

**NORTHERN UTILITIES, INC.**

**DIRECT TESTIMONY**

**OF**

**JOHN F. CLOSSON**

**and**

**JOSEPH F. CONNEELY**

**EXHIBIT JCJC-1**

**New Hampshire Public Utilities Commission**

**Docket No. DG 21-104**

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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"), including Northern  
12 Utilities, Inc.'s New Hampshire division ("Northern" or the "Company"). My  
13 primary responsibilities are in the areas of Human Resources and Administration.

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

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

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

20 A. Yes, I have testified in front of the Commission in Docket DE 16-384, Unitil  
21 Energy Systems, Inc.'s 2016 rate filing.

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

2 A. I am the Director of Human Resources for Unitil Service. My primary  
3 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 Compensation Expense.

5 **III. COMPENSATION PROGRAM**

6 **Q. What is 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 its customers. Paying employees  
12 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 Northern 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, Unitil Corporation did a compensation study on behalf of Unitil Service in  
17 2019. The compensation study was developed by Willis Towers Watson  
18 ("Towers 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 industry peers. Towers  
21 Watson assisted in: (1) reviewing competitiveness of base salaries and salary

1 ranges; (2) reviewing and recommending an appropriate and competitive cash  
2 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 continue 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 has implemented recommendations from Towers Watson by  
17 adjusting the pay ranges for positions that were below the market median and by  
18 adjusting grade levels for specific positions as recommended by Towers Watson.  
19 The Target Award levels under the Incentive Plan and the Restricted Stock plan  
20 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 Northern  
10 effective September 6, 2020. The contract is set to expire on June 7, 2025.

11 **IV. PAYROLL AND RELATED TAXES**

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

13 A. The payroll adjustment, as reflected on Schedule RevReq 3-4, 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  
18 occurred on June 1, 2021, and that are projected to occur on January 1,  
19 2022 and June 1, 2022.

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

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

2 A. The payroll adjustment to Northern's test year payroll is shown on Schedule  
3 RevReq 3-4, page 1. The first step was to normalize the test year payroll to  
4 reflect incentive compensation at a target payout level. The next step was to  
5 annualize the effect of the 2020 union employee pay increase that occurred during  
6 the test year. Added to the annualized O&M payroll were the pay rate increases  
7 for 2021 and 2022, which were applied separately, by union and non-union  
8 categories, and by year, to arrive at the O&M payroll pro formed for 2020, 2021  
9 and 2022 pay rate increases. The 2020 wage increase of 3.0 percent for union  
10 employees was based on the contract, effective June 6, 2017.

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 3.12 percent. For January  
13 1, 2022, the average annual increase for nonunion employees is projected to be  
14 the same, 3.12 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 Northern pro forma payroll adjustments for both union and  
20 nonunion employees is an increase in O&M of \$170,226. See Schedule RevReq  
21 3-4, page 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 3-4, pages 1 and 2. The adjustment to the Unitil Service payroll was prepared in a  
4 similar manner as the adjustment to Northern'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 Northern 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 Northern is an increase in O&M of \$384,216. See Schedule RevReq 3-4, 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 3-4,  
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 \$554,442 as reflected on Schedule  
5 RevReq 3-4, 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, page 1, an adjustment was prepared to  
8 pro form the amount of the Social Security and Medicare taxes related to the  
9 payroll 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, page 1. The total  
12 O&M payroll increase of \$554,442 as shown on Schedule RevReq-3-4, page 1,  
13 column 6, line 11 was multiplied by the Social Security rate of 6.2 percent,  
14 deriving the additional Social Security tax amount of \$34,375. To determine the  
15 additional Medicare tax, the total O&M payroll increase of \$554,442 was  
16 multiplied by the Medicare tax rate of 1.45 percent, deriving the additional  
17 Medicare tax amount of \$8,039. The total of additional Social Security and  
18 Medicare taxes is \$42,415.

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

1 A. Yes, as shown on Schedule RevReq-3-21, page 2, an adjustment of \$95,258 was  
2 prepared to remove the reduction to test year payroll taxes as a result of the  
3 Company's use of ERC, which were enacted as part of the Coronavirus Aid,  
4 Relief, and Economic Security ("CARES") Act to incentivize companies to retain  
5 employees, as well as FFCRA credits. The adjustment is supported and presented  
6 in the Testimony of Mr. Jonathan Giegerich.

