. As shown on Schedule RevReq 3-5, the total 401(k) costs  
7 adjustment increases test year expense by \$41,844 (column 2, line 16).

8 **Q. Please describe how the 401(k) adjustment was calculated for UES.**

9 A. The 401(k) pro forma costs were determined by multiplying the test year 401(k)  
10 expense by the 2021 average pay rate increase. To that amount a projected 2022  
11 pay rate increase was added. The resulting pro forma costs for 401(k) were then  
12 reduced by the amount chargeable to construction to determine the pro forma  
13 O&M expense of \$102,860. The test year O&M 401(k) cost was then deducted  
14 to derive the O&M 401(k) increase of \$6,187.

15 **Q. Please describe the adjustment to the Unutil Service 401(k).**

16 A. The Unutil Service cost adjustment for 401(k) is determined in a similar manner  
17 as the adjustment to UES as shown on Schedule RevReq 3-5. First the test year  
18 401(k) costs apportioned to UES are determined. Those costs are then increased  
19 by the 2021 average pay rate increase. To that amount, a projected 2022 pay rate  
20 increase was added. The pro forma costs were reduced by the amount chargeable  
21 to capital to derive the pro formed O&M 401(k) expense of \$432,136. The test



1 year O&M 401(k) was then deducted to derive the O&M 401(k) increase of  
2 \$35,658 (column 4, line 16).

3 **VIII. DEFERRED COMPENSATION PLAN**

4 **Q. Please describe Unitil Service's Deferred Compensation Plan.**

5 **A.** In 2019 Unitil Service enrolled in a nonqualified deferred compensation plan.  
6 Enrollment in this plan allows Unitil Service to provide competitive  
7 compensation packages required to attract and retain key employees following the  
8 restriction of any new enrollment in Unitil Service's Pension Plan or the SERP.

9 **Q. Please describe Unitil Service's Deferred Compensation Plan Adjustment.**

10 **A.** The deferred compensation plan pro formed adjustment was determined by  
11 multiplying the 2021 deferred compensation expenses \$280,214, plus the 2021  
12 deferred incentive compensation expenses \$95,220, plus the deferred  
13 compensation adjustment for 2022 wage increase \$3,473 by the percentage  
14 allocated to the Company (28.17 percent). This value is then reduced by the  
15 amount chargeable to capital to derive the pro formed deferred compensation pro  
16 formed adjustment of \$77,097. The test year O&M deferred compensation was  
17 then deducted to derive the O&M deferred compensation increase of \$64,957.  
18 Please see Schedule RevReq Workpaper 4.6.

19 **IX. CONCLUSION**

20 **Q. Does this conclude your testimony?**

1 A. Yes.