UNITIL ENERGY SYSTEMS, INC.

SUPPLEMENTAL TESTIMONY OF
MARK H. COLLIN

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TABLE OF CONTENTS

I.	INTRODUCTION	Page 1
II.	PENSION EXPENSE	Page 3
III.	PBOP EXPENSE	Page 5

SCHEDULES

Supplemental Schedule MHC-10	Projected Rate Year Step Adjustment
Supplemental Schedule MHC-14	Pension and PBOP Expenses – Unitil Corp.
Supplemental Schedule MHC-15	Pension Discount Rate

I. INTRODUCTION

Q Please state your name and affiliation.

A My name is Mark H. Collin. I am the Chief Financial Officer ("CFO") and Treasurer of Unitil Corporation. I am also the President of Unitil Service Corp. ("Unitil Service"), which provides centralized utility management services to Unitil Corporation's subsidiary companies, and the Treasurer of Unitil Corporation's utility subsidiaries: Fitchburg Gas and Electric Light Company ("FG&E"), Granite State Gas Transmission, Inc., Northern Utilities, Inc, and Unitil Energy Systems, Inc. ("Unitil Energy" or the "Company"). My management responsibilities are primarily in the areas of financial and regulatory services.

Q Are you the same Mark H. Collin who previously filed direct testimony on behalf of Unitil Energy in this proceeding?

A Yes.

Q What is the purpose of your Supplemental Testimony?

A The purpose of my supplemental testimony is to describe and support the Company's request to increase its proposed Rate Year Step Adjustment to enable it to collect in rates for incremental 2011 expenses for pension and post retirement benefits other than pension ("PBOP"). Unitil Energy's pension and PBOP expenses, net of amounts charged to capital, for the 2009 test year, 2010 proformed and 2011 estimate are as follows:

Plan	2009 Test Year	2010 Proformed	2011 Estimate	Change '09 v. '10	Change '10 v. '11	Change '09 v. '11
Pension	$ 861,564	$ 1,198,068	$ 1,668,337	$ 336,504	$ 470,269	$ 806,773
PBOP	$ 890,189	$ 715,529	$ 802,606	$ (174,660)	$ 87,077	$ (87,583)

Q Why is Unitil Energy seeking to update its test year expenses for pension and PBOP at this time?

A In its current petition, Unitil Energy has requested a proformed increase of $336,504 and a decrease of ($174,660) for its pension and PBOP expenses, respectively, based on the preliminary expense amounts for 2010 provided by the Company's actuary as compared to the 2009 test year. (See Exhibit MHC-1 at page 27.) The Company's actuary, Diversified Investment Advisors, has provided estimated pension and PBOP expenses for 2011, which result in increases for UES of $470,269 and $87,077 in pension and PBOP expenses, net of amounts charged to capital, as compared to 2010. This information was not available until recently, and therefore could not have been incorporated into the Company's original filing.

The 2011 estimates provided by the actuary represent an increase of $806,773 in pension expense and a decrease in PBOP expense of ($87,583), net of amounts charged to capital, compared to the 2009 test year for Unitil Energy. The estimated 2011 gross pension and PBOP expenses for Unitil Corporation, by division, along with significant assumptions, as provided by the Company's actuary, are shown on Supplemental Schedule MHC-14, pages 1 and 2, respectively. Additionally, Supplemental Schedule MHC-14, pages 3 and 4 show gross pension and PBOP expenses for Unitil Corporation, by division, for the years 2009 – 2011, respectively. These changes are discussed in more detail below.

II. PENSION EXPENSE

Q Please explain the basis for the increase in pension expense.

The increase in pension expense is driven primarily by two items – a reduction in the assumed **discount rate** between 2009 and 2011 and an increase in the **amortization of actuarial losses** recognized in 2011 compared to 2009 and 2010. While recent changes to the Company's pension plan have resulted in expense savings, those savings have been more than offset by increases related to changes in the discount rate and the amortization of actuarial losses.