7 **V. MEDICAL AND DENTAL INSURANCE**

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

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

19 Unitil Service also offers two dental plans, a standard plan for union employees  
20 with a maximum annual benefit of \$1,500; and a premium plan for nonunion

1 employees with a maximum annual benefit of \$2,000. Both plans provide  
2 preventive care, restorative care and orthodontic benefits.

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

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

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

1           • Prior to January 1, 2018, Unitil Service offered an Exclusive Provider  
2           Organization Plan (“EPO”) plan to union employees hired before April 1,  
3           2012. This plan was discontinued through the collective bargaining process  
4           and the CDHP became the single health plan offering for all union  
5           employees. Costs for EPO plan were significantly higher than the CDHP  
6           plan.

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

10 A. Towers Watson based its study on the benefits data provided to it by 14 peer  
11 utility companies who participate in Towers Watson’s benefits surveys. Included  
12 in the list of peer utility companies are five New England companies.

13 **Q. What was Towers Watson’s conclusion about the competitiveness of the**  
14 **Unitil Service’s benefits?**

15 A. Towers Watson concluded that, on a total value basis, Unitil’s overall benefit  
16 program is aligned with the market median.

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

18 A. The medical and dental insurance adjustment, as developed on Schedule RevReq  
19 3-6, was prepared to pro form for changes in insurance rates that will occur during

1 2021 and are forecasted to occur on January 1, 2022. We have made these  
2 adjustments to the medical insurances for both Northern and Unitil Service.

3 **Q. Please describe how the Medical and Dental Insurance adjustment was**  
4 **calculated.**

5 A. The adjustment for Medical and Dental Insurance is shown on Rev Req 3-6. An  
6 employee participant count was developed for each plan by type of coverage (i.e.,  
7 individual, two-person or family). This employee participant count excluded  
8 employees who choose to opt-out of the medical and/or dental plan. The 2021  
9 rates were applied to the employee participant counts to derive the annual costs  
10 related to the plans. The Medical and Dental insurance costs were then reduced 20  
11 percent, the amount that all employees contribute toward the cost of their  
12 coverage. Added to these costs were amounts to reflect payments to employees  
13 who choose to opt out of the medical plan and Unitil Service's contributions to  
14 the employees' HSAs. These costs were increased by 9.0 percent for medical and  
15 4.0 percent for dental to reflect the effect of the projected 2022 rate increases,  
16 which will be updated during the pendency of this proceeding when the actual  
17 2022 rates are determined. The Medical and Dental costs were then reduced by  
18 the amounts chargeable to capital to determine the pro formed Medical and Dental  
19 Insurance O&M expense of \$318,565. This amount was compared to the Medical  
20 and Dental Insurance costs developed for 2021 based on the 2021 rates to derive  
21 the 2021 and 2022 increase of \$136,510 as reflected on Schedule RevReq 3-6,  
22 column 3, line 3.



1 **Q. Please explain the adjustment for the Medical and Dental Insurances that are**  
2 **allocated to Northern through the Unutil Service charge.**

3 A. This adjustment is shown on Schedule RevReq 3-6. Similar to Northern, the  
4 nonunion employees of Unutil Service are all covered under the CDHP. Union  
5 employees of Unutil Service hired prior to January 1, 2017 have a choice of  
6 coverage under the CDHP or the Preferred Provider Organization (“PPO”) Plan.  
7 For union employees hired after January 1, 2017, the CDHP is the only plan  
8 offered.

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

14 The Unutil Service Medical and Dental costs are allocated among the client  
15 companies of Unutil Service on the basis of labor charged. The pro formed  
16 adjustment was calculated in an identical manner as the Northern adjustment,  
17 except for this allocation process. To proform the effect of the 2021 and 2022  
18 rates, a Unutil Service employee participant count was developed. The employee  
19 participant count excluded employees who choose to opt out of the medical plan.  
20 The 2021 rates were applied to this employee participant count to derive the 2021  
21 annual costs. Subtracted from these costs were amounts that Unutil Service

1 employees contribute toward the cost of their coverage. Added to these costs were  
2 amounts to reflect payments to employees who choose to opt out of the medical  
3 plan, and Unitil Service's contributions to the employees' HSAs. These costs  
4 were then increased by 9.0 percent for medical and 4.0 percent for dental to  
5 reflect the effect of the projected 2022 rate increases, which will be updated  
6 during the pendency of this proceeding when the actual 2022 rates are  
7 determined. The Unitil Service allocation factor for Northern was applied to this  
8 amount and the allocated amount was reduced by the amount chargeable to  
9 capital. The resulting O&M expense was then compared to the Medical and  
10 Dental Insurance cost developed for 2021 based on the 2021 rates to derive the  
11 2021 and 2022 increase of \$268,083. This amount is shown on Schedule RevReq  
12 3-6, column 4, line 3.

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

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

16 **A.** Unitil Service sponsor the Unitil Corporation Retirement Plan ("Pension Plan")  
17 which provides monthly retirement income to employees who qualify for a  
18 retirement benefit. The Pension Plan retirement benefits are based upon an  
19 employee's level of compensation and length of service. At the end of the test  
20 year, the Pension Plan covered approximately 700 people, including 225 people  
21 who are currently receiving benefits. The Pension Plan maintains an investment

1 trust fund for the management of the Plan’s assets and the funding of current and  
2 future retiree pension benefits.

3 Unitil Service also maintains a Supplemental Executive Retirement Plan  
4 (“SERP”), a non-qualified defined benefit plan which is self-funded. The SERP  
5 is designed to encourage service by the participating executives until retirement  
6 and to then provide a retirement benefit which, when added to other retirement  
7 income of the executive, will ensure a competitive level of retirement income  
8 when compared to other utilities. The SERP is a component of executive  
9 compensation that was evaluated in the Towers Watson 2019 compensation study  
10 and determined to be competitive with the peer group. Eligibility for participation  
11 in the Plan was limited to executives selected by the Board of Directors; the SERP  
12 was closed to new participants in 2018. Currently, the SERP provides benefits to  
13 four retired executives while two active employees are currently eligible.

14 The Unitil Service also sponsors a Post-Retirement Benefits Other than Pension  
15 (“PBOP”) Plan, which provides a variety of health and welfare benefits to  
16 approximately 270 employees and 327 retirees and their beneficiaries through the  
17 end of the test year. For postretirement benefits, the PBOP Plan provides health  
18 insurance benefits for retirees and their spouses under age 65; a Medicare  
19 Supplement insurance plan for retirees and spouses over age 65; partial  
20 reimbursement of Medicare premiums, and a modest paid-up life insurance  
21 benefit for retirees. Eligible widows and widowers of deceased retirees are also

1 covered by the health insurance benefits. The PBOP Plan currently maintains two  
2 Voluntary Employee Trusts and a 401(h) Account within the Pension Plan to fund  
3 covered benefits.

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

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

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

16 Effective January 1, 2010, the Retirement Plan was closed to nonunion new hires  
17 and it was closed to Northern union employees hired subsequent to April 1, 2012.  
18 These changes were made as a result of various changes in accounting rules and  
19 funding rules which made maintaining a defined benefit pension plan more  
20 expensive.

1           Although these new hires are not eligible for any benefits from the defined benefit  
2           pension plan, they are eligible for the 401(k) plan which has been enhanced for  
3           this group of employees in order to replace the benefits that have been provided  
4           by the defined benefit plan. Further, the 401(k) plan provides this group of  
5           employees with ownership, control and portability of their retirement benefits,  
6           which are not features that are possible with the traditional defined benefit  
7           pension plan.

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

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

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

17           A.    Unitil Service has provided post-retirement health and welfare benefits dating  
18           back to 1970 and earlier. While these benefits were once fairly common within  
19           the utility industry, most companies now require retiree contributions toward the  
20           cost of these plans. In an ongoing effort to manage the cost of these plans,  
21           effective January 1, 2010, the following changes were made to the PBOP for all

1 nonunion employees and for union employees of Northern. Employees in these  
2 groups who retire subsequent to January 1, 2010 will now contribute 20 percent of  
3 the cost of their retiree medical benefits. The new contribution level includes  
4 both the medical benefits before age 65 and the Medicare supplement benefits  
5 after age 65. In addition, future retirees will not receive the partial reimbursement  
6 toward their Medicare premiums. Further, employees hired subsequent to January  
7 1, 2010 will only be provided with Unitil Service subsidized medical insurance  
8 until they reach age 65, but will not be eligible to receive a Medicare supplement  
9 plan after age 65.