Discount Rate: The assumed discount rate is determined annually by the Company based on the most recent high-quality bond yields, yield curve and cash flow analysis. The Company also consults with its actuary in determining an appropriate discount rate assumption and the Company's external auditor reviews the Company's discount rate assumption for reasonableness. Based on these factors, the Company's assumed discount rate was 6.25% for 2009; 5.75% for 2010; and 4.75% for 2011. The discount rate for 2011 is preliminary and will be finalized at the end of 2010 – the rate of 4.75% was determined by the Company's actuary using the August 31, 2010 Citigroup pension curve and Unitil's projected cash flows. The Company's discount rate analysis, shown on Supplemental Schedule MHC-15, supports the 4.75% rate. Changes in the discount rate affect pension expense. For example, for the 2011 pension expense, the Company's actuary estimates that a 50 basis point increase in the discount rate would result in total pension expense (i.e. not just UES' portion) decreasing by approximately $0.7 million dollars (and vice versa for a decrease of 50 basis points in the discount rate).

Amortization of Actuarial Losses: The amortization of actuarial losses, as determined by the actuary, is affected by investment gains / losses, changes in the discount rate and, to a lesser extent, changes in the demographics of the pension plan's participants. Investment gains and losses are amortized into the pension plan expense calculation over a three year period. The pension plan's investments lost approximately $20 million in 2008, and therefore, one-third of that loss is recognized in each of the years 2009 – 2011. All else being equal, the amortization of actuarial loss would be the same for 2009 – 2011. However, in 2009, the recognition of one-third of the 2008 investment losses was partially offset by the recognition of one-third of investment gains from 2006 and 2007. Similarly, 2010 and 2011 also reflect one-third of investment gains from 2009. However, the investment gains experienced by the plan in 2009 were less than the investment losses in 2008. In 2008, the plan's assets lost 29.9% in market value, and in 2009 the plan's assets gained 21.3% in market value. Additionally, the reduction in the discount rate, discussed above, also contributes to higher amortization of actuarial losses in 2011 as compared to 2010 and 2009.

III. PBOP EXPENSE

Q Please explain the basis for the change in the PBOP expense the Company is proposing.

Changes in PBOP expense from 2009 - 2011 are driven primarily by changes in the assumed **discount rate** and recent **changes to the PBOP plan**. Unlike pension, the amortization of actuarial gains and losses does not currently have a significant impact on PBOP expense as the level of investments in the PBOP plan is small compared to the pension plan and those assets were, until recently, invested in money market funds.

Discount Rate: The Company's assumed discount rate was 6.25% for the first nine months of 2009 and 5.50% for the last three months of 2009 (as a result of changes to the PBOP plan in September 2009, the Company was required to update the discount rate used in determining plan cost for the remainder of the year); 5.75% for 2010; and 4.75% for 2011. As discussed above, the discount rate for 2011 is preliminary and will be finalized at the end of 2010. Changes in the discount rate affect PBOP expense. For example, for the 2011 PBOP expense, the Company's actuary estimates that a 50 basis point increase in the discount rate would result in total PBOP expense (i.e., not just Unitil

Energy's portion) decreasing by approximately $0.3 million dollars (and vice versa for a decrease of 50 basis points in the discount rate).

Changes to the PBOP Plan: The decrease in UES' PBOP expense between 2009 and 2010 primarily reflects changes made to the PBOP plan in September 2009. The increase in UES' PBOP expense between 2010 and 2011 primarily reflects a decrease in the assumed discount rate, partially offset by reductions in PBOP expense resulting from changes made to the PBOP plan in September 2009.

Q **How does the Company propose to recover the increases in pension and PBOP expense?**

A As discussed earlier in my testimony, I provided an estimate of $557,346 for the incremental step adjustment for the 2011 Pension and PBOP expense. The Company and its actuary will determine the actual 2011 Pension and PBOP expense before the date of the permanent rate increase and will update the incremental step adjustment at that time. Therefore, the Company is proposing to include the actual increase (not estimated) for incremental 2011 Pension and PBOP expense in its proposed Rate Year Step Adjustment, which would become effective on the date of the permanent rate increase. As I discussed in my direct testimony, the purpose of the proposed step adjustment is to lessen the effects of attrition on the Company's ability to earn a reasonable return. Although the Company has achieved savings through its management of pension and PBOP expenses, these savings will be more than offset as a result of the increases discussed above. As a result, the Company will be exposed to significant earnings attrition beginning the day permanent rates are effective unless provision is made to allow for recovery of these expenses.

Q **Have you prepared a schedule to demonstrate the calculation of the Company's adjustment for pension and PBOP expense to its proposed Rate Year Step Adjustment?**

Yes, I have prepared Supplemental Schedule MHC-10 Page 1-3 for that purpose.

Q **Does this conclude your Supplemental Testimony?**

A Yes, it does.