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

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

1 information as required by the rules and regulations of the Security and Exchange  
2 Commission, Department of Labor, Internal Revenue Service and other  
3 governing regulatory agencies.

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

6 A. Yes, we are.

7 **Q. Please describe the adjustment made to the Pension, SERP and PBOP**  
8 **expenses.**

9 A. These adjustments are detailed on Schedule RevReq 3-7. Each year, an actuary  
10 determines the annual Pension, SERP and PBOP expenses based on a variety of  
11 factors including a participant census, discount rates, expected return on plan  
12 assets, rate of compensation increase and medical trend rates. A comparison of  
13 the 2021 O&M expense to the 2020 test year O&M expense for the Company and  
14 for Unitil Service (allocable to the Company) reflects a total decrease in pension  
15 expense of (\$2,185), a total increase in SERP expense of \$58,798 and a total  
16 decrease in PBOP expense of (\$19,749).

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

18 **Q. Please describe the Unitil Service Tax Deferred Savings and Investment Plan**  
19 **(401(k) Plan) sponsored by the Unitil Companies.**

1 A. The 401(k) Plan was established for the benefit of Unutil Service employees,  
2 effective January 1, 1985. For eligible employees who are participants in the  
3 Pension Plan, Unutil Service matches employees' 401(k) contributions up to 3.0  
4 percent of base pay. Employees who are not participants in the Pension Plan are  
5 eligible for the enhanced features of the Plan where Unutil Service both matches  
6 employees' 401(k) contributions up to 6.0 percent of base pay and makes a  
7 401(k) contribution equal to 4.0 percent of an employee's base pay.

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

9 A. The purpose of the adjustment is to update Unutil Service's 401(k) costs to reflect  
10 the effect of the wage increases that took effect in 2021 and that are projected to  
11 take effect in 2022. As shown on Schedule RevReq 3-7, the total 401(k) costs  
12 adjustment increases test year expense by \$30,095 (column 2, line 16).

13 **Q. Please describe how the 401(k) adjustment was calculated for Northern.**

14 A. The 401(k) pro forma costs were determined by multiplying the test year 401(k)  
15 expense by the 2021 average pay rate increase. To that amount a projected 2022  
16 pay rate increase was added. The resulting pro forma costs for 401(k) were then  
17 reduced by the amount chargeable to construction to determine the pro forma  
18 O&M expense of \$98,571 (Column 3, Line 4). The test year O&M 401(k) cost  
19 was then deducted to derive the O&M 401(k) increase of \$5,712 (Column 3, Line  
20 16).

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



1    **A.**    The Unitil Service cost adjustment for 401(k) is determined in a similar manner  
2            as the adjustment to Northern as shown on Schedule RevReq 3-7. First the test  
3            year 401(k) costs apportioned to Northern are determined. Those costs are then  
4            increased by the 2021 average pay rate increase. To that amount, a projected 2022  
5            pay rate increase was added. The pro forma costs were reduced by the amount  
6            chargeable to capital to derive the pro formed O&M 401(k) expense of \$295,488  
7            (Column 4, Line 4). The test year O&M 401(k) was then deducted to derive the  
8            O&M 401(k) increase of \$24,382 (column 4, line 16).

9    **VIII. DEFERRED COMPENSATION PLAN**

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

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

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

16   **A.**    The deferred compensation plan pro formed adjustment was determined by  
17            multiplying the 2021 deferred compensation expenses \$280,214, plus the 2021  
18            deferred incentive compensation expenses \$95,220, plus the deferred  
19            compensation adjustment for 2022 wage increase \$2,447 by the percentage  
20            allocated to the Company (19.85 percent). This value is then reduced by the  
21            amount chargeable to capital to derive the pro formed deferred compensation pro

1           formed adjustment of \$52,717. The test year O&M deferred compensation was  
2           then deducted to derive the O&M deferred compensation increase of \$44,415.  
3           Please see Schedule RevReq Workpaper 4.6.

4   **IX. CONCLUSION**

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

6   A. Yes.